New York New Jobs

www.nycfuture.org
February 2001

Center for an Urban Future

Payoffs for Layoffs

Designed to Save Jobs, New York City's Corporate Retention Deals Often Result in Job Cuts

Ever since New York City began handing out multi-million dollar tax breaks to retain corporations threatening to take their jobs elsewhere, city officials have been trying to justify those incentive deals by promising huge benefits to the city, in the form of new jobs and increased tax revenues. But, in fact, the firms receiving these lucrative incentive packages are no more likely to live up to these rosy job projections than are city election officials able to deliver on their promises that voting machines won't break down on election day.

This study reveals that a disturbingly large percentage of the firms that have benefited from city retention deals during the past decade have been acquired by other companies, put themselves up for sale, gone belly-up, moved major parts of their business out of the city or simply eliminated many jobs in New York shortly after taking advantage of city incentives. The end result, in case after case, has been a reduction in city jobs.

It is not surprising that successive mayoral administrations have showered hundreds of millions of dollars in tax breaks on corporations. Ever since Fortune 500 companies starting streaming out of the city in the 1970s, city officials have been trying to do something to keep those jobs in the five boroughs. And with the city's relatively high tax rates, tax incentives are one way to level the playing field for some New York businesses. In addition, corporate retention deals are an easy way for city leaders to give the impression of active involvement in the city's economic development. (It is a lot easier for a mayor to lay out $25 million in tax breaks to retain 2,000 jobs at one large corporation than it is to develop a program to retain hundreds of firms that have about 20 employees each.)

The problem, however, is that while the souped-up press releases announcing corporate retention deals sound great, city officials never update the public about whether individual deals are a success a year, five years or ten years after they are first announced. And the city's Economic Development Corporation (EDC) has never commissioned an independent study to determine whether the companies that received city benefits actually fulfilled their employment promises.

This study of the roughly 80 companies that benefited from commercial retention deals in excess of $500,000 over the past 12 years, is the most comprehensive independent attempt to provide a glimpse into what corporate recipients have done in the months and years after these deals are announced. And it isn't encouraging.

Overall, it details 39 companies that announced major layoffs, large-scale mergers (which typically resulted in layoffs) or put themselves up for sale (which are likely to lead to layoffs) a short time after benefiting from retention deals. In the past five months alone, at least 16 companies that received city incentives announced significant job cuts.

At least four recipients entered into large-scale mergers within three months after they were presented with city incentives. Four other recipients unveiled mergers within a year of receiving city tax breaks.

And 13 companies that received city tax breaks merged with other firms that also got city tax deals, virtually guaranteeing a net loss in city jobs.

At least 13 companies that received city tax breaks merged with other firms that benefited from city tax deals, virtually guaranteeing a net loss in New York jobs.

The overwhelming majority of the roughly 80 companies on the receiving end of retention deals are in the financial services, banking, insurance and media sectors. In the past two years, more than a half dozen dot coms, Internet consulting firms and other high-tech firms have gotten into the act.

But in recent years, mergers and consolidations were rampant within the banking, financial services and media sectors. And the high tech companies that once looked like sure bets to become the city's next generation of corporate heavyweights have been forced to cut back operations in the wake of plunging stock prices.

At least 17 financial firms that have benefited from city retention deals since 1988 have either acquired or been acquired by other major financial firms in the months and years after these city incentives were announced—Citicorp, Chase Manhattan Bank, Donaldson Lufkin & Jenrette, Credit Suisse/First Boston, the Travelers Group, ING Barings, Furman Selz, Alexander & Alexander, Morgan Stanley, Dillon Read, Paine Webber, Kidder Peabody, Tullet & Tokyo Forex, Cantor Fitzgerald, Spear Leeds & Kellogg, and the Depository Trust Co.

Other financial recipients, like Bear Stearns, haven't yet merged with other firms but have announced they are up for sale. Still others, such as Merrill Lynch, weren't involved in a major acquisition, but eliminated thousands of jobs nonetheless.

A majority of the dot coms and related high tech companies that benefited from city retention deals have since announced large-scale layoffs or merged with other media/Internet firms. One such firm, StarMedia Networks, was recently forced to lay off 15 percent of its work force and give back a large chunk of the office space that it had leased with the help of city incentives. Another firm, the Scient Corporation, said it would lay off 25 percent of its staff just nine months after it was awarded a city tax deal.

Perhaps the best example of the city's failure to pick a high-tech winner is PSINET. At a press conference last February, the Mayor announced with much fanfare that the Internet company would open an office in Long Island City and bring 450 new jobs, with the help of city tax exemptions. Before the year was over, however, PSINET scrapped its plans to come to New York and announced hundreds of layoffs. (Since it never moved to New York, it never benefited from city tax breaks.)

Over the past 12 years, many of the major television and cable networks—including NBC, CBS, ABC, Fox, Viacom (which owns MTV and VH1) and Time Warner (which owns HBO and CNN)—have received multi-million dollar tax incentive packages to remain in New York. But in recent years, this industry has witnessed a wave of mergers. To name a few, Walt Disney bought ABC; Viacom purchased CBS and America Online took over Time Warner. Because the newly formed companies often have overlapping staff, layoffs commonly follow the mergers.

