AT RISK:
New York's Future as the World Financial Capital

June 2015

PARTNERSHIP for New York City

GLG

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Executive Summary

New York City remains the preferred headquarters of the global financial services industry. Among the largest private sector employers, however, there is a growing trend to move jobs and business operations to lower cost, more business-friendly environments. Absent public actions to address high costs, high taxes, aging infrastructure and a hostile political and regulatory climate, the city's future as the world financial capital is at risk. This is the conclusion of a comprehensive survey of the city's financial services industry conducted by the Partnership for New York City and GLG (Gerson Lehrman Group). The purpose of the survey was to better understand how the industry is evolving and what measures are needed to maintain New York's competitive advantage as a global financial center.

The importance of finance to the overall well-being of the city cannot be overstated. At 20% of the city's economic output, the contribution of financial services is at least twice that of the next top-grossing industry. Although the industry represents only 9% of the city's private sector jobs, it accounts for nearly a third of the private sector payroll. It also pays at least $8 billion, or 18%, of the city's annual tax revenues.

The survey found that certain sectors of the financial services industry in New York are growing and adding new jobs, but the industry's rate of growth has slowed to about half that of the overall private sector. During the past five years, the city experienced a net loss of about 25,000 financial services jobs. This is not alarming, but the fact that these are largely middle wage jobs held by residents of the five boroughs — and that job losses are projected to accelerate over the next five years — is reason for concern.

Fifty firms, including large banks, insurance companies and asset managers, as well as private equity firms, hedge funds and financial technology ("FinTech") startups, responded to the survey, providing detailed data on their current status and future plans. Collectively, survey respondents represent nearly one-third of total industry employment in the city. Eight real estate firms were also surveyed to incorporate their observations. Furthermore, GLG conducted research on the city's global and domestic competitive position, including interviews with GLG Council Members and other experts in the field.[i] Econometric research was provided by EMSI, Inc.

Overall, the survey found that there is growing domestic and foreign competition for financial services industry jobs and operations that historically have been located in New York City. The industry continues to favor New York as a place that provides excellent access to both talent and customers, a relatively stable business environment, and many lifestyle amenities. But there are rising concerns about high costs, high tax rates, aging infrastructure and a hostile political and regulatory climate. Survey responses suggest that, absent public actions to address these concerns, the city's future as the world financial capital is at risk.

i GLG Council Members are prominent professionals from a wide range of professional backgrounds who utilize their subject matter and operational experience to provide useful insights.

Importance of the Financial Services Industry to New York

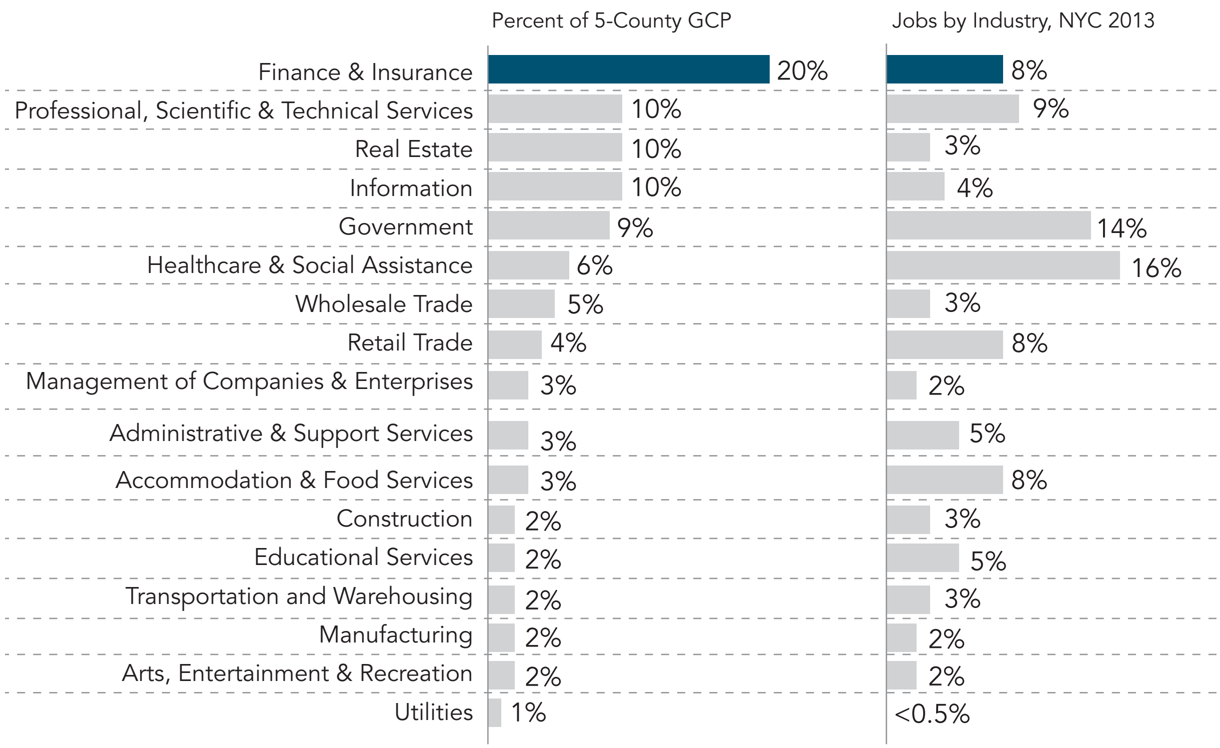
The financial services industry is the largest contributor to New York City's economic output or Gross City Product ("GCP").[ii] It currently generates 20% of GCP, roughly double the contribution of the next largest industries (professional, scientific, and technical services and real estate, which each generate 10% of GCP).[1] The financial services industry accomplishes this with only 8% of the city's employees, or about 310,000 — down from a peak of 360,000 in 2000.[2] The industry includes almost 23,000 high-technology jobs in areas such as software, data processing and network management.[3] About half of the industry's jobs are in securities brokerage.[4]

The Financial Services Industry is an Outsized Contributor to Local GCP

Jobs by NYC Industry

4 million total jobs

Note: 8% of all jobs, 9% of private sector jobs.



Source: EMSI staffing database for 2013.

NOTE: New York City's GCP also includes $41 billion (6% of the total GCP) coming from "Other Non-Industries," which accounts for economic activity that does not take place within an industry. This category includes circumstances such as Owner-Occupied Dwellings, where someone owns an apartment complex and also lives there. These contributions were included in the calculation, but are not represented in the chart.

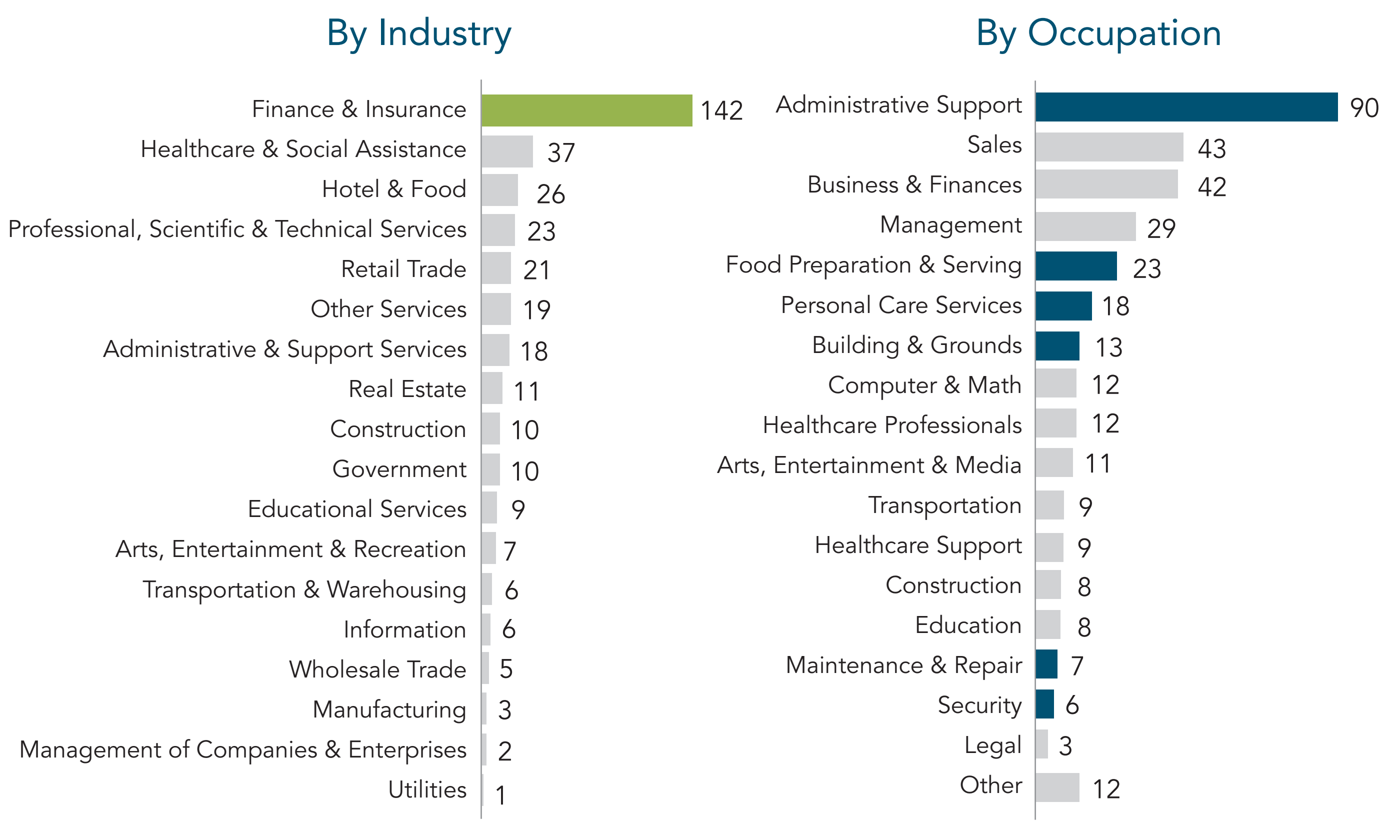
ii "Financial Services" refers to the "finance and insurance" sector as defined by the Bureau of Labor Statistics. This includes: firms that handle financial securities ("Wall Street") such as investment banks, hedge funds and private equity firms; depository and non-depository credit intermediation firms such as commercial banks, savings banks and credit card companies; investment services firms; monetary authorities and central banks; and insurance companies.

