

Testimony of Good Jobs New York
Bettina Damiani, Project Director
before the Liberty Development Corporation
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Regarding Goldman Sachs \$1Billion Liberty Bond Application

Good afternoon. My name is Bettina Damiani, director of Good Jobs New York, a joint project of the Fiscal Policy Institute with offices in Albany and New York City and Good Jobs First, based in Washington, DC. Good Jobs New York promotes accountability to taxpayers in the use of economic development subsidies. Our website (www.goodjobsny.org) contains the only publicly available database of the city's large corporate retention deals. In addition, after the attacks of 9/11, we launched Reconstruction Watch to help the public better understand the many incentives available for the redevelopment of Lower Manhattan.

Is Goldman Sachs a Worthy Recipient of Public Subsidies?

There is little question of the important role Goldman Sachs plays in our city's economy. Goldman's home has been downtown for over a hundred years; last year the firm had a net income of \$3 billion and currently employs approximately 9,000 people.

Ironically however, it is this type of success that makes Goldman Sachs' need for public subsidies questionable. By focusing on projects like this one, political capital and energy is steered away from working on diversifying the economy and balancing the budget. Put alongside the State Comptroller's projected \$4.7 billion shortfall for New York City in fiscal year 2006, more questions arise as to how financing a new office tower for this firm, already located in the area, is a wise public investment:

- Governor Pataki reports that Goldman will create 4,000 jobs. But public officials must pursue how plausible this goal is and make details of the job promises public as well as describing any penalties the firm will pay if it doesn't reach the employment targets. (Presumably, the Governor is referring to Goldman's commitment to jobs through its

application for tax breaks, since the Liberty Bond program does not require a commitment to job creation);.

- What type of jobs will Goldman Sachs create? Will precedence be given to those unemployed or underemployed since 9/11? And are these jobs that would be created in the absence of subsidies?

Good Jobs New York is curious to know how Goldman's plan to scale back its development plans in New Jersey fit into its desire to stay in Manhattan and if it is renegeing - or renegotiating - its subsidy agreement with Jersey City officials.

In 2000, Goldman Sachs played Jersey City against New York City to see which would offer the best incentive package. It seemed to many that Jersey City won; with a new office tower there and nearly \$9 million has been allocated to the firm, with a possible \$173 million more, (see New Jersey Policy Perspective report "Taking Care of Business: Does It Cost Too Much?" www.njpp.org for more details on New Jersey's incentive program known as BEIP or the Business Employment Incentive Program). But despite its deal with New Jersey, Goldman is negotiating for space in Battery Park City.

Goldman's decision to build a new office tower in the same area of the city where it has been for 135 years seems to be based on a location formula that has served it and other financial firms well. In fact, in December of 2003, Goldman Sachs's spokesperson told the Daily News regarding its downtown location, "We're committed to staying here." This comment echoes corporate executives at American Express, Pfizer and others that their firms never planned to leave New York City but accepted the subsidies nonetheless. This is a common tactic in the economic war among the states.

It has been noted by economists, and even successful businessmen such as our Mayor Michael Bloomberg, that corporations do not make location decisions based on tax breaks. Instead, business locations are made based on concerns such as access to a strong labor force, location of competitors and available transportation.

Comparing New York's and New Jersey's large budget deficits – which are forcing increased taxes on homeowners - with Goldman's profits, it's difficult to see how the taxpayers are getting the better end of the deal. Residents on both sides of the Hudson River deserve better due diligence.

Better Transparency Needed

The Liberty Development Corporation estimates that approximately 18,649 full-time jobs will be created during the construction of the proposed Goldman Sachs building with economic impacts considered to be over \$350 million. These estimates are grand, and since materials provided to the public fail to explain how officials arrived at these figures, we are expected to take a great leap of faith. The financing rates and terms by which the bonds will be sold are not available in public documents but, the LDC should provide an estimate of the lost revenue due to the tax exempt bonds.

As required by law, the LDC did place advertising notices of this public hearing in two of New York City's daily newspapers. Yet, the LDC and its parent agency should establish a higher standard and utilize the internet and e-mail as additional means of communicating with members of the public. Good Jobs New York suggests that public hearing notices for ESDC and all its subsidiaries be posted on the corporation's website and allow members of the public to sign up for e-mail notifications.

While the LDC is responsible for the Liberty Bond portion of this deal, it our assumption that the ESDC is also negotiating the proposed tax breaks for this proposed project. Materials provided on the Liberty Bond proposal don't even mention the firm has applied for additional subsidies, estimated at \$38 million. By neglecting this, the LDC fails to create a complete picture of what taxpayer's investment in the development may be. Providing copies of the application for benefits and including details of clawbacks - money back guarantees - would generate a better understanding of the proposed costs and benefits.

This is of particular concern since our research, described in a Good Jobs New York report released earlier this year, "Know When to Fold `Em" (available at www.goodjobsny.org) demonstrated for the first time, that the policy of negotiating corporate retention deals by New

York City officials permits jobs to be lost, not retained. This is due to gigantic loopholes in agreements that permitted companies to lay off sometimes up to 12% of their workforce before being penalized. While the LDC is not responsible for the tax break portion of the proposed Goldman Sachs deal, it would be in the best interest of the public that its parent organization instill strong clawback language in any future contracts.

How the Goldman Sachs Deal Could be Benefit New York

Especially in a deal where the need for Liberty Bonds is questionable, a project should offer extraordinary public benefits to justify its subsidy. We applaud the plan to build this office tower as an environmentally friendly building and believe if done with some creativity, the public benefits could improve the lives of New Yorkers and the city's economy. Should the LDC approve public financing for Goldman Sachs, Good Jobs New York offers the following suggestions to help make this project as beneficial as possible:

Create Affordable Housing: The high cost of housing in this city is a strain to the majority of those living here and can be a deterrent to new businesses. While the residential portion of the Liberty Bonds allocated by the City and the State failed to address the dire need of non-market rate housing in Lower Manhattan, the Bloomberg Administration implemented a creative approach to raise revenue for affordable housing in other areas of the city by charging a 3% fee on the residential portion of Liberty Bonds. We urge the LDC to consider this for the allocation of all commercial Liberty Bonds as well. For example, a 3% fee on the \$1 billion requested by Goldman Sachs could raise \$30 million for low and moderate-income housing .

Diversify the Economy and Help the Environment: A commitment should be made to purchase a large percentage of construction materials from New York based manufacturers. While we realize it may not be possible to purchase all the environmentally friendly building materials in New York City, this should be seen as untapped job market. Since the construction of green buildings will be the wave of the future, the state must take this opportunity to work with developers of environmentally friendly building materials to foster a new job market. New York City is the perfect location for this. Imagine, manufacturers creating green materials in areas hard hit by unemployment in the city as well as upstate that are based near airports and

other transportation hubs. This scenario has the advantage of spurring new jobs, utilizing abandoned manufacturing space and assisting the aviation industry hard hit after 9/11. Also, we can't overlook the positive health benefits that come with this and the potential for green building to reduce our reliance on unpredictable energy sources.

We urge the LDC to look towards the future with a creative eye that will spur economic development opportunities for New Yorkers. In the end, New York's companies - big and small - will ultimately benefit.

Thank you for the opportunity to present our testimony to you.