Financial exchanges account for a large percentage of the more than $2 billion in tax incentives awarded by the city over the past 12 years. The New York Mercantile Exchange, the New York Board of Trade and the Nasdaq all benefited from expensive retention deals. The Giuliani Administration has also promised roughly $600 million in subsidies and tax breaks to the New York Stock Exchange. Though the exchanges are extremely important to the city's economy, these deals fly in the face of the fact that, throughout the world, trading floors are increasingly being replaced by electronic trading systems. In the long run, exchanges such as these are likely to see a decline in jobs, a trend born out by the Mercantile Exchange's decision to lay off 10 percent of its staff last summer.

Companies that merged with other firms, downsized or moved jobs out of New York soon after benefiting from city tax breaks aren't deadbeats. Most simply made rational business decisions that resulted in a loss of jobs. The fact that they chose to benefit shareholders rather than New York employees shouldn't come as a surprise to city officials.

Trying to pick winners simply doesn't work.

It is impossible to know how many of the firms that received city tax breaks over the years have defaulted on their pledges to retain and create jobs in New York: EDC does not make any information about these firms' employment levels available to the public, or even the City Council. But enough of them have announced significant layoffs or mergers in recent years to raise fundamental doubts about the effectiveness of firm-specific tax breaks as an economic development tool. The fact that so many firms have slashed their work force during a time of extended growth in the city's economy further highlights the problems with this longtime city policy.

This report makes the case that city policy makers should shift the city's economic development strategy from a defensive policy consisting largely of reacting to individual companies' threats to a more forward-looking policy that addresses the obstacles to growth facing a range of the city's most vital industry sectors and the many firms, both small and large, that make up these sectors.

The Center for an Urban Future

is a policy institute dedicated to aggressively pursuing solutions to the most critical problems facing cities.

New York/New Jobs

is a project of the Center for an Urban Future. Funders include the New York Community Trust, the Annie E. Casey Foundation, the Taconic Foundation and Deutsche Bank.

This report was written by Jonathan Bowles, edited by Suri Duitch and designed by Ian Luna

For more information call (212)479-3347

Visit our website at www.nycfuture.org

The Deals and the Downfalls

Since the city does not release updated employment information about the firms that benefited from retention deals, this report does not pretend to accurately determine whether companies have fulfilled their employment requirements. Instead, the Center for an Urban Future examined hundreds of published news reports and company press releases to learn if a recipient laid off a large number of employees, entered into a mega-merger or sold off some of its assets, all of which cast doubts on its ability to retain a set number of jobs in New York. We found eye-brow-raising information about half of the roughly 80 companies that have benefited from retention deals over the past 12 years.

1) Alexander & Alexander

The city announced that it would provide this insurance brokerage company with $3.4 million in tax incentives in November 1996. In return, the firm said it would retain 400 jobs and create 400 more.

Just one month later, the company was acquired by Chicago-based Aon Corporation. The following month, its chairman and president quit. On May 28, 1997, six months after the city tax deal was announced, Aon said it would lay off 2,600 people as a result of its acquisition of Alexander & Alexander.

Two months ago, Aon announced it was cutting another 3,000 jobs, six percent of its work force.

It is unclear how many of the 5,600 layoffs announced by Aon were made in New York. But even if only a small percentage occurred here, it would make it difficult for the firm to meet its job pledge.

2) StarMedia Networks

On August 23, 1999, the city agreed to provide StarMedia with $2.5 million in tax incentives (StarMedia also received a $1 million state grant) in return for the Internet media firm's commitment to increase its city work force from 190 to 1,300.

In September 2000, slightly more than a year after the initial tax deal was announced, the company said that it was dismissing 125 employees, 15 percent of its work force. And though the city provided incentives to help the firm offset the costs of moving into a new 100,000 square foot office in lower Manhattan, StarMedia Networks was recently forced to give back 60,000 square feet of the space that it had just leased, an acknowledgement that it wouldn't need to house as many employees as it once planned.

3) Scient Corporation

On April 21, 2000, the city announced a $2.8 million tax incentive package for the Scient Corporation, which agreed to retain 213 jobs in New York and create another 1,367 over the next 17 years.

Last month—less than nine months after the tax deal was announced—Scient said it planned to lay off 460 employees, 25 percent of its work force.

4) ING Barings 5) Furman Selz

Both of these financial companies received city incentive deals in 1997. On April 8th of that year, the Giuliani Administration agreed to provide ING Barings with $5 million in tax incentives in return for the company's commitment to retain 841 jobs in New York City and create an additional 870 jobs. On July 17th, the city announced a $2.4 million deal for Furman Selz, which agreed to keep 580 employees in the city and create 400 new jobs.

ING acquired Furman Selz in August 1997, a month after the city announced the Furman Selz incentive package and less than five months after it announced a tax deal for ING Barings. Just over a year later—in October 1998—ING Barings said it would eliminate 1,200 of its 10,000 jobs worldwide.

In January 2001, Netherlands-based ING sold its United States investment banking business to ABN Amro, another Dutch firm. While ABN Amro will retain some ING employees, ING will lay off 1,300 employees, including 200 in the U.S. Many of these cuts are likely to occur in New York.