The financial services industry generates even greater economic impact due to what is known as the economic multiplier effect, which is a standard economic measure of the additional indirect and induced jobs, wages and demand in non-financial services industries resulting from an increase or decrease in financial services industry employment. If the multiplier impact on jobs and earnings is accounted for, the contribution of financial services to the economy grows to 37% of GCP, or a total of one million New York City jobs.[5]

The financial services industry also has a significant impact on creating new jobs in non-financial industries. The addition of 100 jobs in commercial banking, for example, results in a total of 354 new jobs within financial services as well as such industries as healthcare, hospitality (hotel and food services), and retail trade.[6] The commercial banking multiplier of 3.5 is about average for the industry. Most other sectors in the financial services industry have multipliers between 2.0 (meaning for every 100 jobs created in the sector, 200 jobs are created elsewhere in the economy) and 4.0.[7]

Loss of financial services jobs has an equally negative impact on the overall economy. A decline of 100 commercial banking jobs will trigger a total loss of 354 jobs. Today, more than 700,000 jobs in other sectors of the city economy depend on financial services.[8]

Multiplier Impact of Commercial Banking on Job Creation



Source: EMSI econometric model, 2013
NOTE: 100 new commercial banking jobs result in an additional 254 new jobs in various industries.

Selected lower-wage occupations

The Multiplier Effect of Financial Services Jobs

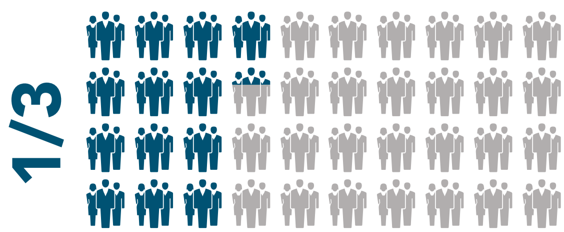
NYC Ranks #1 Among US Cities

310,000

Financial Services Employees

Account for

1 Million NYC Jobs

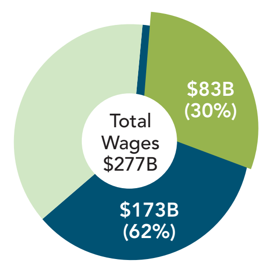


Total Private Sector Employment

Total Employment (Direct & Indirect)

&

62% of Total NYC Private Sector Wages



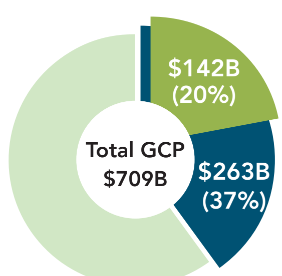
Financial Services Direct Wages

Total Wages (Direct & Indirect)

Source: NYS Dept of Labor;
EMSI econometric model, 2014.

Financial Services Generates 37% of the City's Economic Output

NYC's Total Economic Output (GCP)



Direct Contribution

Total (Direct & Indirect) Contribution

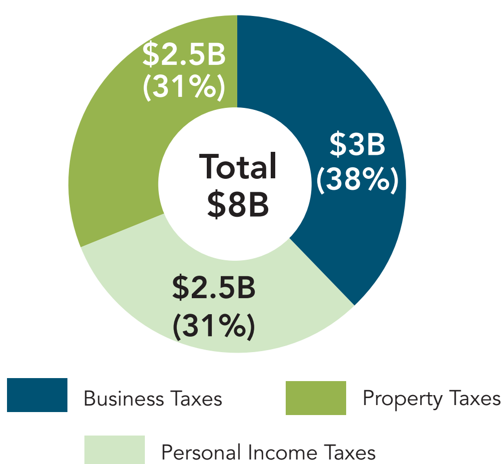
NOTE: GCP calculations based on data from NYS
Dept of Labor; EMSI econometric model, 2013.

The message for New York City is clear: serious consequences, including loss of middle wage jobs and tax revenues, will result if the downsizing trends projected in this survey for the largest employers continue.

CONTRIBUTION TO THE CITY'S TAX BASE

The financial services industry contributes about $8 billion annually to the city in taxes.[9] Using data from the Quarterly Census of Employment and Wages and the City's Department of Finance, GLG estimates that the financial services industry accounts for about $2.5 billion in personal income taxes (PIT), which equals approximately 25% of all PIT revenue in the city, and $2.5–$3 billion in residential and commercial property taxes. The New York State Comptroller estimates financial services firms account for about $3 billion or almost half of all business tax revenues in the city. To put that contribution into perspective, $8 billion in taxes is roughly equivalent to the combined expense budgets of New York City's police, fire and sanitation departments.[10]

Financial Services Contributes $8 Billion to NYC's Budget



Source: GLG analysis

A MAINSTAY OF THE CITY'S MIDDLE CLASS

About 71% of financial services employees live within the five boroughs, pay New York City's personal income tax and comprise a vital segment of the city's middle class. Nearly a third of all industry employees live in Manhattan; Brooklyn and Queens combined are home to about one third as well.[11]

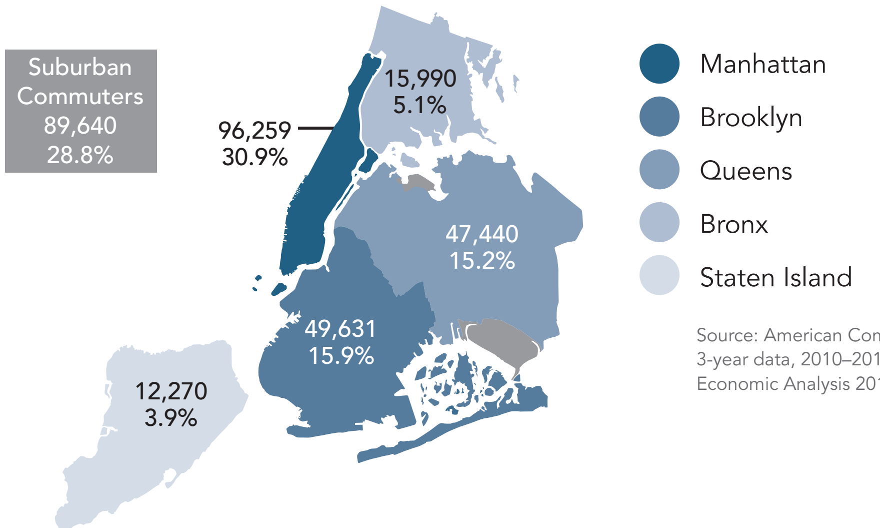
High productivity of the industry supports high average employee earnings of about $266,000 annually. This number is skewed, however, by the 53% (163,000) who are employed in securities brokerage and earn an average of about $356,000 annually.[12]

More than half of the city's financial services industry employees earn less than $100,000 a year.[13] Many of these employees work in Office & Administrative, Financial, Management, or Sales occupations.

The message for New York City is clear: serious economic and fiscal consequences, including loss of middle wage jobs and tax revenues, will result if the downsizing trends projected in this survey for the largest employers continue. Globalization and technology are forces that cannot be reversed, but must be harnessed through local ingenuity and aggressive international trade in order to protect middle wage jobs and maintain job growth in the city's financial services industry.

