

Economic
Development



The Most Important Fiscal and Economic Issues Facing New York State



How to Spur and Sustain Economic Growth in NY's Upstate Regions

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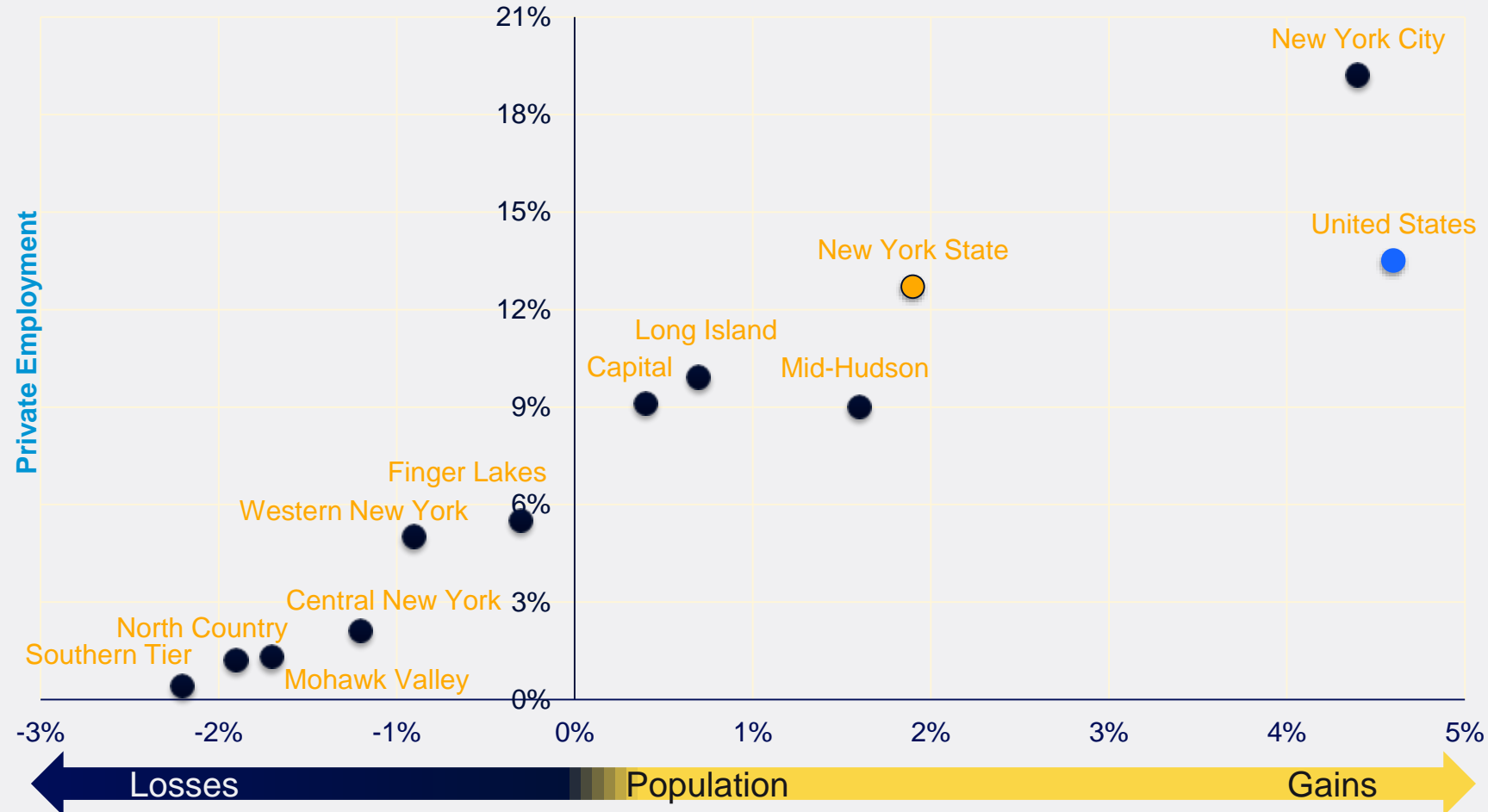
Presentation Overview

- Worrisome Trends in NYS Economy
- Lessons Learned from Turnarounds in Other Places
- Costly, Ineffective State Economic Development Programs
- Recommendations for Improving NY's Approach to Regional Economic Development