6) DLJ 7) CS First Boston

Donaldson Lufkin Jenrette received a $29.5 million incentive package from the city in August 1994 for promising to keep 1,950 jobs in New York and create 1,162 new jobs. Credit Suisse First Boston won $50.5 in city benefits in January 1995 for retaining 3,704 jobs in the city and creating 5,550 new jobs. (In September 1995, the city provided a $9.3 million incentive deal to The Equitable, DLJ's parent company.)

Less than three months after the CS First Boston deal was announced, the firm said that it would eliminate as many as 900 jobs. Meanwhile, DLJ closed its municipal bond unit, which employed 125 people, six months after its incentive package was reported.

Even greater cutbacks were in store. On August 30, 2000, CS First Boston announced that it was acquiring DLJ. CS First Boston executives say the merger will result in a loss of 2,000 jobs, but Wall Street analysts predict that as many as 5,000 workers could lose their jobs due to the merger. The new entity will reportedly keep most of its European investment bankers, meaning that the majority of layoffs will be in Manhattan, where both firms' investment banks are based.

8) USWeb

On October 25, 1999, the city announced a $3 million incentive package for USWeb. In return, the Internet services provider agreed to establish its northeastern regional headquarters in Manhattan and add 1,357 employees over 15 years to the 586 workers it already employed in the city.

Less than two months after the tax deal was announced, USWeb merged with Whittman-Hart, a technology consulting firm. It soon became clear that the merged entity (now known as MarchFirst Inc.) would not meet the ambitious job growth goals made by USWeb and the Giuliani Administration. Between January and mid-May, it laid off 260 people.

On November 13, 2000, the company announced that it would eliminate another 1,000 jobs, or 10 percent of its work force. According to news reports, at least 20 percent of the company's New York employees were let go.

Later that month, the company's CEO told a meeting of investors that he might eventually end up selling the company. Last month, the firm terminated its 15-year lease for 280,000 square feet on Park Avenue South, where it had planned to build an office.

9) Merrill Lynch

In June 1997, the city announced a $28.5 million tax incentive deal for Merrill Lynch, which in turn promised to keep 9,000 jobs in New York and add another 2,000.

Just over a year later, on October 13, 1998, the firm said it planned to eliminate 3,400 jobs, more than five percent of its work force. At the time, company officials said the job cuts would affect 700 of its New York City employees.

The 1997 retention deal also apparently didn't cause Merrill Lynch to make the city the site of its future expansion plans. As soon as 1998, Merrill Lynch began negotiations to build an office tower on the Jersey City waterfront. Though it didn't build a new tower, last year it decided to move 1,200 jobs into a 300,000 square feet office in Jersey City, a move that netted the firm $41 million in tax incentives from New Jersey. (In 1998, Merrill Lynch received another $20 million in subsidies to build an office building in Hopewell, New Jersey.)

In January 2001, Merrill Lynch said it would eliminate 60 jobs in its research department.

10) Dillon Read 11) Paine Webber

Paine Webber received a $14.47 million incentive package from the city in May 1996, in return for its decision to keep 2,781 jobs in New York and create another 474 jobs. Dillon Read was awarded a $5.8 million incentive package in October of the same year for promising to keep 620 jobs in the city and create 664 jobs.

Less than a year after the Dillon Read tax deal, the company was acquired by Swiss Bank, resulting in 1,500 layoffs at the new entity, which was known as SBC Warburg Dillon Read. In 1997, it moved its North American headquarters from New York City to Stamford, CT after receiving a generous incentive package from state officials there. In March 2000, Connecticut offered the company another deal, a $46 million interest-free loan, to create hundreds of new jobs in Stamford.

In July 2000, Swiss Bank (now known as UBS) announced that it was acquiring Paine Webber.

In January 2001, Paine Webber said it was close to finalizing a deal to rent a 1.1 million square foot office building in Jersey City. Though the firm says that it doesn't intend to move personnel there from Manhattan, it clearly shows that the city's generous 1996 incentive package was of no use in getting Paine Webber to undertake its expansion in the city.

12) Kidder Peabody/Paine Webber

Kidder Peabody agreed to retain 3,000 jobs in the city when it received a $31.2 million incentive package from the Dinkins Administration in 1993.

The brokerage firm was acquired by Paine Webber in October 1994. Even before the merger, Kidder Peabody slashed more than a thousand jobs. After the firms combined, the cuts continued. Paine Webber eliminated roughly 150 jobs in September 1995 and then slashed another 500 jobs a few months later.

13) Ziff Davis

On November 13, 1997, the city announced a $4.3 million incentive deal with Ziff Davis, which agreed to keep 738 jobs in the city and add another 1,332 over the next 22 years.

On October 8, 1998, less than a year after the retention deal was announced, the publishing company said it planned to eliminate 350 jobs, 10 percent of its U.S. work force.

Over the next year and a half, Ziff Davis sold off much of its publishing empire, including the magazines PC Week, PC Magazine, Interactive Week, Smart Business, its ZDTV cable television network and its Comdex trade show business—moves that probably resulted in job cuts.

Last July, San Francisco-based Internet company CNET Networks announced that it was buying Ziff Davis and its ZDNet Internet subsidiary, a deal that will likely lead to more layoffs.

14) Tullett & Tokyo Forex 15) Cantor Fitzgerald

The city agreed to provide Tullett & Tokyo Forex with $2.25 million in tax breaks in June 1995. Tullett & Tokyo, a foreign exchange money broker, agreed to keep 555 jobs in New York and add another 166 jobs over next 16 years.

