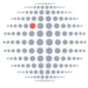

PARTNERSHIP
for New York City

Testimony of Kathryn Wylde, President & CEO, Partnership for New York City
New York State Senate Standing Committees on Finance, Commerce, and Investigations
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Thank you for the opportunity to testify. It is important to take a hard look at how New York's economic development resources have been allocated and whether the state has been getting a return on its investment in terms of increased economic activity, job creation, alleviation of poverty, or growth in tax revenues. Hopefully this will result in consideration of new tools and reform of existing laws and regulations that better equip our state to support economic recovery from the pandemic and future growth.

In New York state, the primary role of economic development incentives has been to offset the high costs of doing business in the state. Our experience with the Amazon HQ2 fiasco illustrates how poorly New York's approach to economic development has been working. We won the bid for the East Coast Amazon headquarters by offering $3 billion in tax incentives to one of the world's richest companies. The tax subsidy triggered opposition and Amazon decided the project was not worth the aggravation.

Virginia won the HQ2, including the additional 20,000 jobs originally intended for New York, in a bid that did not require tax subsidies because they are a state with competitive tax rates. Instead, their offer was to put up state funding for new transit, affordable housing, and a huge fund to prepare thousands of local residents for Amazon jobs. With a similar package, New York would have kept those jobs, but we were stuck with the wrong tools and a cost structure that had to be mitigated to get into the game.

The post-pandemic world will bring new challenges and our economic development tools, laws, and regulations need to be reformulated to address new realities. Remote work is on the rise. Suddenly one in ten job postings in NYC allow the employee to work from anywhere in the world. The number of remote jobs will continue to grow. It looks unlikely that SALT deductibility will be restored, so we are bound to see a growing exodus of the state's highest earners and a consequent loss in tax revenues. Most concerning, is that business operations will follow that talent out of state and take mid-level jobs with them. Yes, incoming high earners will replace some of those who leave, but it will still leave significant gaps in revenues and demand more of government in the way of economic development incentives. This is a vicious cycle and the only way to break it is with sensible reform.

In many cases, New York is the only state in the nation that keeps laws and regulations on the books that are simply inconsistent with business needs in a highly mobile, digital economy. A small illustration, that Senator Skoufis led, is the effort it took to make permanent the virtual notarization process that was put in place during the pandemic. Another example is the Scaffold law, a relic of the last century that adds significantly to the cost of construction and which every other state has repealed. A third is the failed effort to allow New York accounting firms to increase the number of partners who are not CPAs, reflecting the changing nature of their business over the past half century.

We recommend a commission, established by the governor and Legislature, to review the state's tax, legal, and regulatory structure from an economic development perspective and recommend actions that would enable the state to attract and retain business and jobs without extraordinary subsidies and tax expenditures. We would be happy to provide pro bono expertise and analysis to this commission in order to help design reforms that would lead to a more competitive business environment and allow the state to use scarce public resources in more strategic ways.

There are certainly circumstances where the state needs to offer strategic economic development incentives, such as to assist distressed areas with job creation and to develop new industry clusters that will build and diversify the state economy. For these purposes, the state needs very targeted programs that respond to diverse regional needs. We worked with the Legislature to get rid of the wasteful and much abused Empire Zones program in 2010 and replace it with a highly targeted Excelsior tax credit that was aimed exclusively at encouraging job creation in certain growth industries and projects that promised the state a significant return on investment. Over the years, the original Excelsior program has been broadened and made more discretionary, so that almost any business with the right consultant can get a tax write-off. It is not as bad as Empire Zones, but far less efficient than originally designed.

A recent success story that we at the Partnership helped design is the life sciences initiative that over the past five years has positioned New York as a leader in this growing sector after decades in which New York discoveries were commercialized in other states. During COVID, venture capital investment in New York City life science startups tripled because of state and city investments in the infrastructure required to build an industry cluster. If we keep up this pace, within the next few years, we should be able to phase out subsidies for many aspects of commercial life sciences and leave the continued development of the cluster to the private sector.

Most of our economic development programs, whether legislated or coming out of discretionary funding mechanisms, are not designed to leverage private sector resources and expertise in the way we are doing in life sciences. For example, as we learned in the pandemic, we have under-invested in building the capacity of our state's Community Development Financial Institutions (CDFI), which are essential to financing small and minority-owned businesses and community development activities. We only had nine New York CDFIs that were capable of originating PPP loans and only one – Pursuit – with the ability to scale up in a crisis.

One area where we have effectively tapped non-governmental resources to support smart economic development has been through the Regional Economic Development Councils (REDC) whose members represent business, labor, universities, and the nonprofit sector. It is a positive sign that Governor Hochul, who led the REDC program as lieutenant governor, is committed to strengthening this public-private collaboration. Importantly, the REDCs will play a larger role in the integration of economic and workforce development activities based on plans Governor Hochul laid out in her State of the State message.

We believe the post-pandemic recovery offers the opportunity to shift gears in economic development strategy and look forward to working with you to that end.