Most Regions Stagnant or Declining

Downstate Region Driving State Economic Growth

Percent Change in Private Employment and Population Growth, 2010-2016



Economic Trends

Broad Trends

- **Employment Polarization:** Job growth driven by high- and low-wage jobs; loss of middle-wage jobs in manufacturing
- **Clustering** of industries and firms leads to higher productivity
- **“Skills gap:”** Employers cannot find qualified applicants for available positions, particularly middle-skill jobs

New York Specific Concerns

- **Business creation rates** (.21%) lag national average (.27%)
- Few upstate **venture capital** deals (23) in 2017
- **Poverty rate** (14.3%) now greater than the nation (13.9%)
 - Rates **increased** in 44% of counties during economic expansion

What Works?

Literature Review and Case Studies of States, Cities, and Regions That Have Turned it Around

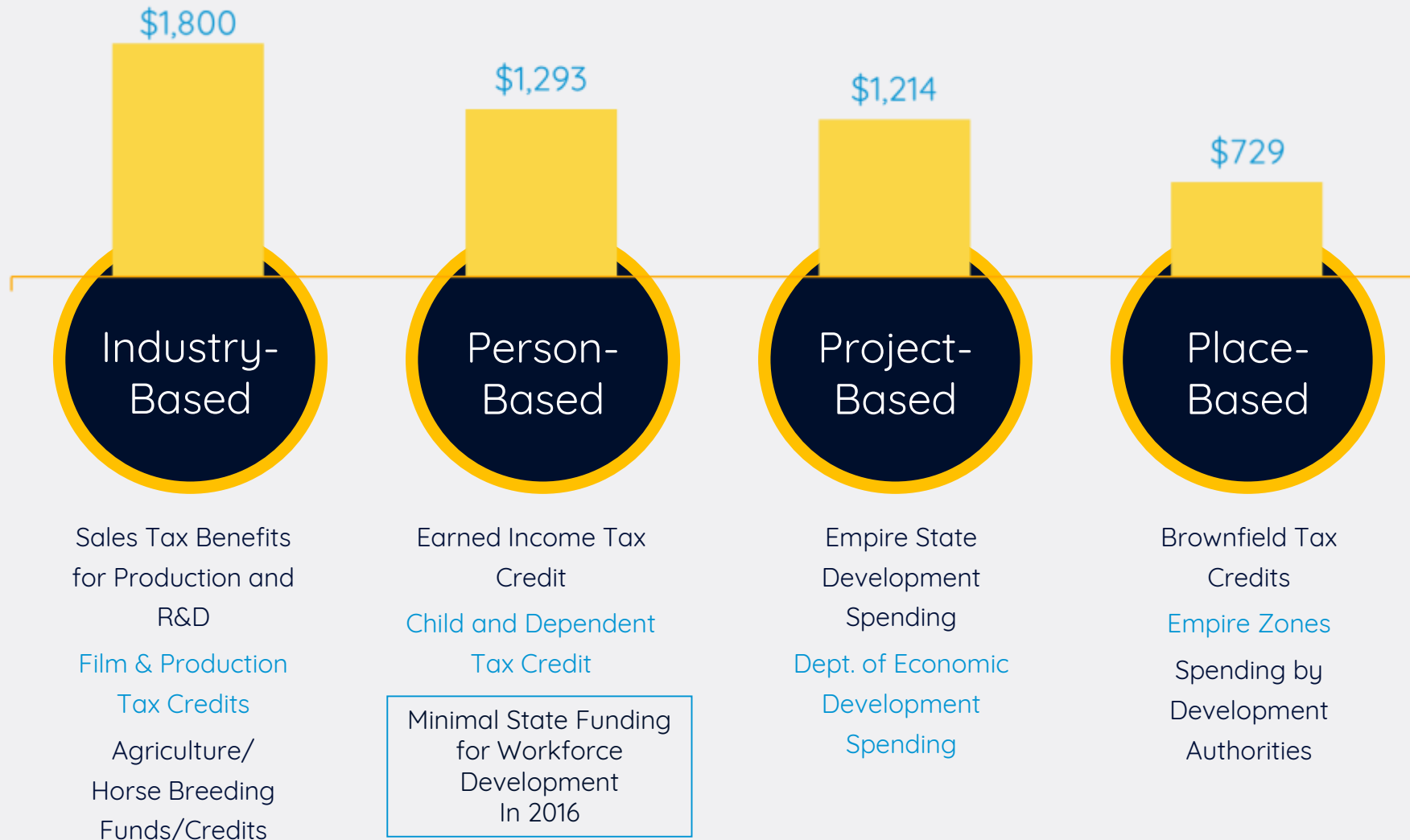


Lessons from Success Stories

1. Build development strategies around a region's existing strengths