In June 1999, four years after the tax deal was announced, Tullett sold its futures business to a Chicago-based company—a move that may have led to layoffs among its New York futures traders.

In September 2000, Tullett was reportedly in negotiations to be acquired by Cantor Fitzgerald, a securities dealer that also received a tax incentive deal from the city during the Giuliani Administration (Cantor Fitzgerald won a $1.4 million incentive deal in 1995 to keep 958 jobs in the city and add 473 jobs).

Though that deal has yet to go through, in November the company (currently known as Tullett & Tokyo Liberty) reportedly laid off more than four-dozen New York-based employees.

16) Chase Manhattan Bank

In 1988, Chase benefited from the most expensive retention deal ever given to an individual corporation in New York City. The deal, which entailed roughly $234 million in tax incentives, helped Chase build an office building at the Metrotech Center in downtown Brooklyn and required the company to retain 5,000 jobs there.

Despite the huge subsidy, the deal only applied to Metrotech; it didn't require Chase to retain a set number of jobs at its other locations in the city.

In the years following the deal, Chase cut thousands of city jobs as a result of mergers with Manufacturers Hanover Trust (in 1991) and Chemical Bank (in 1996). Then, in October 1999, the company decided to move 3,500 jobs from the city to Florida and Texas.

In June 2000, Chase said it would move 2,500 employees from New York City to a new office tower in Jersey City.

Finally, in September 2000, Chase agreed to another megamerger, this time with J.P. Morgan. The merger is expected to result in the elimination of 5,000 jobs, many of them in New York.

17) Citicorp 18) The Travelers

Citicorp, the parent of Citibank, received a $90 million tax incentive package from the city in 1989 to construct an office tower in Long Island City. The Travelers Inc. was awarded $22.1 million in tax breaks from the city in July 1994 in return for its commitment to keep 8,970 jobs in the city and create 2,100 new jobs over the next 15 years.

In April 1998, Travelers joined Citicorp in one of the business world's largest mergers. A few months later, executives of the new entity, now called Citigroup, confirmed that it would eliminate 10,400 jobs, or about six percent of the combined firm's work force. While about 65 percent of the cuts were expected to occur overseas, more than 1,000 layoffs were expected in New York City because there was considerable overlap between the bond traders, investment bankers and derivative experts at Citicorp and Travelers' Salomon Smith Barney subsidiary.

In January 2000, Citigroup agreed to buy the investment banking operations of London-based Schroder Plc. As a result of the deal, Citigroup's Salomon Smith Barney unit decided to relocate its global fixed-income sales and research division from New York to London. And because there was significant overlap between the two firms, the acquisition was expected to result in hundreds of layoffs among Schroder's 1,000 U.S. employees, most of whom were based in New York.

19) Viacom 20) CBS

In October 1994, the city announced a $15 million tax incentive deal for Viacom, which promised to keep 4,450 jobs in the city and add another 2,500. Meanwhile, CBS benefited from two city incentive deals, a $49.5 million incentive package provided in 1993 and a $10 million deal six years later.

In November 1995, a couple of years after the original CBS tax deal, the company was bought by Westinghouse (retaining the CBS name).

In September 1999, Viacom announced that it was buying CBS. News reports indicated that the merger would result in hundreds of layoffs at the two companies' New York headquarters. At the time of the merger, industry insiders also speculated that additional jobs that were based in New York would be eliminated, particularly among its sales force.

In June 2000, the CBS Internet Group let go of 24 of the approximately 100 employees in its New York-based office. In September, MTVi, the online division of Viacom's MTV Networks, said it was cutting about a quarter of its staff, or 105 workers, from its offices in New York and San Francisco.

21) ABC

In June 1994, the city announced that it would provide Capital Cities/ABC with $26 million in tax incentives in return for the firm's commitment to retain 3,700 jobs and create 185 new positions in New York.

In February 1996, about a year and a half after the tax deal was announced, ABC was bought by Walt Disney Co. In February 1997, ABC notified the state Labor Department that it planned to layoff 60 New York employees as a result of the merger. Later the same year, the company said it was eliminating 200 jobs to cut costs, of which 98 would come from its New York City offices.

In early 1999, ABC decided to relocate 240 employees from New York to Disney's Burbank, California offices. At least 200 were senior employees in areas from business and legal affairs to marketing and daytime programming. In January 2001, ABC decided to lay off 15 network news reporters.

New York City Corporate Retention Deals: 1988-2000

The following is a list of commercial retention deals announced over the past 12 years that involve at least $500,000 in tax breaks and other financial incentives, like low-cost power credits. In many cases, a firm may be required to meet job growth targets to receive the full amount of incentives.

*All recipients in bold are mentioned in the "Deals and Downfalls" section of this report—for laying off a large number of employees, entering into a large-scale merger or for some other reason that resulted in or may ultimately lead to significant job cuts.

