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The Partnership for New York City is a nonprofit organization of international and regional business leaders who share a commitment to maintaining New York's status as the global center of commerce, finance and innovation. Working with government, labor, and civic groups, the Partnership provides business expertise and resources to inform public policy decisions and to promote regional economic growth and job creation.

New York is well established as a great world city. It is pre-eminent in finance, media, professional and information services, fashion and retail, medicine, higher education, entertainment and the arts. Despite these strengths, New York finds itself vulnerable in the face of the current global financial crisis that has destroyed or damaged many of its largest employers. Rapid and continuing loss of jobs, diminished wealth, and falling tax revenues present a huge challenge to the city and state. That challenge drives the Partnership policy agenda in 2009.

From crisis often comes opportunity, and New York is at a turning point. Restructuring of the financial services industry will diminish its contribution to the New York economy and tax base in the years ahead, forcing the City and State to restructure their own budgets to reflect reduced revenues. The Partnership is mobilizing its members to help government develop and deploy innovative solutions to fiscal and economic problems, with the goal of diversifying the economy and stimulating renewed growth.

In the current crisis environment, the Partnership's policy recommendations focus on people—what it takes to keep New York the most attractive place in the world to live and work, including quality education and infrastructure, enhanced lifestyle assets, and incentives that promote strategic growth.

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## EDUCATION

The future of New York depends on having a diverse and well-prepared labor pool that can compete with cities across the globe. Excellent public schools and collaborative workforce development partnerships between business and labor will ensure New York leads the nation in intellectual assets and productivity.

**Mayoral Control and Sustained Investment in the Public Schools:** The Partnership supports renewal of the law establishing mayoral control of the public school system without modification and continued investment in a system that is making demonstrable progress.

A public education system that prepares New York City students to compete in the global economy is the Partnership's top priority. The Partnership was an early advocate of mayoral control of the schools, enacted in 2002, and has monitored its impact. Student performance, teacher quality and graduation rates have all improved since the mayor became accountable for the system. This law will sunset in June 2009. Its renewal is vital to continued progress which, in turn, justifies sustained investment in the education system.

Business confidence in the city schools is at a forty-year high, but would be badly undermined by dilution of the mayor's powers. Critics complain about the need for better communication with parents and the community and more public discussion of education policy and programs. These concerns are valid, but can be addressed administratively, under current law. They do not require amendment to the governance statute.

One change in state policy that is required is greater flexibility with respect to the use of public education dollars by the local school system. Districts should not be overly constrained in application of resources to achieve the best outcomes.

**Workforce Development:** The Partnership supports regulatory reform and new incentive programs at all levels of government that effectively engage employers in preparing students for jobs in the 21st Century economy.

Reform of the state and city Career and Technical Education (CTE) programs, coupled with new federal incentives for expanded employer participation in worker training, are the second category of education priorities of the Partnership. Absent business engagement, it is impossible to adequately prepare prospective employees for jobs in a rapidly evolving economy.

In 2008, the Partnership provided business leadership for a task force appointed by Mayor Bloomberg to create a more rigorous and productive approach to CTE in city schools. At the same time, the Partnership worked with Congressman Charles Rangel to design enhancements to the federal Work Opportunity Tax Credit and other incentives to engage employers in training and employment of urban youth. It is likely that these incentives may be available in conjunction with the federal Economic Stimulus program. During a time of economic duress, it is particularly important for business to participate in helping those who are unemployed gain the skills necessary to join the workforce.

## INFRASTRUCTURE

The global economy has given people the option to relocate to dozens of competitive cities across the planet. Lifestyle assets and infrastructure are an integral piece of the matrix used when individuals and companies choose where to make their home. The federal economic stimulus program offers New York an opportunity to accelerate investment in physical and technological infrastructure and to leverage the state's private sector resources through innovative public-private partnerships.