More than 70% of NYC Financial Services Workers are Residents of the 5 Boroughs

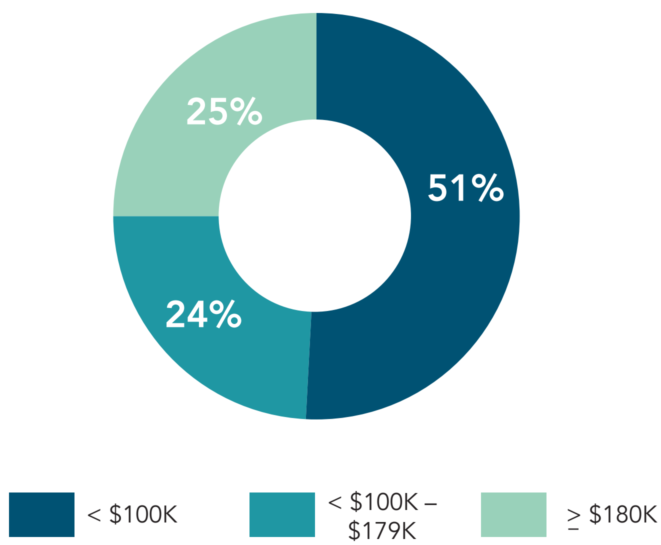
Residence Patterns for NYC Financial Services Workers, 2010–2012



Source: American Community Survey, 3-year data, 2010–2012, Bureau of Economic Analysis 2014; GLG analysis

Total NYC Financial Services Workers: 311,230

More Than Half of Financial Services Employees in NYC Earn Less Than $100,000/yr



Source: American Community Survey, 2013

Current Status & Industry Trends

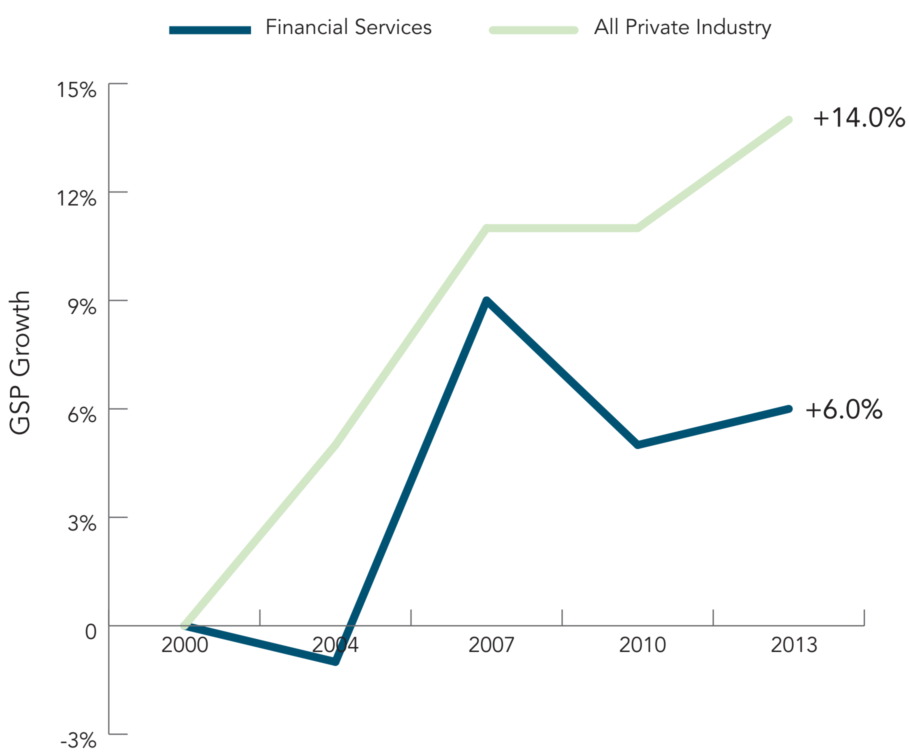
Since 2000, the growth trajectory of the financial services industry in New York City and State has gone from robust to modest, with its economic output expanding at less than half the pace of all private industry in the state (6% versus 14%).[14] The trend is even more stark at the city level, where financial services has grown at one third the pace of all private industry (6% versus 17%).[15]

Over several decades, New York City has seen a gradual loss of middle- and lower-paying jobs in the industry due to technology or relocation of jobs to lower cost regions. "Back office" jobs were the first to go, followed by downsizing of trading jobs that were replaced by electronic exchanges.

Survey respondents planning to relocate jobs out of the city favor both lower cost domestic US locations as well as offshore destinations like India and Argentina.

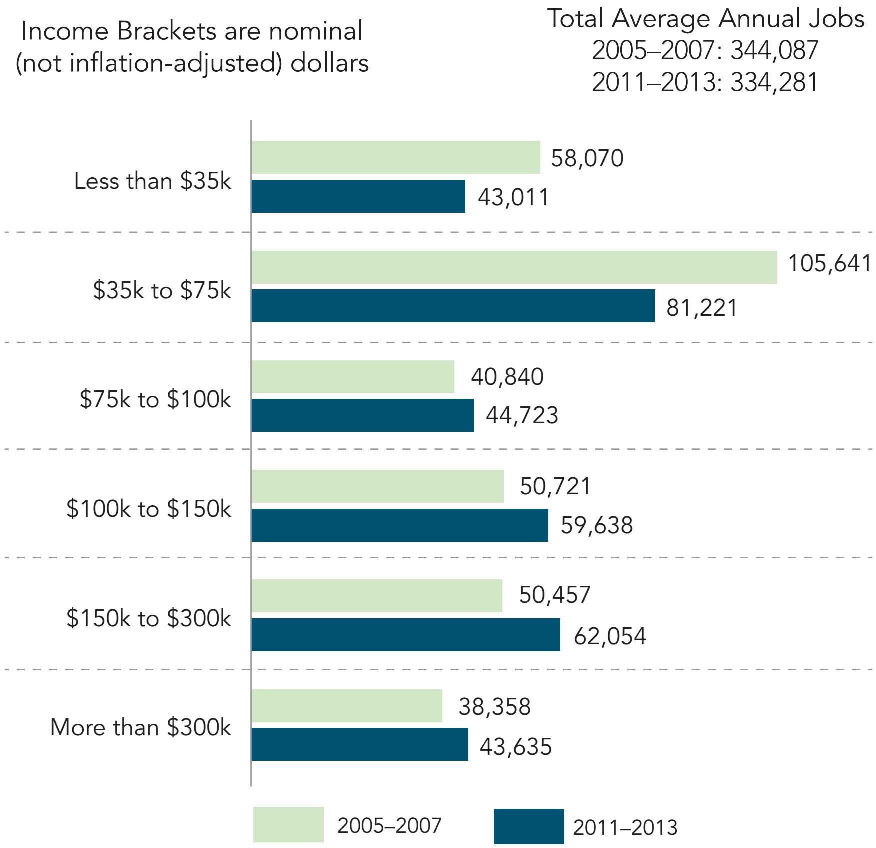
The loss of middle wage jobs has accelerated since the 2008 financial crisis. In 2005–2007, 59% of financial services jobs paid less than $100,000,

Financial Services is Growing at Less Than Half the Pace of Other Sectors



Source: US Census; Bureau of Economic Analysis (US government).; GLG analysis compared with 90% of all other private sector jobs in the city. By 2011–2013, the percentage of the city's financial services industry jobs paying less than $100,000 had dropped to 51%, as compared to 88% of all other private jobs.[16] Since its pre-recession employment apex (2005–2007), the city's financial services industry had a net loss of 24,000 middle wage jobs paying between $35,000 and $75,000, and a net loss of 15,000 low wage jobs paying less than $35,000. These were offset by a net increase of 30,000 higher wage jobs.[17]

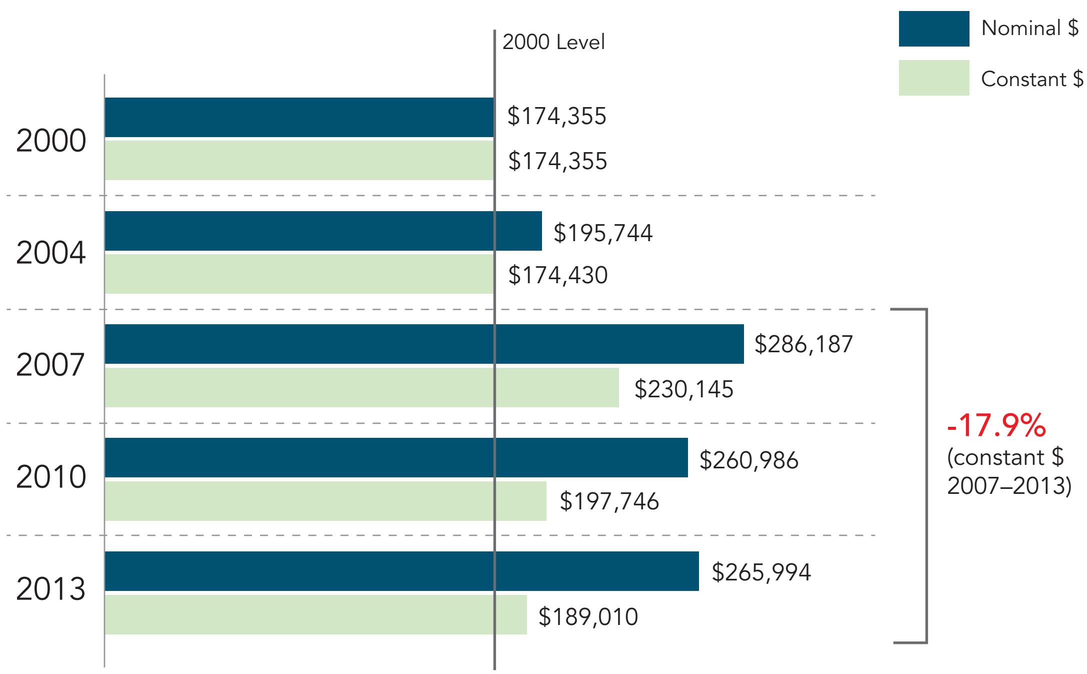
NYC Financial Services Workers: Total Jobs by Income Distribution 2005–2007 vs 2011–2013