	Amount of Incentives	Jobs Retained	Job Growth
1988			
Chase Manhattan Bank	**$234 million**	**5,000**	
1989			
Citicorp	**$90 million**	Not Available	
1991			
Bear Stearns	**$30.7 million**	**1,750**	
1992			
Morgan Stanley	$86.5 million	4,300	
Prudential Securities	**$106.3 million**	**5,000**	
Bertelsmann	$30.7 million	1,750	
NY Times	$28.8 million	760	
1993			
Kidder Peabody	**$31.2 million**	**3,000**	
Bank of America	$15.5 million	1,700	
CBS	**$49.7 million**	**4,600**	
1994			
Spear Leeds & Kellogg	**$2.4 million**	**700**	
Republic National Bank of NY	**$6.4 million**	**2,400**	**200**
Capital Cities/ABC	**$26.0 million**	**3,700**	**185**
The Travelers Inc.	**$22.1 million**	**8,970**	**2,100**
NY Mercantile Exchange	**$183.9 million**	**8,100**	
Donaldson, Lufkin & Jenrette	**$29.5 million**	**1,950**	**1,162**
Viacom	**$15.0 million**	**4,450**	**2,500**
1995			
CS First Boston	**$50.5 million**	**3,704**	**5,550**
General Motors Corp.	$1.4 million	191	150
Depository Trust Co.	**$18.5 million**	**2,799**	
Cantor Fitzgerald L.P.	$1.4 million	958	473
Tullett & Tokyo Forex	**$2.25 million**	**555**	**166**
Avon Products Inc.	$6.7 million	957	165
Equitable (Parent of DLJ)	**$9.3 million**	**1,750**	**234**
NYL Care	**$3.7 million**	**697**	**109**

	Amt. of Incentives	Jobs Retained	Job Growth
1996			
Mutual of NY (MONY)	$5.7 million	200	561
Conde Nast	$10.75 million	1,570	266
Paine Webber	**$14.47 million**	**2,781**	**474**
News America	**$20.7 million**	**2,212**	**1,475**
Dillon, Read & Co.	**$5.8 million**	**620**	**664**
Fidelity/Nat'l Fin. Svcs. Corp.	$3.6 million	602	612
Empire Insurance Group	$8.74 million	736	50
American International Group	$55.7 million	5,180	1,858
Alexander & Alexander	**$3.4 million**	**400**	**400**
NBC	**$7 million**	**2,250**	
1997			
Banco Popular	$1.2 million	309	277
Information Builders	$4.85 million	812	303
ING Barings	**$5 million**	**841**	**870**
The McGraw Hill Companies	$34.5 million	4,010	2,631
Bear Stearns	**$75 million**	**5,800**	**13,300**
Reuters	$26 million	1,800	2,348
Merrill Lynch	**$28.5 million**	**9,000**	**2,000**
Exco Noonan	$6.3 million	460	80
Furman Selz	**$2.4 million**	**581**	**400**
NY National	$0.52 million	37	73
Ziff Davis	**$4.3 million**	**738**	
1,332			
IBJ Schroder	**$3.10 million**	**500**	**460**
Fahnestock	$1.15 million	398	125
1998			
NY Post/News America	**$24.4 million**	**400**	
Guardian Life	$11.5 million	1,475	1,300
Barnes & Noble	$2.1 million	577	287
Zurich Centre Group	$5.8 million	355	200
Nasdaq/Amex	**$200 million**	**Not Available**	
1999			
DoubleClick	**$4 million**	**260**	**704**
Kenneth Cole	$1.3 million	400	
CBS	**$10 million**	**3,862**	
Xceed, Inc.	**$0.51 million**	**254**	**512**
NextVenue	**$0.86 million**	**100**	**709**
Agency.com	**$2.7 million**	**249**	**1,151**
USWeb	**$3 million**	**586**	**1,357**
Time Warner (HBO)	**$11 million**	**Not Available**	
Time Warner (Time Inc.)	**$28 million**	**Not Available**	
Alcoa	Not Available		87
Ernst & Young	$20 million	4,000	6,000
NY Board of Trade	**$31 million**	**2,800**	**3,600**
VNU-USA	$10.6 million	1,160	1,350
International Masters Publishers	$1.29 million	234	403
Liz Claiborne	$7 million	850	293
Bronnercom LLC	$1.2 million	200	300
Quick & Reilly/Fleet Securities	Not Available	Not Available	
2000			
About.com	**$4 million**	**231**	**2,893**
Bloomberg	$14 million	1,700	
2,300			
SFX Entertainment	$3.5 million	Not Available	
Oxygen Media	**$1.3 million**	**364**	**757**
Jupiter Communications	**$3 million**	**209**	**1,270**
Scient Corp.	**$2.8 million**	**213**	**1,367**
StarMedia	**$2.76 million**	**190**	**1,300**
NY Stock Exchange	$600 million	Not Available	

22) News America

In June 1996, the city announced a $20.7 million incentive deal for News America, the owner of the Fox Network and other cable and publishing companies. In return, the company said it would retain 2,212 jobs and add another 1,475 positions in New York.

In mid-1997, the company (now called News Corporation) said it would lay off 420 employees at its HarperCollins subsidiary, including a large number in New York. In February 1999, News Corporation imposed a three percent across-the-board cut in costs that was expected to include layoffs in every division.

In October 2000, the online media unit of News Corporation dismissed roughly 20 percent of its New York news staff and told all New York sports staff members to move to Los Angeles or lose their jobs. Separately, 12 of the company's 82 New York-based news editorial staffers were laid off.

In January 2001, News Corporation said it plans to lay off several hundred workers at the New York and Los Angeles offices of its news Websites.