**Transportation Aid:** The Partnership supports federal initiatives to stimulate the development of critical infrastructure in New York, especially increased investment in urban mass transit.

In 2009, the federal transportation reauthorization bill will determine how billions of dollars in transportation money will be allocated. Typically, 80% of the available funds go towards highways and roads while 20% is allocated towards transit projects. The Partnership will join with other representatives of urban centers around the country to advocate for a larger allocation to mass transit.

**MTA Funding:** The Partnership supports broadly based funding for New York City's regional transit system, along the lines of the Ravitch Commission proposal, together with reordering of certain MTA spending priorities and reform of procurement practices.

The city's status as a global commercial power depends on maintaining a superb public transportation system that provides employers with ready access to a large and diverse talent pool. Currently, the MTA is faced with fiscal challenges that, if not managed appropriately, could severely impact New York's future competitiveness. The Governor's Commission on MTA Funding, chaired by Richard Ravitch, recommended a balanced combination of modest increases in fares, a .33% payroll tax on all employers, and assessment on drivers

through tolls on the free East River and Harlem River bridges. (The Partnership continues to support congestion pricing as the preferred way for drivers to contribute to the cost of maintaining the transportation system.) New investment, however, needs to be conditioned on changes in procurement, contracting and governance of the MTA, which are all factors that contribute to unnecessarily high capital costs and inefficient operations.

**Expanded use of Buses and Ferries:** The Partnership supports expanded bus and ferry service as the most efficient and cost effective way to accommodate increased ridership and future growth.

Expanding New York's subway system is expensive and projects take decades to complete, offering no immediate improvement to the systems users. Other world cities have demonstrated that modern, efficient bus and ferry service can meet transit needs more quickly and at a far lower cost. The capital plan of the Metropolitan Transportation Administration should be reviewed for the purpose of expanding bus service and taking responsibility for the management and extension of ferry service to areas of the region where transit is inadequate.

**Airport Improvements:** The Partnership supports investment in the region's airports and air traffic control infrastructure to reduce delays and accommodate future growth.

New York's major airports are the worst in the country when it comes to on-time services due to inadequate airport capacity and an outdated traffic control system. The Partnership has just released a new report based on studies conducted by one of its members, HDR, Inc., documenting current losses to the regional economy that total more than \$1.3 billion a year that are attributable to air traffic congestion in the metropolitan area.

**Energy and the Environment:** The Partnership supports efforts to upgrade the energy grid and expand generation facilities, in conjunction with conservation measures designed to reduce greenhouse gas emissions in the city by 30% by 2030.

The Partnership has worked closely with the Bloomberg Administration on a program to "green" New York and to reduce the city's carbon footprint, while maintaining growth in population and the economy. Through its investment arm, the NYC Investment Fund, the Partnership is helping to nurture early stage "clean tech" companies in the city and state that will develop a new sector of the economy. The Partnership and its members are contributing to city and state efforts to encourage greening of buildings, use of alternative energy sources and reduced dependence on fossil fuels.

The Partnership also supports modernization of the energy grid, expansion and modernization of energy generation facilities, and the continued operation of the Indian Point nuclear plant. The city's growth depends on balancing conservation with increased energy production.

**Healthcare:** The Partnership supports Governor Paterson's efforts to constrain the costs of Medicaid and recommends legislation to appoint a second Berger Commission, charged with continued reorganization of the provider system. The Partnership opposes increased assessments on the healthcare and health insurance industries, which further inflate costs. It strongly supports reforms needed to reduce the exorbitant costs of medical malpractice insurance.

New York is home to some of the nation's finest hospitals and research institutions. The health care industry is a major contributor to the local economy, as well as delivering quality health care to people who live and work here. But the statewide health care system is inefficient and weighed down by underutilized facilities and outdated practices. A national health care solution will be necessary to achieve an equitable and adequately financed system. In the interim, New York State needs to continue the work begun under the Berger Commission in 2007, involving consolidation and restructuring of provider networks and reallocation of resources to encourage preventive care. Governor Paterson has articulated the immediate need to reduce the costs of health care and Medicaid to the state budget. These costs are far greater than the national average, with no differentiation in outcomes. Reform of medical malpractice insurance laws, which impose unnecessary costs on health care providers, is one obvious place to start.