Source: American Community Survey, 3-year data, 2005–2007, 2011–2013

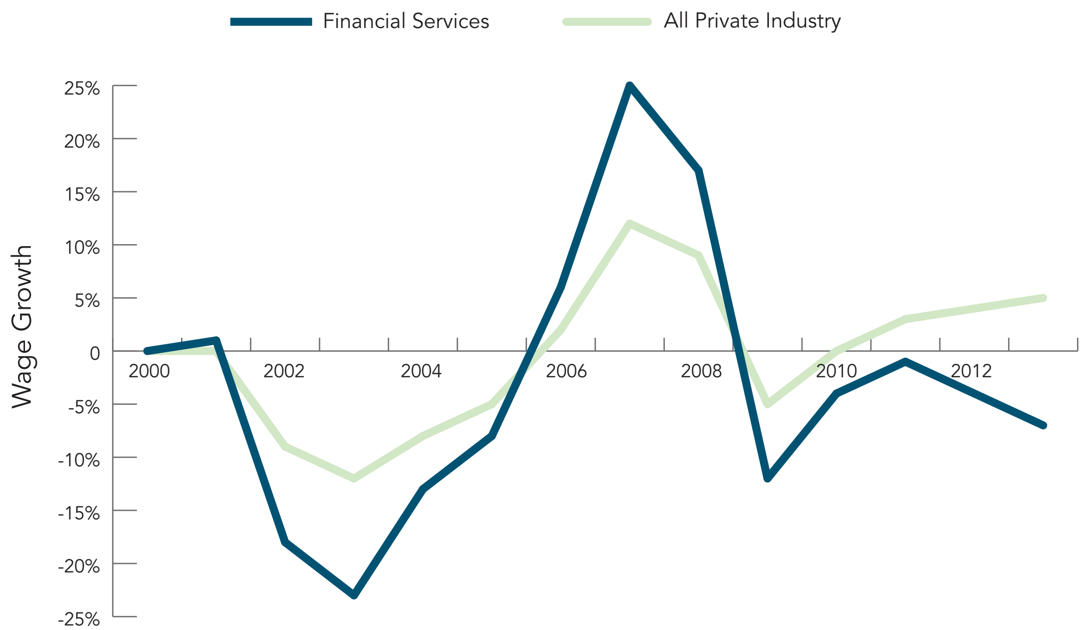
Average wages in the city's financial services industry have been trending downward since the financial crisis. After adjusting for inflation, the industry's average wages are down 17.9% since 2007. These falling wages, along with a decreasing headcount, have taken a bite out of the financial services industry's payroll. Since 2000, the industry's inflation-adjusted payroll has declined by 6.7%, even while the city's overall, private sector payroll has risen 4.7%.[18]

Average Financial Services Wages in Constant Dollars (2000–2013)



Source: New York State Dept. of Labor; US Bureau of Labor Statistics; GLG analysis. Inflation factors are specific to NYC MSA.

Inflation Adjusted Total Wages 2000–2013



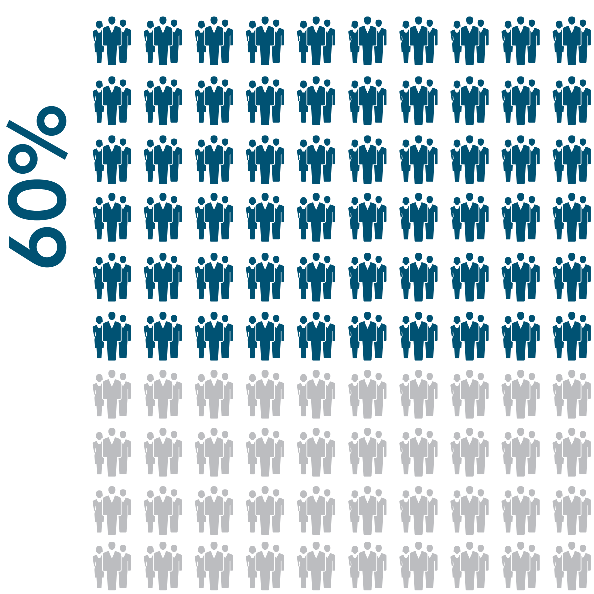
Source: New York State Dept. of Labor; US Bureau of Labor Statistics; GLG analysis.
Inflation factors are specific to NYC MSA.

While 62% of survey respondents reported that they expanded New York City operations over the last 3 years, only 52% expect to expand in the city in the next 3–5 years.

The Partnership-GLG survey suggests that gradual trends toward fewer jobs and lower average wages will continue. While 62% of survey respondents reported that they expanded New York City operations over the past 3 years, only 52% expect to expand in the city in the next 3–5 years.

The survey found that 60% of the city's financial services employees work for a firm that relocated some operations out of New York City over the last three years. The most frequently-cited reasons for relocating operations out of New York City were cost pressures, lack of government incentives, and competition from domestic and international financial hubs.[19] Restrictive US immigration and visa policies have also made it more difficult to recruit global talent.

The Majority of NYC Financial Services Employees Work for a Firm that Recently Relocated Jobs



Total NYC employees of financial services survey respondents

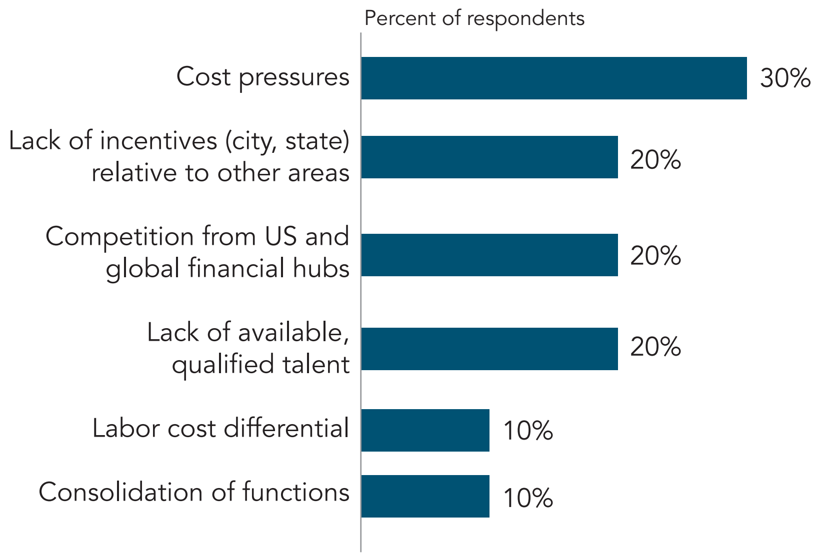
Source: PFNYC-GLG Financial Services Survey

Fewer Financial Services Companies Have Plans for Expansion in NYC Over the Next 3–5 Years Compared to the Last 3 Years

Source: PFNYC-GLG Financial Services Survey

Top Reasons for Relocation of NYC Jobs

The survey asked firms that had relocated some or all of their NYC operations over past three years to list the top three reasons behind their relocation decisions.



Source: PFNYC-GLG Financial Services Survey

The net loss of financial services jobs in New York City contrasts with net job growth in other metropolitan areas around the country, such as Phoenix and Dallas.[20] New York's job losses are concentrated in the most highly regulated sectors — banking and insurance — which are also its largest private sector employers.[21]

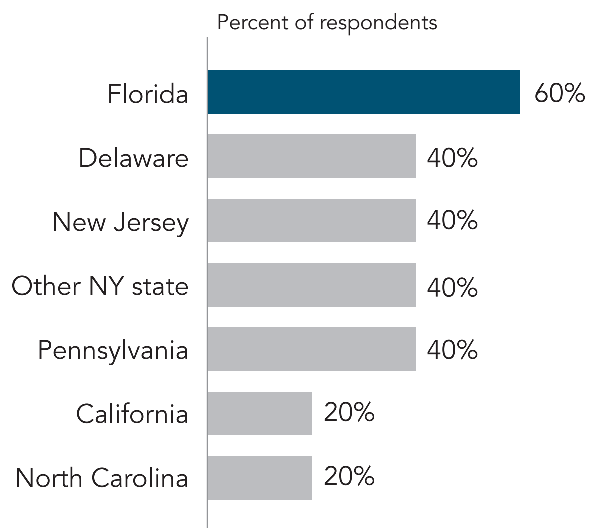
The survey shows that FinTech presents a key opportunity for future job growth in both New York and London, but also that FinTech companies are willing to move jobs to lower cost cities that offer a strong high-tech culture and skilled labor pool.