23) Time Warner

Time Warner is another firm that has received at least two helpings of city tax breaks. In March 1999, the city announced an $11 million deal for the company's Home Box Office Unit. In June of the same year, the city offered Time Inc., the magazine part of the larger corporation, a $28 million incentive package to expand at its offices.

In January 2000, Time Warner announced plans to merge with America Online (AOL). Soon after the merger went into effect in January 2001, the new firm's CNN subsidiary laid off 400 employees, 10 percent of its work force. Many of the job cuts were at the unit's New York office. Company officials are also predicting layoffs in overlapping staff areas and in Time Warner's technology units. It is not clear how many of the cuts will occur in New York, which has been the home of the Time Warner part of the business and is the site of new entity's headquarters. However, the new firm may feel pressure to consolidate operations in Northern Virginia, where AOL recently built an office park with the help of millions of dollars in public subsidies.

24) Jupiter Communications

On March 27, 2000, the city announced that it would provide Jupiter Communications with an incentive package worth $3 million in tax exemptions and $522,000 in energy cost reductions. The company, which researches Internet trends, agreed to retain 209 workers in New York City and add approximately 1,270 new jobs over 15 years.

Exactly three months later, Jupiter was acquired by Media Metrix, Inc, another Internet research company. In January 2001, the new company—called Jupiter Media Metrix—announced that it would eliminate 80 jobs, eight percent of its staff.

25) Prudential Securities

In 1992, the Dinkins Administration signed off on a $106.3 million tax incentive package for Prudential Securities in exchange for the firm's commitment to retain 5,000 jobs. While the company's parent, Prudential Insurance Company of America, is based in New Jersey, the intent of the 1992 retention deal was to keep Prudential's securities brokers and investment bankers in Manhattan.

In November 2000, Prudential Securities reportedly laid off 425 investment bankers and administrative staffers in its fixed-income trading and underwriting business. The following month, the company dismissed 160 of its remaining 200 investment bankers. The cuts are part of a reorganization as its parent corporation prepares to become a publicly traded company.

According to the New York Times, over the past six years, Prudential has cut its worldwide work force by 40,000 people and sold several units.

26) NYL Care

The city announced a $3.7 million incentive deal for NYL Care in September 1995. The health insurance subsidiary of New York Life Insurance Company, NYL Care promised to keep 697 jobs in New York and create 109 more jobs over the next 10 years.

In March 1998, NYL Care was acquired by Aetna U.S. Healthcare Inc. Last month, Aetna announced plans to eliminate 5,000 jobs nationwide, about 13 percent of its work force.

As part of the 1995 incentive deal, NYL Care said it would consolidate its 697 city employees at One Liberty Plaza, in Lower Manhattan. The Center for an Urban Future recently visited this building and found that neither NYL Care nor Aetna had an office in the building.

27) NY Mercantile Exchange (NYMEX)

In August 1994, the city and state agreed to provide NYMEX with $183.9 million in cash grants and tax incentives as part of a deal to retain 8,100 jobs. Of those jobs, only 600 were NYMEX staff. The rest were floor members (1,500), floor clerks (3,000) and 3,000 employees who weren't part of the exchange but who had to be located near the trading facility.

Last summer, NYMEX laid off 60 employees, 10 percent of its work force. The job cuts were part of its plans to become more attractive to potential shareholders as it prepared for an initial public offering.

28) NextVenue

The city announced it would provide business-to-business communications company NextVenue with $860,000 in tax and energy incentives in August 1999. In return, the firm agreed to move its headquarters from Fort Lee, NJ to Manhattan and create 300 jobs in two years.

In July 2000, 11 months after the incentive deal was announced, NextVenue was bought by California-based Ibeam Broadcasting Corporation.

29) DoubleClick

In January 1999, the city agreed to provide Doubleclick with a $4 million incentive package in return for the Internet advertising services firm's promise to retain 260 employees and create another 704 jobs.

In December 2000, DoubleClick announced that it was laying off up to 200 jobs in New York, about 5 to 10 percent of its staff.

30) Oxygen Media

In March 2000, the city agreed to provide cable network startup Oxygen Media with $1.3 million in tax breaks and $240,000 in energy cost reductions. The company said it would retain 364 jobs in the city and add 757 employees over the next 15 years.

In December, nine months after the deal was announced, the firm announced that it was laying off 65 employees, 10 percent of its work force. Though some of these job cuts would occur at offices outside of the city, many of the layoffs were expected to be in New York.

31) NBC

The network benefited from a $100 million incentive deal in 1987 in return for promising to keep 4,000 jobs in the city. In 1996, the company won another subsidy package from the city, this time worth $7 million, to retain 2,250 jobs.

In January 2001, NBC announced it would eliminate up to 600 jobs, as much as 10 percent of its work force. The network said that these cuts would only accelerate a continuing cost-cutting program.

32) Agency.com

In August 1999, the city announced a $2.7 million incentive package for Agency.com, an Internet consulting company. The firm, in turn, said it would keep 249 employees in Manhattan and create another 1,151 jobs over the next 15 years.

In December 2000, Agency.com announced plans to lay off 190 workers, about nine percent of its staff.

33) About.com

The Internet company received $4 million in city tax breaks and $800,000 in state grants in February 2000 for agreeing to retain 260 jobs and create 600 new positions over the next five years.