2. Focus on large cities or counties as drivers of growth
3. Convene stakeholders to develop and implement strategy
4. Make a long-term commitment with sustained investment on strategic priorities
5. Implement other programs for middle- and low-skilled workers
6. Target infrastructure upgrades to facilitate economic activity and improve quality of life

NYS Approach: Mostly Tax Breaks

Expenditures in 2016 (dollars in millions)



Critique of NYS Programs

1. Programs are Costly

- Even though net tax rates are competitive, NY spends more on tax breaks than other states
- Spending on “megadeals” in particular is far greater than in other states

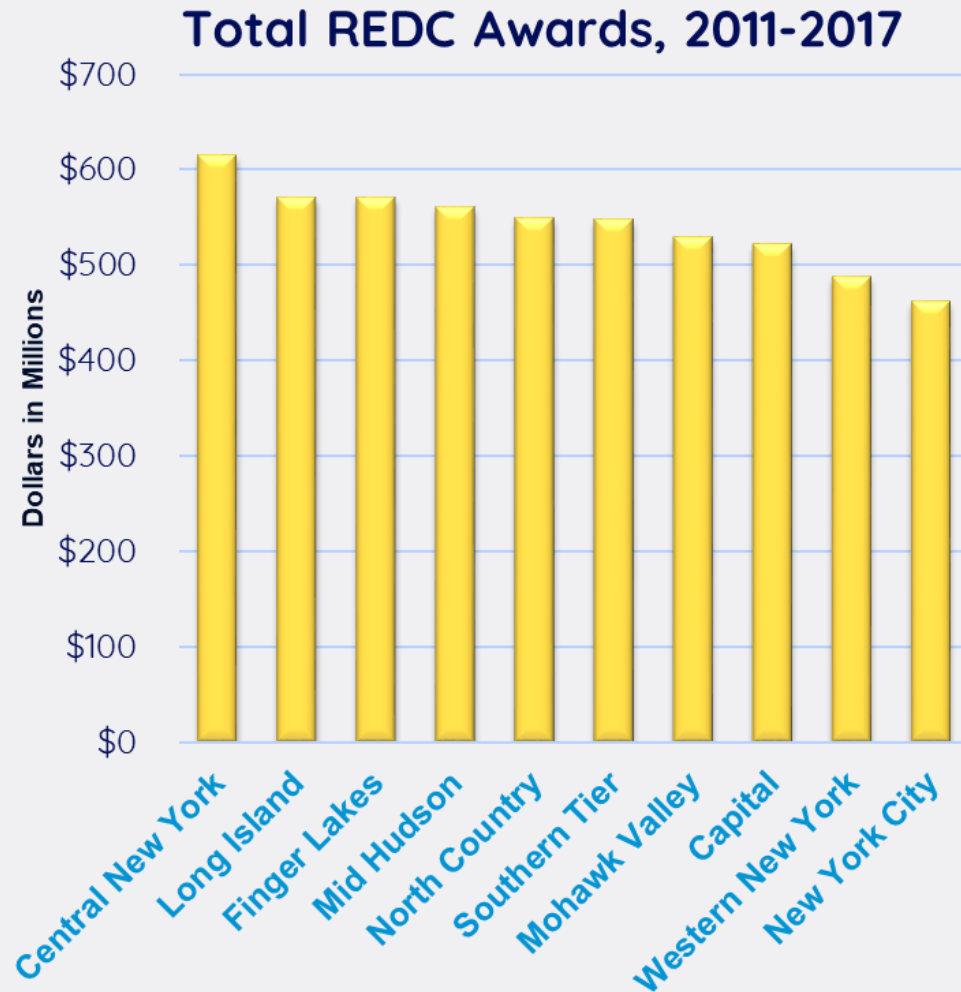
2. Programs are Poorly Designed

- Unnecessary or excessive support; high State costs per job
- Significant upfront capital investment by State puts taxpayers at risk; high-profile “megadeal” failures
- Exceptions: Excelsior Jobs Program and Brownfield Tax Credits