FinTech and Financial Services Relocation Plans

FinTech: Locations cited as attractive business environments with responsive governments:

- Silicon Valley
- London — focused on FinTech and cultivating the ecosystem
- San Francisco
- Texas — cheap labor, high quality of life, good airports
- Stamford, CT
- Nashville — low taxes
- DC Metro
- Canada — subsidizes software engineer salaries

Financial Services: States Where NYC Jobs Have Relocated



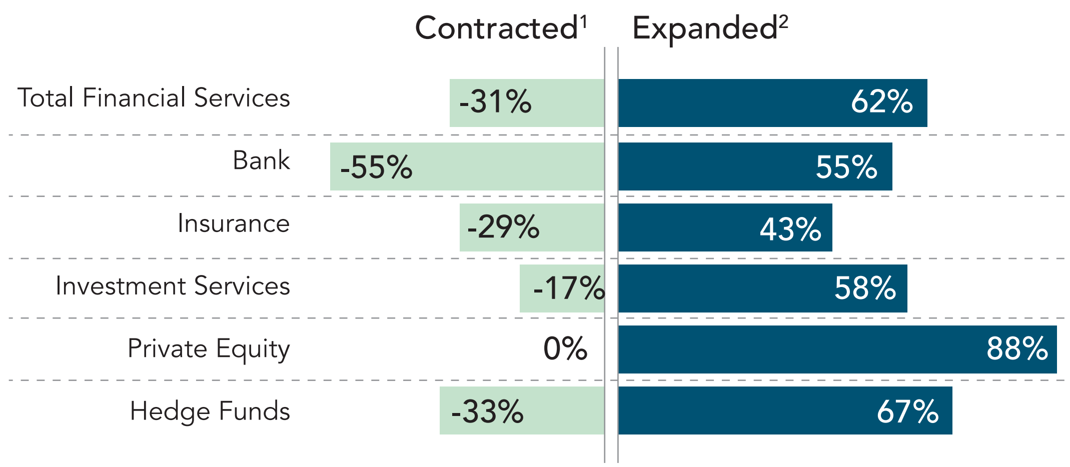
Source: PFNYC-GLG Financial Services Survey

Over the past three years, the investment services and private equity sectors have been expanding most aggressively in New York City. Firms in these sectors have been adding to local headcount, with few experiencing contraction. Meanwhile, hedge funds have been volatile — expanding, contracting and relocating jobs in and out of the city.[22]

The outlook for the next three to five years is weak in all sectors except investment services (which includes asset management, investment management and financial advisory services), where accelerated expansion is anticipated, driven by demands of the maturing Baby Boom generation.[23]

Job Losses Concentrated in Regulated Sectors

The survey asked: What sort of fluctuation or restructuring, if any, has your company experienced with some or all of its NYC business operations over the past 3 years? Percent of respondents adds up to >100% because some respondents experienced both expansion and contraction

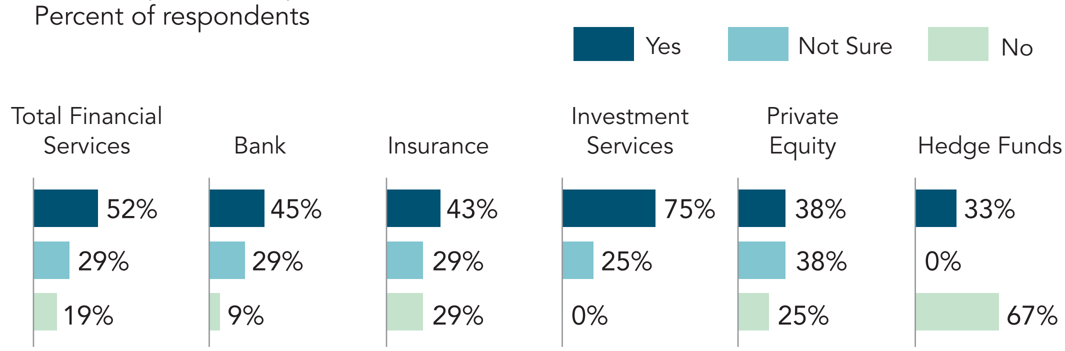


1 Includes companies which have relocated, contracted, downsized, or experienced layoffs
2 Includes companies who have either expanded, relocated, or both, to NYC

Source: PFNYC-GLG Financial Services Survey

Only Investment Services Firms Plan Robust NYC Expansion

The survey asked: Considering your company as a whole over the next 3–5 years, are there plans for expansion?
Percent of respondents

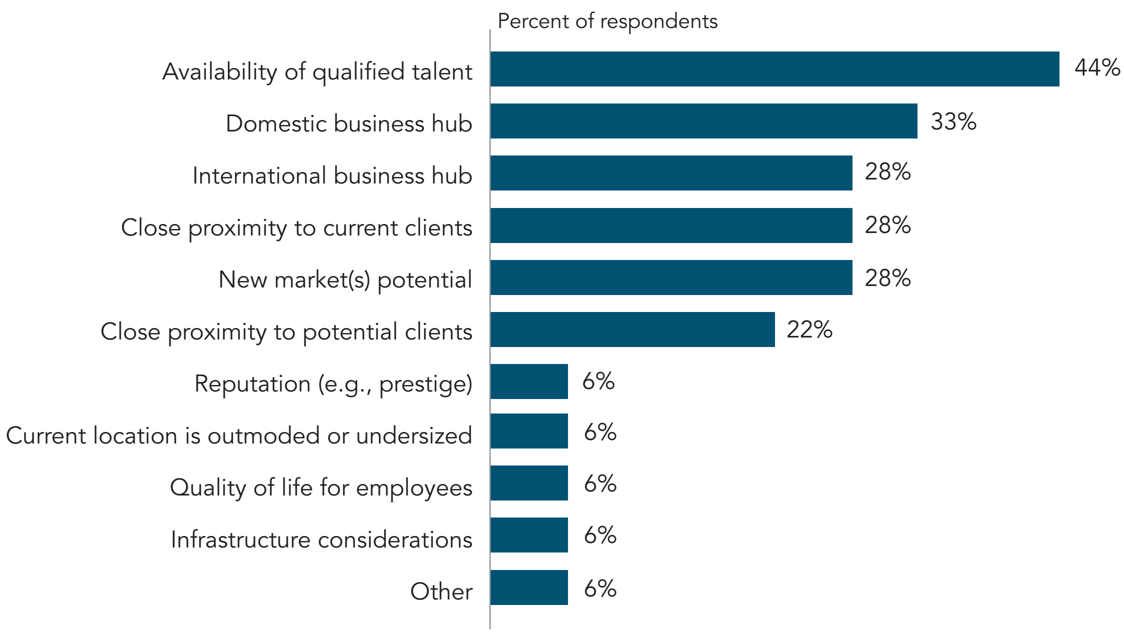


Source: PFNYC-GLG Financial Services Survey

Two thirds of hedge funds have indicated they do not intend to expand at all due to recent regulatory, tax and market pressures, in sharp contrast to the last three years during which hedge funds (and private equity) experienced a high expansion rate in their New York City operations. The reasons cited by firms that are expanding here are the old standbys — talent, proximity to clients and New York City's position as a global business hub — but despite these positives, there is less interest in expanding city operations than in years past.[24]

Top Reasons for Expanding Workforce in NYC

The survey asked: For which of the following reasons does your company plan to expand some or all of its business in NYC in the next 3-5 years? Please select the top three reasons.



