

Consumer Power Advocates

Continuum Health Partners
Fordham University
Luthin Associates, Inc.
Memorial Sloan Kettering Cancer Center

Mount Sinai Medical Center
New York University
NYU Medical Center
St. Vincent Catholic Medical Centers

November 30, 2009

Mr. Christian Malanga
Associate Counsel
Assembly Committee on Energy
Room 520 Capitol
Albany, New York 12248

Dear Mr. Malanga,

On behalf of Consumer Power Advocates please find the testimony of Natale DiDonato. Consumer Power Advocates (CPA) is an alliance of large not-for-profit institutions located in New York. Our mission is to lower energy costs for our members through representation in energy-related regulatory and legislative proceedings. CPA was founded in 2001 and our membership is open to hospitals, universities, medical schools, and cultural institutions.

Sincerely,



Natale DiDonato

ASSEMBLY STANDING COMMITTEE ON ENERGY
ASSEMBLY STANDING COMMITTEE ON
CORPORATIONS, AUTHORITIES AND COMMISSIONS
ASSEMBLY STANDING COMMITTEE ON ECONOMIC DEVELOPMENT, JOB CREATION,
COMMERCE AND INDUSTRY
NOTICE OF PUBLIC HEARING
WRITTEN TESTIMONY OF NATALE DIDONATO ON BEHALF OF CONSUMER POWER
ADVOCATES
DECEMBER 2, 2009

Consumer Power Advocates (CPA) is an alliance of large not-for-profit institutions located in New York. Our mission is to lower energy costs for our members through representation in energy-related regulatory and legislative proceedings.

CPA was founded in 2001 and our membership is open to hospitals, universities, medical schools, and cultural institutions. In total, CPA's current and recent members employ over 115,000 people. This represents **1.3% of all workers in New York State** and 6.8% of the jobs in the largest, non-government, industry sector, Educational and Health Services.¹

CPA's current member organizations include:

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| Fordham University | Long Island College Hospital |
| Mount Sinai Medical Center | New York Eye and Ear Infirmary |
| Memorial Sloan-Kettering | Montefiore Medical Center |
| Beth Israel Medical Center | NYU Medical Center |
| St. Luke's – Roosevelt Hospital Center | New York University |

¹ Crain's New York Business "Book of Lists 2009"

What We Hope to Accomplish

The purpose of this testimony is to support the development of a new energy economic development program in New York State. This program would have the following characteristics:

- A long term program that will be available for at least ten years.
- Discounts would apply to electricity and gas and where applicable steam purchased from regulated utilities.
- The length of the benefits should be for a minimum of five to ten years plus a phase out to full rates.
- Existing PFJ, ECSP and other economic development program recipients who may not qualify under the new program should receive their existing level of benefits for at least three years after this program begins.
- Non-profit institutions who demonstrate significant, comparable economic impact and job growth must be fully eligible at a level equal to other sectors.
- The requirements of the benefit must include job growth and job retention which are verified and measurable.
- The requirements must include a significant pledge to reduce energy usage that requires benchmarking of the facility followed by a master plan to identify energy conservation and greenhouse gas reductions.
- The qualifications for receiving the benefits must be clearly discernible and tangible so that organizations can determine whether their project will meet the requirements of the program during the project planning stage.
- The funding sources for this program should include low cost hydro-electric resources that are located throughout the state. Low cost hydro-electric resources located in a certain geographical area should not be considered local resources. These sources of low cost energy should be fairly allocated among the entire state and all eligible customers. If this occurred, NYPA would be able to offer economic development power to its customers throughout the state at a cost which is lower than the national average.

Our position in this matter is based on the facts and conclusions that can be derived from the economic and social data we have examined. The basis of our conclusions is summarized below.