Eight and a half months after the city announced the deal, About.com was bought by magazine publisher Primedia Inc. While the merger doesn't necessarily entail a net reduction in city jobs, it seems likely.

We're Staying, But …

The following firms entered into major mergers soon after benefiting from corporate retention deals. More often than not, the mergers led to consolidating operations and laying off a large number of employees.

Recipient	Date of Incentive Deal	Merger Partner(s)	Date of Acquisition
Alexander & Alexander	11/96	Bought by Aon Corporation	12/96
ING Barings	4/97	Acquired Furman Selz	8/97
Furman Selz	7/97	Bought by ING Barings	8/97
DLJ	8/94	Bought by CS First Boston	8/00
CS First Boston	1/95	Acquired DLJ	8/00
USWeb	10/99	Merged with Whittman-Hart	12/99
Dillon Read	10/96	Acquired by Swiss Bank Parent Acquired Paine Webber	5/97 7/00
Paine Webber	5/96	Acquired by UBS Dillon Read	7/00
Kidder Peabody	10/93	Acquired by Paine Webber	10/94
Tullett & Tokyo Forex	6/95	Sold Futures Business to First Chicago Futures, Inc	6/99
		In Negotiations to Be Acquired by Cantor Fitzgerald	9/00
Ziff Davis	11/97	Acquired by CNet	7/00
Chase Manhattan	11/88	Acquired Manufacturers Hanover Acquired Chemical Bank Acquired JP Morgan	12/91 3/96 9/00
Citicorp	1989	Merged with Travelers	4/98
Travelers	7/94	Merged with Citicorp	4/98
Viacom	10/94	Acquired CBS	9/99
CBS	3/93 1/99	Bought by Westinghouse Bought by Viacom	11/95 9/99
ABC	6/94	Bought by Disney	2/96
Time Warner (HBO) (Time Inc.)	3/99 6/99	Bought by AOL	1/00
Republic National Bank of New York	5/94	Bought by HSBC	5/00
Jupiter Communications	3/00	Acquired by Media Metrix	6/00
NextVenue	8/99	Acquired by Ibeam Broadcasting Corp.	7/00
About.com	2/00	Bought by Primedia Inc.	10/00
NYLCare	9/95	Bought by Aetna	3/98
Depository Trust Corp.	3/95	Merged with Nat. Securities Clearing Corporation	3/99
Spear Leeds & Kellogg	1/95	Bought by Goldman Sachs	9/00
Morgan Stanley	10/92	Merged With Dean Witter	2/97

34) Xceed, Inc.

In August 1999, the city announced a $510,000 incentive deal for Xceed, Inc., which agreed to retain 254 jobs and add another 512 employees over 12 years.

The e-consulting firm, however, has recently been shedding employees at its Manhattan headquarters. According to news reports, it has given pink slips to around 110 employees since the fall.

35) Republic National Bank of New York

In May 1994, Republic received $6.4 million in incentives in exchange for a promise to retain 2,400 jobs and create 200 new positions.

In May 1995, roughly a year after the tax deal was announced, the bank said it would lay off between 400 and 450 city employees. In May 2000, it was bought by Buffalo-based HSBC Bank.

36) IBJ Schroder Bank & Trust

The city agreed to provide IBJ Schroder with $3.1 million in incentives on May 1, 1997. In exchange, the bank said it would retain 500 jobs in the city and create another 460.

In June 1999, the company (now known as IBJ Whitehall) said it would eliminate up to 300 jobs.

37) Depository Trust Co.

The city agreed to provide $18.5 million in incentives to the Depository Trust Co., which in turn promised to retain 2,799 jobs for 17 years.

In March 1999, the Depository Trust Co. merged with National Securities Clearing Corporation. It is not clear how many jobs were affected by the merger, but because the two firms had some overlapping functions, layoffs were expected.

38) Spear Leeds & Kellogg

In January 1994, Spear, Leeds & Kellogg received $2.4 million in city incentives to keep its 700 jobs in Manhattan after the brokerage firm threatened to move to Jersey City.

In September 1997, the firm decided to double the amount of space it leases in Jersey City, indicating that it was moving jobs across the Hudson River after all.

In September 2000, the brokerage firm was bought by Goldman Sachs.

39) Bear Stearns

In August 1997, the investment banking firm received a $75 million incentive package in exchange for keeping 5,800 jobs in the city and creating an additional 13,300 jobs.

Last July, however, the firm's CEO announced that it was up for sale.

40) NY Stock Exchange 41) NY Board of Trade 42) NASDAQ

In addition to providing subsidies to the New York Mercantile Exchange (See #27, Page 11), the Giuliani Administration has announced major retention deals with the New York Stock Exchange (roughly $600 million), the New York Board of Trade ($31 million) and NASDAQ ($200 million).

While the exchanges remain an integral part of the city's economy, increasing competition with overseas-based electronic trading networks have already led the New York exchanges to plan for major changes in the way they operate, which could lead to significant job cuts on trading floors.

In particular, the Board of Trade and NYMEX may be forced to convert from a pit-based exchange in which traders buy and sell commodities to a less employee-intensive electronic trading system. In 1999, the Eurex, an all-electronic exchange based in Germany, became the world's largest exchange, a title that U.S. exchanges had held for more than a decade. The same year, MATIF, the French exchange, went from pit-based to screen-based trading. LIFFE, the principal London exchange, eliminated roughly 700 employees as part of its effort to convert to electronic trading.