Source: PFNYC-GLG Financial Services Survey

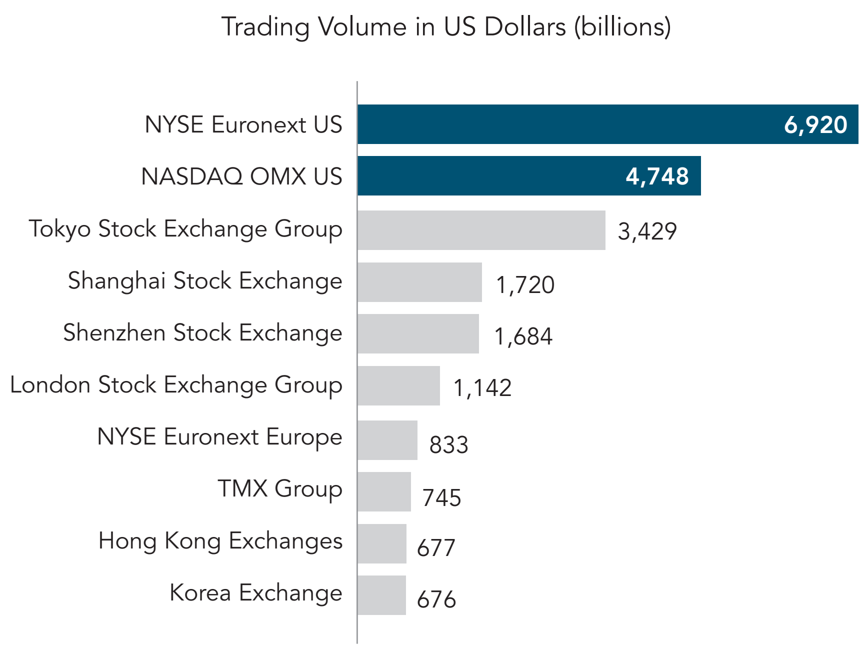
The Partnership-GLG survey confirms that New York's strengths as a financial center are broad and are rooted in historical, national and local factors as well as network effects. National advantage stems from the fact that the US is home to the world's largest users of financial services, including both US corporations and consumers.

NYSE Euronext US and NASDAQ OMX still far outstrip the next three markets in dollar trading volume and are poised to further expand their dominance. Over $11.6 trillion in shares changed hands on the NYSE and NASDAQ stock exchanges in 2013.[25]

Other advantages of a US location include freely convertible currency, de facto global reserve currency, and a stable political system. Even the large fiscal and current account deficits of the US translate into an asset for the financial services industry, since they are mainly financed by international investors through transactions that typically take place in New York. Finally, while the post-2008 regulatory environment has gotten more rigorous, the US has not imposed limits on personal compensation of bankers along the lines of what was done in the UK and Europe.[26]

In terms of historical advantages, New York's large and diverse transaction flow emanated from its status as a major Atlantic seaport, which facilitated transactions with London and Europe. Until recently, it enjoyed a stable regulatory and legal environment that rewarded risk takers and promoted financial innovation. This consistently attracted the very best financial talent from around the world to Wall Street.

Largest Stock Exchanges Worldwide by the Volume of Shares in 2013



Source: Statista.com, 2014:
http://www.statista.com/statistics/270127/largest-stock-exchanges-worldwide-by-trading-volume/

The city has many local advantages because it is the largest domestic business hub and among the largest international hubs. New York City's GCP, at $709 billion in annual output, makes it one of the largest city economies in the world.[27] It offers proximity to the leaders of many of the world's top corporations. It has easy transportation links to Europe and Latin America. It also offers access to fast-growing technology markets and emerging industries.

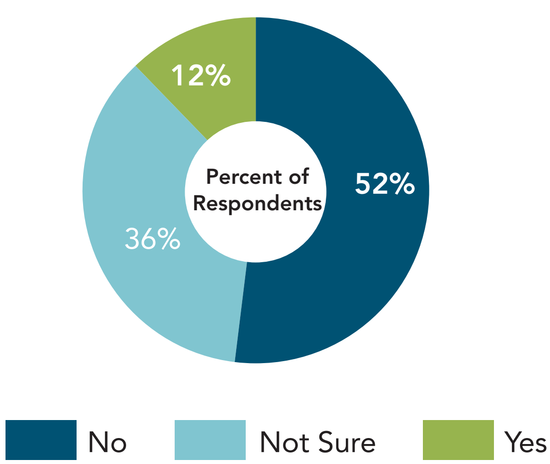
Most important, the city is home to the world's largest cluster of specialized financial services firms upon which high finance depends, as well as the top legal, accounting, management consulting and technology experts. This creates a "network effect" which is virtually impossible for aspiring, less mature financial centers to replicate. In part, the network is one that provides innumerable potential counterparties to transactions that financial services firms are seeking to consummate. More broadly, it is a reservoir of highly specialized financial talent that can execute transactions with efficiency and expertise that is unique to New York.

On the softer side, New York offers cultural and recreational amenities, high quality health services, and world class educational and research institutions that draw a diversity of talent from around the globe. This attraction has been enhanced in recent years by the city's low crime rate, multi-ethnic neighborhoods and appreciating property values.

Looking ahead, more than half of survey respondents do not plan to relocate any jobs out of New York City during the next 3–5 years. For those companies looking to expand, 86% are considering New York City as an option for job location. This data indicates that there is a significant opportunity for New York City to secure new financial services jobs.[28]

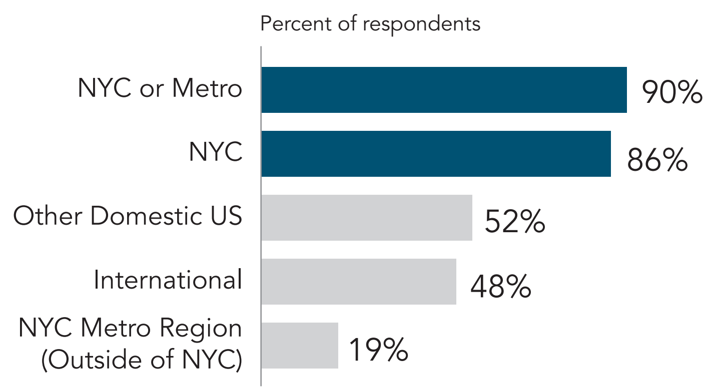
Financial Services Future Relocation & Expansion Options

Considering the next 3-5 years, does your company have plans to relocate some or all of its employees?



Source: PFNYC-GLG Financial Services Survey

What options are being considered for expansion?



Other Domestic US: San Francisco area, Houston, Chicago, Charlotte, Denver, CA, DE, TX, FL, OH

International: Germany, London/UK, Singapore, Hong Kong and Greater China, Southeast Asia, India, Emerging EMEA, Argentina, Canada

NYC Metro Region: Jersey City, NJ

Source: PFNYC-GLG Financial Services Survey

Threats to New York's Preeminence as a Financial Center: Growing Competition, Hostile Tax & Regulatory Environment, High Costs

THREAT #1: GROWING COMPETITION

All in all, the picture that emerges from this survey is that New York City is a vibrant, successful global financial center, but one that is relying on past strengths, rather than competing aggressively to build market share. Aside from high costs, New York suffers from aging infrastructure, ranging from congested streets and airports to less than adequate telecommunications and broadband networks.

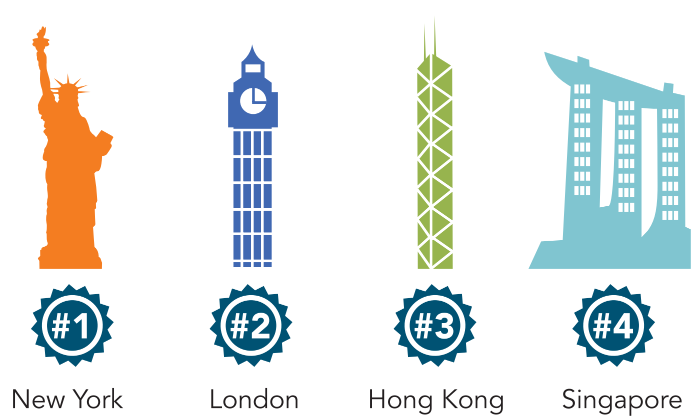
Until recently, London mounted the only real challenge to New York. In 2007, McKinsey & Co released a study commissioned by Mayor Michael R. Bloomberg's administration and Senator Charles E. Schumer to examine New York's standing as the world's financial capital. The resulting report, titled *Sustaining New York's and the US' Global Financial Services Leadership*, focused on London's better legal and regulatory environment and more open immigration policies.[29]

The 2008 global financial crisis took a greater toll on London, allowing New York to reestablish its primacy. Today the punitive and highly politicized enforcement climate in the US threatens to tip the balance back in London's favor.

Currently New York and London are operating as a single linked entity (sometimes referred to as "NYLON"), with most of the same US, UK, European Union and Asian institutions having established large footprints in both cities. London enjoys a time-zone advantage over New York, as well as shorter travel times for doing business in the Middle East, India and Asia, but otherwise the cities are essentially peers.

Ranking of Global Financial Centers

"London was ranked second in the March 2014 GFCI survey of international financial centers. Previously, it has tended to be consistently ranked first and New York a close second. Both are now being chased by Hong Kong and Singapore."

