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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Prepared for the CITIZENS BUDGET COMMISSION
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

-3% -2% -1% 0% 1% 2% 3% 4% 5%

Private Employment

Losses

Population

Gains

New York City
New York State
Long Island
Capital
Mid-Hudson
Finger Lakes
Western New York
Central New York
Mohawk Valley
Northern Tier
Southern Tier

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December 17, 2018
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

Pittsburgh, PA
Grand Rapids, MI
Albany, NY
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)

- **Industry-Based**
  - Sales Tax Benefits for Production and R&D
  - Film & Production Tax Credits
  - Agriculture/Horse Breeding Funds/Credits

- **Person-Based**
  - Earned Income Tax Credit
  - Child and Dependent Tax Credit

- **Project-Based**
  - Empire State Development Spending
  - Dept. of Economic Development Spending

- **Place-Based**
  - Brownfield Tax Credits
  - Empire Zones Spending by Development Authorities

Minimal State Funding for Workforce Development In 2016

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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.

- **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

<table>
<thead>
<tr>
<th>REDC, 2017</th>
<th>Total Projects Funded</th>
<th>Economic Development Projects</th>
<th>Average Econ. Dev. Project Award</th>
<th>Share of Eco. Dev. Projects Tied to a REDC Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>121</td>
<td>84</td>
<td>$316,449</td>
<td>13%</td>
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<tr>
<td>Mid-Hudson</td>
<td>113</td>
<td>58</td>
<td>$503,914</td>
<td>26%</td>
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<tr>
<td>North Country</td>
<td>82</td>
<td>40</td>
<td>$403,169</td>
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<td>Long Island</td>
<td>98</td>
<td>66</td>
<td>$338,124</td>
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</tr>
<tr>
<td>Finger Lakes</td>
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<tr>
<td>Southern Tier</td>
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<td>32</td>
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<td>Mohawk Valley</td>
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<td>57</td>
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<td>Capital Region</td>
<td>110</td>
<td>52</td>
<td>$477,591</td>
<td>52%</td>
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<tr>
<td>Central New York</td>
<td>112</td>
<td>63</td>
<td>$411,522</td>
<td>70%</td>
</tr>
<tr>
<td>Western New York</td>
<td>112</td>
<td>52</td>
<td>$278,916</td>
<td>75%</td>
</tr>
<tr>
<td><strong>State Average</strong></td>
<td><strong>104</strong></td>
<td><strong>56</strong></td>
<td><strong>$382,077</strong></td>
<td><strong>43%</strong></td>
</tr>
</tbody>
</table>
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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