Energy Outlook

The current state of deregulated energy markets is worsening the struggles facing these institutions. Data for current and recent CPA members demonstrates that their collective operating expenses total over \$13 billion². An in depth review of five of our member's electricity budgets totaled over \$82 million in 2008³. The overall outlook for future energy costs is even more troubling, as fossil fuel prices remain unpredictable and heavily subjected to current foreign relations. In its 2009 annual outlook, the Energy

² Crain's New York Business "Book of Lists 2009"

³ CPA Member Survey

Information Administration projects that oil prices by 2030 could reach \$200 per barrel amid concerns of large increases in demand and attempts to limit output by major producing countries⁴.

The nonprofit sector has an excellent track record in implementing many energy efficient measures to control their overall usage. The healthcare and higher education sectors are among the leaders in adopting energy efficiency programs and have joined many sector based voluntary greenhouse emissions reductions initiatives. All of the CPA members are amongst 30 universities and hospitals that have joined the plaNYC Mayor's Challenge and committed to reduce greenhouse gases by 30% by the year 2017.

The Changing Nature of Economic Growth in New York

According to John Sexton, president of NYU, New York,

“... from its birth as a Dutch harbor to the construction of the Erie Canal, was first a gateway economy for the importing, manufacturing and distribution of goods. When other cities surpassed New York as a port and manufacturing center, New York became America's preeminent location for more modern forms of commerce, focused on three crucial industries: finance, insurance and real estate—what came to be called the FIRE sector of the economy.

Like the gateway economy, the FIRE sector flourished because of New York's "locational advantage." In an economy fueled by the stock market, businesses found real opportunity in being situated near the trading floor, allowing them to conduct daily, and even hourly, transactions. Insurance followed finance, and real estate thrived. The international impact of the FIRE sector combined with high-paying jobs propelled the city's growth and validated New York's claim as the world's capital.”⁵

As the 21st Century begins, we are now seeing a new dynamic for economic growth. The cyber word of instant, long range communications has shifted thousands of jobs in the FIRE industry across the United States and the world. Other industry sectors related to healthcare, education, and culture are taking their place as the economic growth engines of New York. Studies related to the sector called ICE (Intellectual, Cultural and Educational) estimate that in 2007, these sectors contributed \$47 billion to the local economy an increase of 15% over 2005 and 62% since 1995. These investments are not just coming from New York City as 45% of the 2007 contribution is upstate.⁶ The contributions include more than \$20 billion from overflow revenue in addition to direct campus revenue such as out of state students who bring revenue to New York.

⁴ Energy Information Administration "Annual 2009 Outlook with Projections to 2030"

⁵ "Fire and Ice: The Knowledge Century and the Urban University," John Sexton from Selected Writings and Television Appearances of John Sexton, <http://www.nyu.edu/about/sexton-fireice.html>

⁶ Center for Government Research, November 2008 as reported in, "Solutions for New York's Future," by the Commission on Independent Colleges and Universities.

Since 1990, the ICE sector has had the highest percentage increase in employment, 45% followed by Healthcare and Social Assistance at 39%. During this period Finance and Insurance is down 14% and Manufacturing is down 40%.⁷ The trend has continued. From October 2008 to October 2009 the Educational and Health Services sector, the only major sector to experience job growth, has added 44,300 jobs while the financial activities sector declined by 35,600 jobs and manufacturing employment declined by 43,400 jobs.⁸ As a whole in 2009, the nonprofit health and education sectors continue to be the leading non-government employment sectors. In October 2009, the Educational and Health Services sector accounted for over 1.7 million jobs in New York State.⁹ Overall, throughout New York State the Educational and Health Services sector accounts for 20% of the workforce.

The nonprofit health and higher education sectors are linked so closely because they both contribute to each other's success by providing clinical experience to enable the education of medical staff. Both are also leading players in scientific research, development and deployment.

Many CPA Organizations Are PFJ Recipients

The members of Consumer Power Advocates have been long term recipients of the benefits of the Power for Jobs program. They have used these benefits to retain and add jobs as summarized below. Unfortunately, the PFJ program is one of the few that are available for non-profit organizations and its discontinuance without replacement and continued support to the nonprofit sector will have serious impacts on these institutions.