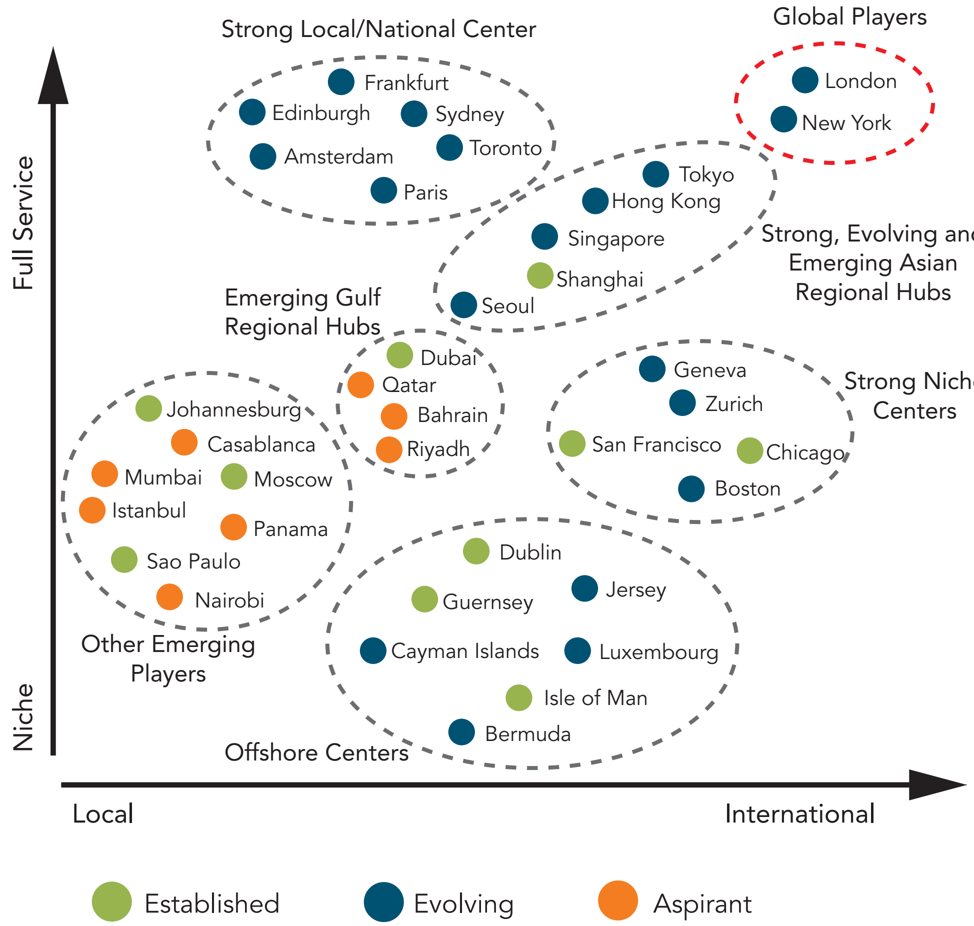


Source: 2013 Banker Magazine's annual rankings of international financial centers.

The biggest challenge to both New York and London comes from emerging financial centers in the developing world where growth is increasingly concentrated.[30] US regulators have increasingly focused on the industry, increasing its costs, and reducing areas of opportunity.

Many countries use immigration policies as an economic development strategy, offering incentives to attract entrepreneurs and skilled workers. Restrictive US immigration and visa policies put New York firms at a disadvantage in recruiting top talent. Competing countries offer incentives to attract the most promising entrepreneurs, innovators and holders of advanced degrees, while the US has made it increasingly difficult for foreigners to immigrate or secure visas (including foreigners who have been educated in the US). A growing number of US cities and states are also competing to draw financial operations out of New York, offering lower costs as well as incentive packages.

NYC and London Are Still the Leading Global Financial Centers, but Will Continue to Face Increasing Competition from Emerging Asian Hubs



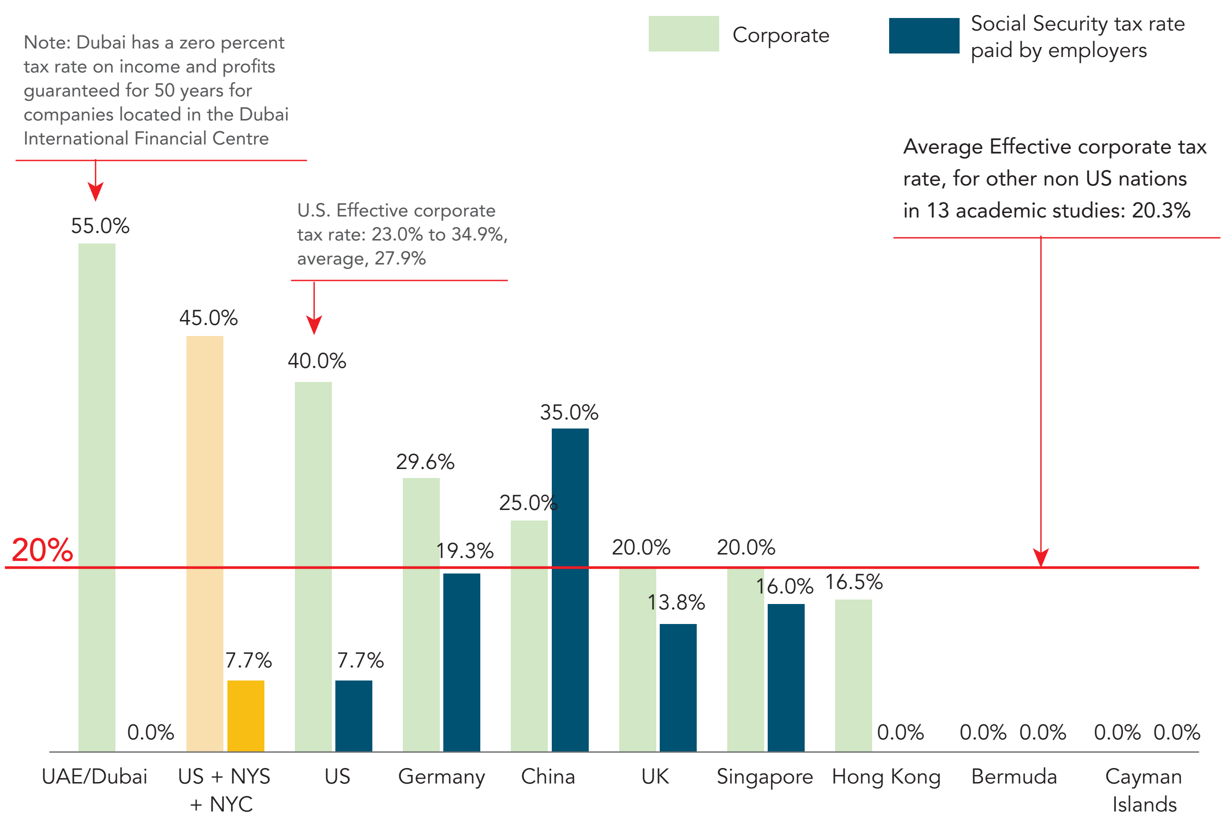
Source: TheCityUK based on Oliver Wyman and Z/Yen.

THREAT #2: FEDERAL, STATE AND LOCAL TAX POLICIES

The survey captures the industry's sensitivities to the tax environment across the US, particularly in New York City and State. The US imposes the highest corporate income tax rate among OECD countries, 39.1%, and is one of only two countries that reach beyond its borders to tax overseas income earned by nonresident citizens.[31] (Eritrea is the other country.)[32] When New York City and State corporate taxes are added, the total effective tax rate on business is 45%, as compared to 25% in China and 20% in the UK.[33,34]

US companies are double-taxed if they repatriate profits of foreign subsidiaries to the US, resulting in some $2 trillion of US company profits being effectively trapped overseas, denying domestic locations significant potential investment.[35] Places like Hong Kong, Singapore, and the Cayman Islands offer tax advantages that extend to investors in financial management firms or hedge funds that are domiciled in their jurisdictions.

Corporate Effective Tax Rates for Selected Countries and Cities



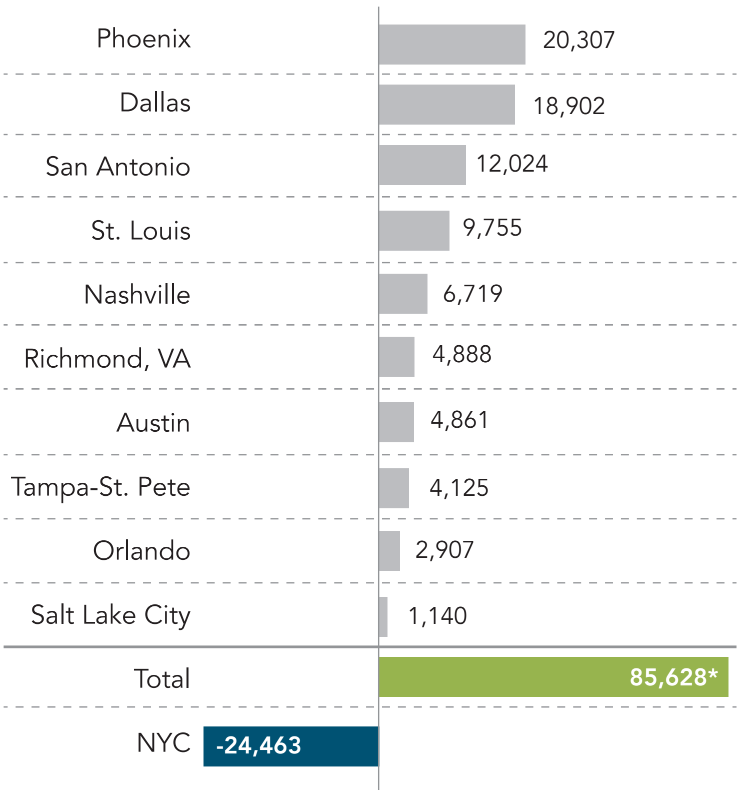
Source: KPMG interactive tool 2014; individual countries' taxation authority websites; Tax Foundation, March 21, 2013 and Special Report No. 195, Sept. 2011; GLG analysis.