It is not clear whether the New York exchanges—other than NYMEX—have begun to downsize. However, in June 2000, the Board of Trade said it would close its dairy futures and options markets.

Recommendations & Solutions

Proposed by the Center for an Urban Future

It is with good reason that fiscal watchdogs have long questioned the soundness of providing multi-million dollar tax incentives to relatively few corporations. The policy has been derided as an unnecessary drain on the city's treasury, a waste of money at a time when the city's real estate market is especially tight and a giveaway to wealthy corporations that, for the most part, probably would have stayed here even without subsidies. In several cases, companies received city tax breaks even though they weren't actually thinking of leaving New York. And each retention deal signed by the city only emboldens other companies—usually the competitors of those that have already received incentive packages—to demand their piece of the pie. But, as this report shows, the fundamental problem with this policy is that it doesn't work. New York City simply isn't getting its money's worth. Clearly, it's time for a change.

What follows is series of broad recommendations for getting the city's economic development programs back on track and making tax incentive programs more accountable. (Over the past two years, the Center for an Urban Future has proposed a number of other more specific sector-based solutions for growing the city's economy. See our Resource Guide, page 16 for a list of recent reports).

Initiate a Sector-Oriented Economic Development Strategy

New York needs a new economic development policy, one that caters to many sectors of the city's economy, not just the one or two largest sectors, and a policy that addresses the obstacles faced by all 200,000 businesses located within the five boroughs, not just the firms that are big enough and influential enough to blackmail city officials with threats to relocate. After all, 99.7 percent of city businesses have fewer than 500 employees and employ nearly three quarters of the city work force. The city should undertake a forward-looking strategy that provides targeted support to promising sectors and the companies within those sectors. This strategy will include a range of activities to encourage sector growth, such as providing effective job training programs aimed at software companies, loans to help local academic institutions defray the cost of building incubators for biotech start-ups, and zoning protection for growing food manufacturers outside of Manhattan. It means supporting more programs like the Plug'n'Go program that helped dozens of high-tech companies locate in specially outfitted buildings in Lower Manhattan. A sector-oriented strategy is smart, cost-effective and the framework employed successfully by states from California to Connecticut.

Encourage New Office Development Outside of Midtown & Downtown

These days, city businesses, both large and small, don't need tax breaks as much as they need affordable space. There simply isn't enough of it around. And the city's high real estate prices have made Jersey City, where real estate prices are considerably lower, awfully attractive. New York officials need to provide businesses with an alternative to Jersey City, but offering tax breaks is only a stop-gap measure. If the city wants to be able to compete over the long haul, the mayor must immediately develop a game plan to spur new office construction outside of Manhattan with the financial incentives and zoning changes necessary to get this done quickly. Then, in addition to simply encouraging new office developments, the mayor and top economic development officials should actively market these areas to the business community.

Invest in Education and Infrastructure

While the city's relatively high tax rates are one of the problems company CEOs cite as a reason to relocate their firms out of New York, many also consider the quality of city schools and the condition of the city's transportation and telecommunications infrastructure. Without a doubt, company executives want good schools for their employees' families as well as to provide themselves with a skilled work force in the future. In addition, they don't want their employees spending hours getting to and from work on crowded subways or congested highways. And they want high speed telecommunications connections. New York City has a long way to go in all of these areas. To make sure New York continues to attract quality employees and retain top companies, the Mayor must dedicate a similar vigilance to solving the city's infrastructure needs as he has to solving the city's crime problem. In light of the failure of recent statewide bond acts that would have paid for new schools and new subways, city officials must immediately come up with an alternative long-range plan to meet this challenge.

Issue Annual Status Reports For Recipients of City Incentive Deals

In the short term, if the city continues to enter into tax incentive deals with individual corporations, these deals must become more open to scrutiny by the public and the City Council. The public must have a way of discerning whether the companies that benefit from these costly tax programs actually fulfill job targets. EDC should agree to provide the public—or at least the City Council, the Comptroller and the Public Advocate—with an annual status report that includes updated employment figures of companies that have benefited from city tax incentives. This would finally allow the public to know whether these multi-million expenditures provide the benefits projected, but never verified, by EDC officials.

New York New Jobs

Additional Resources

The Center for an Urban Future has issued several more-detailed studies about key industries in New York City. These reports (listed below) can be viewed on the Center's website at www.nycfuture.org. For a hard copy of any report, please call (212)479-3347.

"On a Wing and a Prayer: Highway Gridlock, Antiquated Cargo Facilities Keep New York's Airports Grounded" (October 2000)

"The Empire Has No Clothes: Rising Real Estate Prices and Declining City Support Threatens the Future of New York's Apparel Industry" (February 2000)

"The Sector Solution: Building a Broader Base for the New Economy" (January 2000)

"Biotechnology: The Industry That Got Away" (October 1999)

"The Sector Solution: The Folly of an Economic Development Policy That Relies on Corporate Tax Abatements and the Presentation of a New Sector-based Approach" (July 1999)

Center *for an* Urban Future

City Limits Community Information Service, Inc.
120 Wall Street, 20th floor
New York, New York 10005

NON-PROFIT ORG.
U.S. POSTAGE
PAID
PERMIT #60
FARMINGDALE, NY