- The total commitment made by current and recent CPA members under the Power for Jobs program is 64,188 jobs. In total, these institutions employ over 115,000 people and, in fact, many more jobs have been created or retained than were originally pledged under the PFJ program.¹⁰ This retention of jobs translates to 3,200 jobs per megawatt allocated under their PFJ award.
- A majority of our members have annual operating budgets in excess of \$1 billion and as a whole, CPA represents over \$13 billion in annual operating expenditures.¹¹ Collectively, three of CPA's members' budgets contain \$109 billion allocated for energy expenditures. Of this, \$109 billion over 48% is used for electricity expenses alone. Though the economic and social impact of these institutions is certainly far reaching, utility proposed rate increases, increased capacity costs, ancillary service

⁷ US Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2005. Compiled by the Commission on Independent Colleges and Universities.

⁸ NYS Department of Labor as reported by Crains New York Business, "Employment in New York City, City Facts 2009" NYS Department of Labor <http://www.crainsnewyork.com/article/20090628/FREE/306289932&cat=employment>

⁹ New York State Department of Labor "Current Employment Statistics Survey"

¹⁰ Source is from Consumer Power Advocates' PFJ Applications.

¹¹ Crain's New York Business "Book of Lists 2009"

expenses, and the potential for higher fossil fuel costs will only add to the energy expense's of these institutions and further their financial pressures.

Jointly, the CPA members represent a substantial opportunity for maintaining or creating new jobs in New York. Many of our members maintain leadership positions in the fields of bioscience and biomedical research – fields that New York State and the NYC Economic Development Corporation are pursuing by promoting New York as a location for world-class research. Assisting the economic viability and growth of non-profit institutions is essential to meeting New York's economic and job growth objectives.

Currently, the Power for Jobs (PFJ) program is the only low cost power program for which non-commercial entities such as non-profit healthcare and higher education are eligible. The only other low cost power program is the Con Edison Business Incentive Rate which has previously provided a 20 megawatt program for non-profit biotechnology research. However, at present, this program is currently oversubscribed and therefore not available.

Nonprofit Organizations Have Less Opportunity to Qualify for Economic Development Programs

The need for low cost power as an economic incentive for large non-profit hospitals and universities located in New York remains critically important. However, most of the economic development programs are not available to the non-profit sectors because they require some form of tax based incentive to qualify. Con Edison recognized this issue when they designated a special portion of the BIR for nonprofits. However, the allocation was quickly exhausted in 2006 and to date no additional power has been allocated.

The Non-profit Sector as an Engine of Growth – Biomedical Research

The non-profit sector is one of the leading sources of new project development in New York and one of the most active growth engines. However, it is necessary to continue to incentivize these sectors as the need to support daily operations is starting to take capital funding away from new facility development.

A significant part of the non-profit sector is biomedical research. In a 2007 survey of our CPA members, we determined that more than 3.5 million square feet of facility space is dedicated to biomedical research. This is 16% of the total area of the institutions. Based on research conducted by the CPA in 2008 and from publicly issued statements, we had determined that our recent and current member institutions were pursuing over \$5 billion on new construction projects in the coming years. This would add about 5.2 million square feet in new facilities. Among these projects is 1.3 million square feet of new biotech facilities. We estimate that an investment of more than \$1 billion will be needed to complete the biotechnology projects.¹²

New project development has a significant impact on the economy both in terms of temporary and permanent job creation and in the high level of economic growth that

¹² CPA Member Survey

indirectly emanates from these projects. For instance, under the Con Edison Business Incentive Rate, an economic development energy program, biomedical research organizations developed more than 1.6 million square feet of facilities that opened between 2003 and 2007. This has resulted in more than 4,200 jobs being created.¹³

According to a survey published in the New York Academy of Medicine, it is estimated that, “every million dollars of federal research funding generates approximately 12 FTE jobs directly and an additional 7.74 FTE as a result of the indirect and induced spending impacts for a total of almost 20 jobs.”¹⁴ However, in the 10 year period ending in 2008, New York has trailed California and Massachusetts in NIH funding each year.¹⁵ During this period, New York’s percent of funding has decreased at twice the rate of these two states. One of the reasons for this decline is the loss of top researchers who leave to follow the development of new biotech facilities in other areas.