3. Transparency is Limited, Making Evaluation Difficult

- No standardized metrics
- Little, if any, reporting on project-level results

Regional Economic Development Councils (REDCs)



- ✓ **Convening Stakeholders:** REDCs are boards comprised of government, business, and civic leaders
- ✓ **Bottom Up Approach:** REDCs develop strategic plans based on regional strengths and development priorities
- ✓ **Appropriate NYS Funding Criteria:** well-paying job growth; existing industries; workforce training/skills gaps; infrastructure needs
- X **Political Priorities:** Awards about \$750 million annually to regional projects based on REDC rank (20%) and State agency score (80%)

Projects Funded Through REDCs

Funding Spread Too Thin Across Too Many Projects;
Majority of Investments Not Tied to Strategic Priorities

REDC, 2017	Total Projects Funded	Economic Development Projects	Average Econ. Dev. Project Award	Share of Eco. Dev. Projects Tied to a REDC Strategy
New York City	121	84	\$316,449	13%
Mid-Hudson	113	58	\$503,914	26%
North Country	82	40	\$403,169	33%
Long Island	98	66	\$338,124	39%
Finger Lakes	110	58	\$287,495	40%
Southern Tier	83	32	\$423,984	41%
Mohawk Valley	101	57	\$438,054	49%
Capital Region	110	52	\$477,591	52%
Central New York	112	63	\$411,522	70%
Western New York	112	52	\$278,916	75%
State Average	104	56	\$382,077	43%

REGIONAL COUNCILS

How Can State Leaders Improve NYS Approach to Regional Economic Development?



Improve Transparency and Evaluation of Current Programs In Order to Eliminate Ineffective Expenditures

CBC Blueprint for Reform

- Capture Fully and Report Together All State and Local Incentives
- Standardize Metrics Across Initiatives
- Publish a Database of Deals
- Improve Program Design
- Implement Regular Evaluation
- Make Administrative Reforms to Improve Procurement Process

Ineffective Expenditures

- Eliminate film and production tax credits
Savings: \$570 million
- Reduce ESD discretionary capital spending by half

Savings: \$570 million

**Total Available for Reinvestment:
\$1.1 Billion**

Reorient REDCs

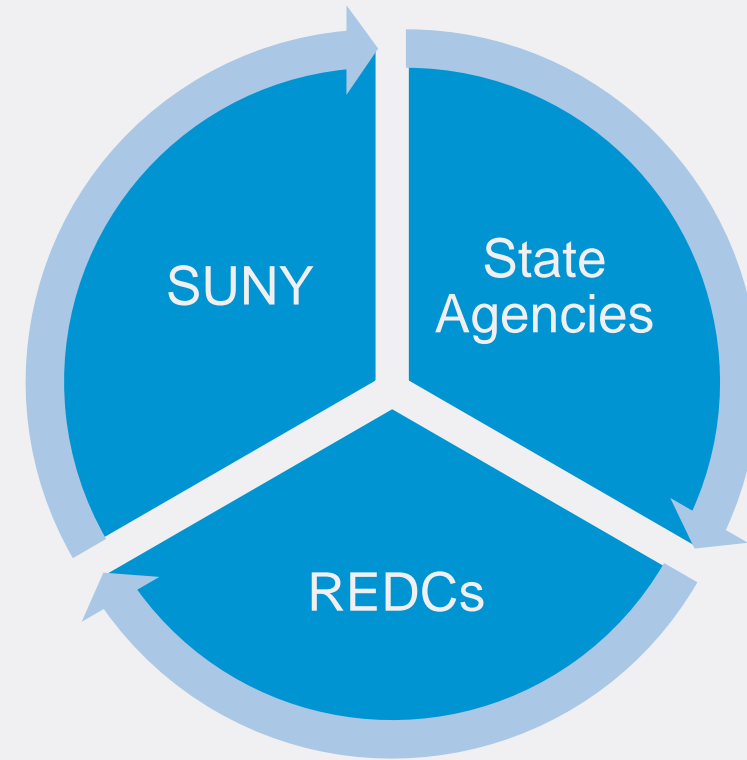
REDCs are premised on the right approaches, and are a useful vehicle that should be reoriented:

- **Align funding with regional strategies** to focus on projects in thriving industries and in large cities or counties to foster agglomeration effects
- Implement a **stricter prioritization** of projects based on potential return on investment; funding fewer projects will allow for **sustained investment** to advance long-term goals
- Set clear goals and criteria for evaluating success, and improve consistency and quality of project reporting to allow for **tracking progress over time**

Reinforce Collaboration to Enhance Workforce Training Initiatives

Efforts Have Varied Across Regions or Been Ad-Hoc; To Make Meaningful Progress, Should Be More Systematic and Data-Driven

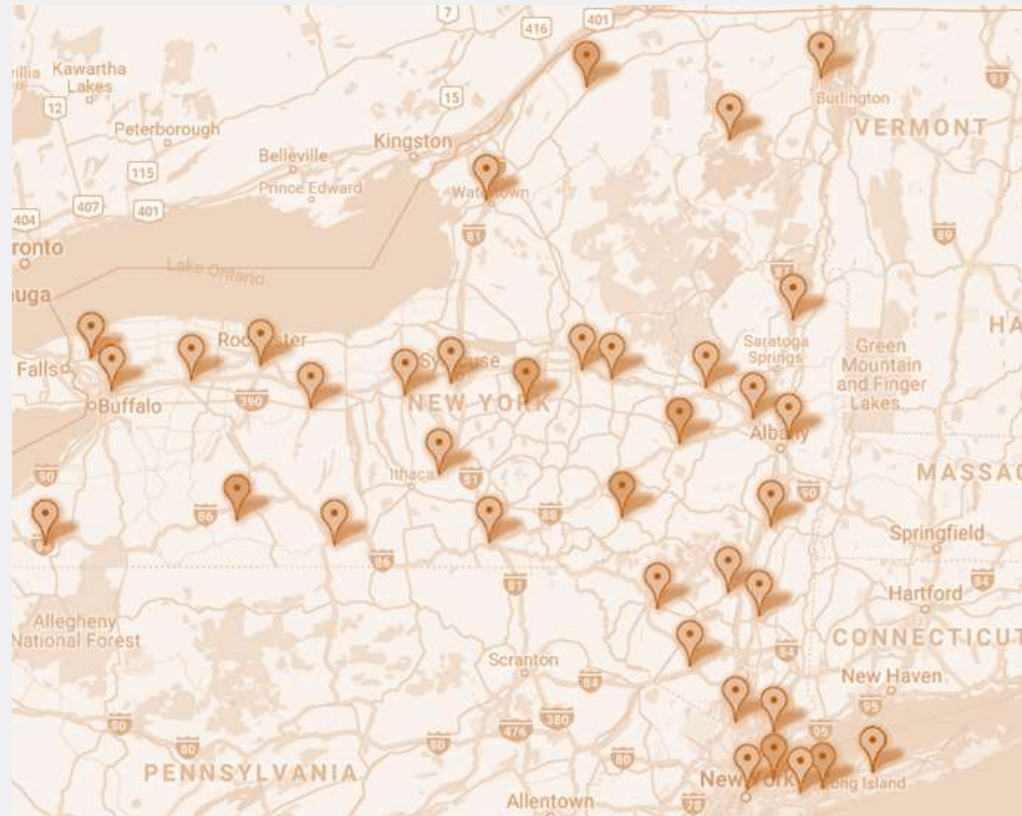
- NYS FY2019 budget allocates **\$175 million** for workforce training, but no guidance- or funds- released yet
- NYS Department of Labor should work with REDCs to **routinely and systematically** identify and track regional skills gaps and workforce training needs



Reinforce Collaboration to Enhance Workforce Training Initiatives

SUNY Community & Technical Colleges In Each Region

- Strengthen SUNY partnerships with REDCs to **develop and assess** training programs
- Provide resources to **scale up** effective SUNY programs and those geared toward areas of projected job growth



Other Recommendations

- Provide stronger support for fostering entrepreneurship
 - Connect NYC venture capital to upstate entrepreneurs
 - Strengthen support for commercialization of innovation at colleges and universities
- Consider targeted safety net enhancement for poor and low-income workers “stuck” in chronically depressed areas; for example, enhancement of Earned Income Tax Credit
- Continue to improve central and downtown infrastructure not in good repair

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