## COMPETITIVENESS

Technology allows business operations to locate anywhere in the world. New York must enhance its business climate through local action and federal advocacy to insure that the world's largest employers and entrepreneurs in growth industries continue to make New York their home.

**Business Taxation:** The Partnership supports modernization and conformity of the city and state business tax codes. It supports tax incentives as part of an economic development strategy for business attraction and retention in growth sectors, with the caveat that across the board business tax reductions or adjustments are generally better for the economy than industry- or company-specific actions.

The combined New York City and New York State corporate income tax rate is 16%—far and away the highest in the nation. In addition to the statutory tax rates, New York imposes a surcharge equal to 17% of corporate taxes paid if the company is located in the MTA region. In contrast, New Jersey taxes corporate income at 9% and Connecticut at 7.5%. These and other states have successfully used lower rates as a tool to attract corporate headquarters and operations from New York. A sound tax policy should encourage private investment, business expansion, and job creation. New York State and City have outdated and complex business tax codes that would benefit from overall reform. The Partnership members are prepared to assist with this process. Generally speaking, taxes and fees that are narrowly imposed on certain industries represent a bad practice, whereas tax incentives that are strategically targeted to sectors that offer the greatest potential for job growth and business activity may be an efficient use of tax subsidies.

**Personal Income Taxes:** The Partnership opposes increasing the state and city personal income tax rates, particularly increases that will

be considered punitive by high earners who are central to New York's ability to remain a global headquarters city and a financial capital.

The combined state and local personal income tax rate for New York City residents is 10.5%, compared to Connecticut (5%) or New Jersey (8.97%). For many of New York's key industries, there is an Unincorporated Business Tax payable on top of the PIT that brings the total statutory tax rate for city residents to 14.5%. Personal income taxes are a key indicator used by employers to assess where to locate operations. The Partnership supported the three-year income tax surcharge enacted after 9/11 to deal with a short term problem. Today, New York faces a substantial structural deficit and projects a long term reduction in tax revenues from the financial services industry. An interim surcharge is not going to solve the budget problem, which must first be tackled on the spending side. Increasing personal income taxes in the current environment will accelerate the state's economic decline.

**Immigration and Visas:** The Partnership supports comprehensive reform of federal immigration and visa policies, geared to meeting labor market needs.

New York's competitive position depends on maintaining access to a global talent pool. U.S. immigration and professional visa policies have become increasingly restrictive, with negative consequences for business, job-creation, universities, and cultural and research institutions. A 2008 study published by the Partnership found that New York State

employers hold 11% of the H1-B professional visas issued in the country—second only to California—and that 89% of these employers are small and mid-size companies. Often, a multilingual H1-B employee is the key to a small firm’s ability to service global markets, which is why this issue is so important to a world city like New York. The Partnership is working with immigration advocates and national business organizations to promote federal legislation that would increase availability of professional visas, establish a path to citizenship for undocumented residents, and more effectively control illegal entry to the country.

**Trade, Foreign Investment and Business Regulation:** New York is the American center of international business and finance and its economic vitality depends on U.S. policies that encourage free trade, foreign investment, and effective regulation that balances oversight

with the flexibility needed to encourage innovation.

A 2008 Partnership study established that foreign-owned businesses accounted for nearly 15% of economic growth in New York City between 2002 and 2004 and that in 2004 1 in 20 New York workers were employed by foreign-owned companies. Looking ahead, the role of foreign international companies will be increasingly important to New York’s economic growth. The most important clients and customers of New York’s international businesses are foreign countries and, particularly, emerging economic powers.