Biotechnology is a leading job growth industry. It has an employment multiplier of 2.9. In other words, each job created in biotechnology generates an additional 2.9 jobs, resulting from biotech firms' purchases and consumer spending of biotech employees. The same study estimated biotechnology had a revenue multiplier of 2.3, which means that for every \$1 dollar generated by the biotechnology industry, an additional \$2.3 dollars are generated outside of the biotechnology industry.¹⁶

Despite the important role that facility development plays in the economy, the nonprofit sector faces significant hurdles when attempting to bring new projects under construction. A 2007 report by the New York Building Congress stated that hospital construction in New York City averages \$600 PSF.¹⁷ This \$600 PSF average is higher than other major US cities, whereas Boston and Washington, DC average between \$500 and \$555 PSF and Los Angeles and San Francisco average between \$380 and \$400 PSF. Further, the cost of new hospital construction in New York City is rising at 12% per year and the cost of renovation and alteration is rising at 6% per year. Helping to spur these numbers are aging medical facilities, advances in technology, shifting environmental requirements, and an increasingly older and poorer population.

While much of the commercial real estate development is speculative and often results in cancelled projects, sending economic development funding to a nonprofit sector that has demonstrated that projects will be built because they are needed provides significant benefits to the economy. The 20 megawatts of development under the Con Edison BIR referenced above, generated 4,200 permanent jobs and an estimated \$340 million in salaries each year and they created more than an estimated 12,000 indirect jobs based on the multipliers described in this document. We have estimated that the net cost of the BIR to Con Edison for these 20 megawatts over the 15 year benefit term is \$15 million or

¹³ CPA Member applications for the Con Edison Business Incentive Rate

¹⁴ Elliott Sclar, Ph.D., and Nancy Aries, Ph.D., “Biomedical Research and the New York State Economy,” New York Academy of Medicine, 2000.

¹⁵ National Institute of Health, “Dollars Awarded by State for 2008”

¹⁶ Source: The Economic Contributions of the Biotechnology Industry to the U.S. Economy. Prepared for the Biotechnology Industry Organization. Ernst and Young. May 2000.

¹⁷ New York Building Congress, “New York City’s Rising Construction Costs: Issues and Solutions” June 2008.

about \$750,000 per mW or \$3,500 per job.¹⁸ In return, over \$340 million in wages per year will be generated (not including inflation). These wages are subject to state and local income taxes and will enable more than 4,200 additional people each year to shop and use electricity in New York. If these facilities flock to more favorable economic climates outside of New York, this revenue and the accompanying jobs would be lost to New York.

The Financial Stress on the Nonprofit Sector

Higher education and healthcare are faced with increasingly larger expenses and losses of revenue due to the weakened economy. While this is true for many sectors, unlike commercial enterprises where the recession has at least also reduced the cost of goods, these sectors find that their costs are unaffected and in fact have increased with rising healthcare costs and cuts to education funding. Below are some of the facts that support this case.

- On average, hospital expenses continue to increase on a yearly basis. Nine of New York City's largest hospitals by operating expense experienced an increase in operating expenses from 2007 to 2008 of \$18.1 billion to \$19.2 billion or a 6%¹⁹ overall increase. The 2008 operating expenses of the CPA member institutions that have been surveyed amount to over \$13 billion. The four hospitals in this group have operating expenses of about \$8 billion which is about 42% of the budgets of the 15 largest regional hospitals.²⁰
- Private universities in New York City have been forced to raise tuition by 4.8%²¹ from 2008 to 2009 to an average of \$35,362. This increase in private New York City university tuition has made the cost of private education 11% higher than elsewhere in the nation.²²
- New York ranks fourth²³ among the most populous states in its proportion of uninsured residents and remains above the national average. There are 400,000 uninsured children among the 2.6 million uninsured New Yorkers²⁴.
- On October 15, 2009, Governor Paterson released a plan to reduce budget gaps over the next two years. The overall plan would reduce spending by \$5 billion with a \$287 million cut to Medicaid, a \$184 million cut to other health and mental hygiene programs, and a \$62 million cut to higher education programs²⁵.
- New York State's 2008 National Institute of Health funding level of \$1.8 billion was less than its 2007 level of funding of \$2 billion²⁶.

