Testimony of Good Jobs New York
Bettina Damiani, Project Director
Before the Liberty Development Corporation
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Regarding Goldman Sachs' $1.65 Billion 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 136 years; last year the firm had a net income of $4.5 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, government resources and political capital are steered away from working on diversifying the economy, balancing future budgets and addressing the inequities in the allocation of 9/11 resources.

In its annual report on New York State employment trends released this week, the Fiscal Policy Institute discovered that the gains of increased economic productivity are virtually all going to corporate profits and high-wage earners, with most workers seeing no real gain. Put along-side the New York City Office of Management and Budget's projected $4.5 billion shortfall for New York City in fiscal years 2007 and 2008, 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 types 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?

- The materials provided by the Liberty Development Corporation claim that Goldman Sachs has to justify the headquarters project cost to its shareholders and prefers to control its own space. Instead of worrying about Goldman's shareholders, ESDC should be justifying the cost of the project to New York taxpayers by demonstrating that the project would not go forward "but for" the massive incentives being proposed. *None of the material made public about this project justifies the use of public subsidies.* We clearly understand the importance of Goldman staying in New York City, the question is whether it needs more help than other firms to do so.

- Good Jobs New York is curious to know how Goldman's development plans in New Jersey fit into its desire to stay in Manhattan and if it is reneging - 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 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 at BEIP or the Business Employment Incentive Program). But despite its deal with New Jersey, Goldman has agreed to occupy site 26 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 136 years seems to be based on location criteria 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." In April of 2005, a Goldman spokesman told the *New York Observer*, "We will only look in Manhattan…" These comments echo corporate executives at American Express and HIP Healthcare that their firms would have returned to Lower Manhattan even without the subsidies.

It has been noted by economists, and 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, clusters of related firms and available transportation. Considering reports that Goldman's traders are reluctant to leave Manhattan for the Jersey City office tower, which remains half-empty, it is doubtful that Goldman Sachs' decision to build in Lower Manhattan hinges on the incentives.

Goldman had legitimate security concerns in Lower Manhattan related to a proposed tunnel under West Street. This issue has since been resolved, with Goldman reportedly securing a special guarantee from city and state officials that a comprehensive security plan will be in place for the neighborhood.

With all of these facts in mind, it seems disingenuous of the LDC to justify the project in its materials by citing the possibility that Goldman would "relocate a significant portion of its workforce to Jersey City should the Project not be constructed."

Considering New York's looming budgets deficits – which may force an increase in taxes on New Yorkers it's difficult to see how the taxpayers are getting the better end of the Goldman Sachs subsidy deal. Residents on both sides of the Hudson River deserve better due diligence.

Better Transparency Needed

As required by law, the LDC did place advertising notices of this public hearing in a New York City daily newspaper. Yet, the LDC and its parent agency should establish a higher standard and utilize the internet more effectively and use e-mail as additional means of communicating with members of the public. Good Jobs New York suggests that ESDC provides e-mail notifications to interested members of the public.

For the Mayor, Governor and Assembly Speaker to publicly announce this deal without acknowledging the required public hearing, illustrates their contempt for public debate around these issues. Future allocations of Liberty Bonds will require public hearings and our officials should make the effort to publicize them. Their audience is certainly wider than Good Jobs New York's.

Also, it was disconcerting that the hearing notice stated that project materials would not be available until the afternoon before the hearing. Although the materials were made available several days before the hearing, this type of announcement potentially discourages members of the public who are interested in learning more about the project and testifying. Yet, the materials provided are virtually useless; the press release had more financial data that the two pages released by this agency. It is also unfortunate that the LDC scheduled this hearing in between Labor Day and the electoral primaries—a date that is not conducive to civic participation.

The Liberty Development Corporation estimates that approximately 18,649 full-time jobs will be created during the construction of the proposed Goldman Sachs building. This is a grand estimate, and since materials provided to the public fail to explain how officials arrived at this figure, 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.

While the LDC is responsible for the Liberty Bond portion of this deal, it is 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 $115 to $150 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. If these bonds were allocated by the New York City Industrial Development

Agency, the public would have had material – a copy of the application, value of the tax breaks and costs benefit analyses - six days prior to the hearing.

This is of particular concern since our research, described in a Good Jobs New York report released last 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. It would be in the best interest of the public that the ESDC release details of the tax breaks and to include strong clawback language, in any future contracts.

In addition, it is essential for the public to know more about the reported financial guarantee received by Goldman from public officials, exacting penalties on the city and state if authorities fail to enact a comprehensive security plan for the World Trade Center neighborhood. This would seem to be a precedent-setting component of discretionary benefit agreements, and the public is entitled to a debate over its value and fairness.

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. We also acknowledge that Goldman Sachs is investing money into a public library and the maintenance of open space in Battery Park City. 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 $1.65 billion requested by Goldman Sachs could raise $49 million for low and moderate-income housing.

Diversify the Economy and Help the Environment: Good Jobs New York is extremely pleased that the building is being designed to achieve the Leadership in Energy and Environmental Design (LEED) Gold certification by using the latest green building technologies. In achieving this rating, GJNY hopes that the developers take advantage of the LEED points that are available for purchasing a large percentage of construction materials and products from local 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. 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 all 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.

Fiscal Policy Institute, The State of Working New York 2005: Treading Water in a Tenuous Recovery, available at www.fiscalpolicy.org

A list and citation of quotes available at www.goodjobsny.org/quotes.htm

“the Big City; An Outside Come Inside To Run Things,” John Tierney, The New York Times, November 8, 2001.

“Goldman Goes for Money-Back Deal Based on Safety,” Matthew Schuerman, New York Observer, 8/22/05

New York Post, August 17, 2005, page 83

http://www.state.ny.us/governor/press/year05/aug23_1_05.htm