When it comes to business and financial regulation, there is consensus around the need for a new regulatory structure in the U.S., but concern that it should be designed to preserve the competitive position of U.S. companies in global markets.

## ECONOMIC DEVELOPMENT

The financial services industry has long been the biggest contributor to New York’s payrolls and tax revenues. As the industry restructures and downsizes in response to global conditions, it leaves a large hole in the economy and in City and State budgets. To offset these losses, New York needs a more aggressive and diverse approach to economic development, focused on entrepreneurial activity as well as research and innovation in the corporate and service sectors.

**Reform of State Economic Development Programs:** The Partnership supports the development and implementation of a statewide economic development strategy that stimulates job creation and business investment while diversifying the state economy and generating sustainable, long-term growth.

Despite its great assets in business, research and higher education, New York State has been slow to make the transition from the

industrial to the innovation economy. Most of New York’s economic development incentives, led by the \$515M Empire Zones program, remain difficult to navigate and have proven to be ineffective job creators in the 21st Century economy. Working with a team from A.T. Kearney Inc., the Partnership took the lead in pushing for a more strategic approach to investment in economic development, tied to state tax, energy and workforce development policies. Three proposals that the Partnership recommends for consideration are:

- *Growth and Relocation Incentive Program*—The Partnership proposes replacing Empire Zones with a model that we call the Growth and Relocation Incentive Program (GRIP). It would provide corporate income tax credits for employers that create new jobs in target industries, equal to as much as 80% of the state personal income taxes generated by the new jobs. GRIP would provide employers with a direct incentive to bring new jobs to New York and reimburse employers after those jobs are created. This model has been successfully used by New Jersey, generating \$10 of new tax revenues for \$1 of foregone taxes.
- *Research and Development Tax Credit*—Governor Paterson has proposed a \$20 million program to build upon the federal research and development tax credit, designed to attract new, innovative employers to the state and encourage commercialization of intellectual property coming out of universities. The Partnership endorses an even deeper credit—comparable to Connecticut—and a special incentive to promote business-university research partnerships focused on advances in technology.
- *Low Cost Power*—The cost of energy is one of the primary disincentives for locating jobs in New York State. While New York has a significant program to provide subsidized power, this cheap power is not being allocated strategically to growth sectors of the state economy. The state should realign policies around the allocation of low-cost power to match economic development goals and encourage investment in high wage industries.

**Structural Reform of State and City Budgets:** The Partnership supports comprehensive review of the state and city budgets in order to identify structural changes needed to bring spending in line with tax revenues.

The profits of Wall Street have allowed the annual budget battles in New York State and

City to ignore the need to bring spending in line with revenues. The current economic crisis is not simply a cyclical downturn; it is a permanent structural change. The city and state will no longer be able to rely on the tax revenues from the financial services industry to fund unchecked spending. New York's full recovery from this crisis necessitates a new level of fiscal discipline. Major areas that have been proposed for reform include government procurement and contracting, consolidation of local government jurisdictions, rethinking the civil service system (compensation, benefits and pensions), Medicaid, and public pension reform. The Partnership is prepared to mobilize industry expertise to work with government and labor on new ways to reduce costs and achieve greater productivity in government.

**Public-Private Partnerships:** The Partnership supports the use of public-private partnerships to help the state carry out public functions in a more efficient and cost effective manner.

In 2008, Governor Paterson created the State Asset Maximization Commission to study how the resources of business and labor can be better applied to help finance, engineer, manage and construct public projects and services. Particularly during a budget and economic crisis, it is critical that the state explore innovative ways to reduce costs and attract private investment to meet public objectives. Partnership members have been sharing with the Commission their P3 experience in other regions of the country and around the world, ranging from design-build construction techniques to fast rail development and management and highway tolling activities. Expanded public-private partnerships are also recommended for the investment programs of public pension funds, which need broader latitude to put funds into alternatives to the stock market.

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