¹⁸ This estimate was developed by applying a 60% load factor to a 20 megawatt load priced at \$0.045 per kWh for distribution costs and assumed a 25% reduction on these T&D charges.

¹⁹ Crain's New York Business, "City Facts 2009"

²⁰ Crain's New York Business, "Book of Lists 2009"

²¹ Crain's New York Business, "City Facts 2009"

²² College Board, "2009-10 College Prices"

²³ Statehealthfacts.org, "Health Insurance Coverage of the total population states (2007-2008), US (2008)"

²⁴ Statehealthfacts.org, "Health Insurance Coverage of children 0-18, states (2007-2008), US (2008)"

²⁵ NYS Division of Budget, "Governor Paterson Proposes Two-Year \$5 Billion Deficit Reduction Plan to Address Current- Year Budget Gap, Improve New York's Long-Term Fiscal Stability" October 15, 2009

²⁶ National Institute of Health, "Dollars Awarded by State for 2008"

The Impact of the Cost of Energy on the Nonprofit Sector

Energy costs have a significant impact on the higher education and healthcare sectors because they have one of the highest energy needs of all sectors. These energy costs are exacerbated by high regional energy costs. A study conducted by The Boyd Company in 2005,²⁷ showed that New York biotechnology facilities have the highest, by a wide margin, ratio of electric costs as a percentage of total operating costs exclusive of salaries. This ratio is between 1.5 and 2.4 times higher in New York than in Massachusetts, North Carolina and New Jersey.

The biomedical industry has one of the highest energy utilization rates of those industry sectors that are most important to the economic growth of New York State. Some examples follow:

- A 2001 study by Energy Design Resources, a California based utility industry organization, showed that laboratories have a higher energy cost per square foot than all other sectors surveyed. The average cost per square foot was between 100% and 400% higher than large office buildings.²⁸
- The Energy Information Administration's data indicates that for buildings greater than 100,000 square feet, Health Care facilities have an energy intensity index i.e. kWh per square foot, that is about 33% higher than the other major economic sectors in New York State.²⁹
- Con Edison designs their electric services for a biotech facility at an energy density equal to 50% more than office buildings³⁰.

The potential for relocation due to energy costs is exacerbated because surveys show that hospitals are increasingly adding high technology energy intensive processes that increase their energy density. A survey by the American Hospital Association as reported by Electrical Construction & Maintenance magazine indicated that 50% of hospitals surveyed in 2006 reported high or moderate use of information technology compared to 37% the previous year. This is being driven by a Federal push to have all health records computerized by 2014.³¹

Conclusion

Without an opportunity of continued support from PFJ or a new economic development program, the nonprofit sector will have to cut back on programs and delay or cancel new development. An economic development program that does not place the largest growth engine in New York State on an equal footing with other sectors would be taking a short term view on assisting the continued development of New York.

²⁷ CA, MA, NC & NJ cost information from, "A Comparative Operating Cost analysis for the Biotechnology Industry, 2005," The Boyd Company Inc. plus internal records of Luthin Associates based on a survey of six similar biomedical facilities in New York.

²⁸ "Energy Design Brief: Options and Opportunities," 2001 Energy Design Resources.

²⁹ United States, Energy Information Administration, Table C21. Electricity Consumption and Conditional Energy Intensity by Building Size for Non-Mall Buildings, 2003.

³⁰ Con Edison, Rider Y Load Density, Engineering Design Values Used in Calculating Peak Demands

³¹ "Health Care Construction Prognosis: Industry Appears to Be in Top Form," Jun 1, 2007 By Stefanie Kure, Senior Associate Editor