Forbes magazine recently investigated the growth of financial services employment outside New York in search of an explanation for the decline in financial services jobs in the city. *Forbes* zeroed in on 10 US cities that appear to be taking jobs from the New York City financial services industry.

A key element, *Forbes* believes, are the lower state and local income tax rates in these cities. Of the 10 cities, six have no state income tax at all. Only one city levies an income tax, St. Louis. That tax is less than one-third of New York City's local income tax.[36]

Financial Services Job Growth: *Forbes'* Competing Cities vs. NYC

Financial Services Job Growth 2008–2013



Source: Forbes. June 27, 2014
* Reflects total growth among selected cities.

City and State Personal Income Taxes: *Forbes'* Competing Cities vs. NYC

City	State Income Tax	City Income Tax
Phoenix	4.24-4.54%	None
Dallas	None	None
San Antonio	None	None
St. Louis	6.00%	1%
Nashville	None	None
Richmond, VA	5.75%	None
Austin	None	None
Tampa-St. Pete	None	None
Orlando	None	None
Salt Lake City	5%	None
NYC	**6.65 – 8.82%**	**3.648 – 3.876%**

Combined rate:
10.29% – 12.69%

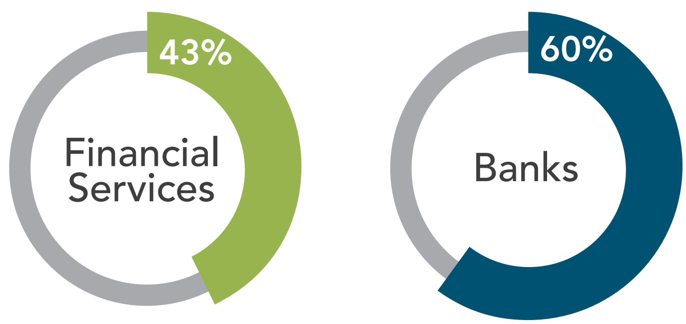
Source: Bankrate; state and city government official tax sites. For Phoenix, St. Louis and New York City, rates are for selected higher income tax brackets relevant to financial services jobs; GLG analysis.

THREAT #3: PUNITIVE REGULATORY REGIME

Since the 2008–09 financial crisis, a new level of oversight, regulation, enforcement and prosecution has come down on the financial services industry in both London and New York City, while Asia and other emerging markets have remained relatively open.

More than 40% of survey respondents state that government regulations have negatively impacted their business operations. The worst impact is on the banking sector, with 60% of respondents claiming negative impact. Federal-level regulation is reported as the most problematic, particularly Dodd-Frank requirements.[37]

Financial Services Institutions Reporting Negative Impact of Regulations



Source: PFNYC-GLG Financial Services Survey

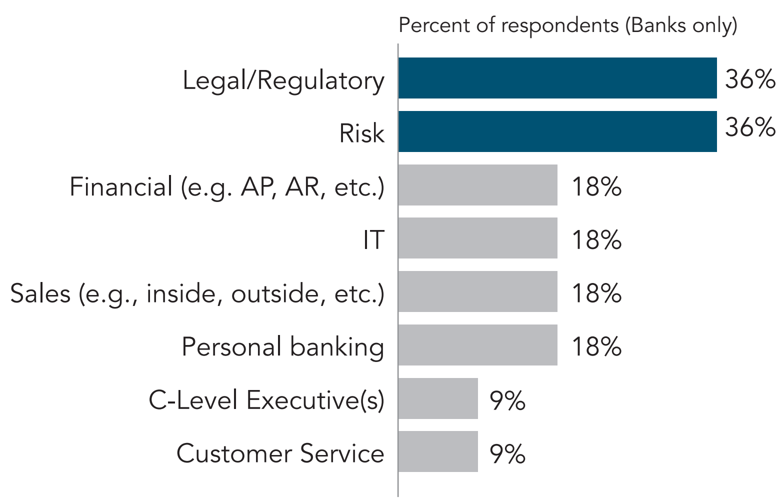
As a result of the regulatory climate, most of the newly created financial services jobs focus on non-client facing activities that respond to regulatory requirements and do not create significant value.

Survey results also reflect industry concerns with the legal and regulatory environment in New York City and State. For example, New York State's securities law, the Martin Act, is the strongest in the country. It empowers the Attorney General to regulate, investigate and take enforcement action against securities fraud, including seeking equitable and monetary remedies, without a showing of knowledge of wrongdoing or intent to defraud.[38] As of April 2015, New York State has $6.61 billion in settlement fees generated from federal and state actions against domestic and foreign banks.

As a result of the regulatory climate, most of the newly created financial services jobs focus on non-client facing activities that respond to regulatory requirements and do not create significant value. In particular, 36% of banks reported expansion of their legal/regulatory staffs, primarily in response to the requirements of Dodd-Frank rules.[39] Non-client facing jobs are easier to put in remote locations and seldom generate bottom line returns that support the high costs of operating in the city.

Trends in Bank Hiring

The survey asked: During periods of NYC operations expansion over the past 3 years, did your company focus on growing any departments/position(s) in particular? Please select all that apply.



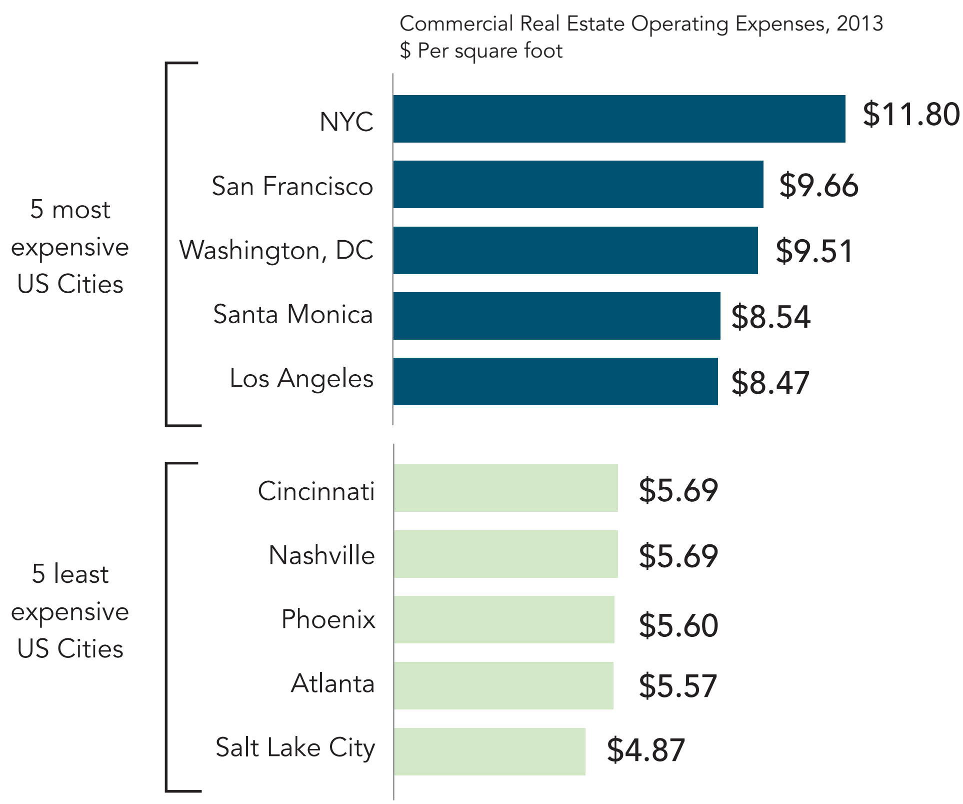
Source: PFNYC-GLG Financial Services Survey

THREAT #4: HIGH COSTS OF LIVING AND DOING BUSINESS

The survey results unsurprisingly noted that New York City is an expensive place to do business and lacks the modern infrastructure of some of its global competitors. The factors that most influence job location decisions are: maintaining the fiscal health of a company's balance sheets, the availability of talent, and the cost of office space.[40]

New York City's commercial rents, property taxes and building operating costs are the highest in the US and Canada, according to the Building Owners and Managers Association International. There is an 18–28% spread in costs between NYC and such cities as Washington, DC and San Francisco.[41] For financial services firms seeking to control costs, second-tier cities offer an attractive alternative for operations that do not have to be close to headquarters.

Most and Least Costly Cities: Commercial Building Operating Expenses



Source: Building Owners and Managers Association, Aug. 2013 Experience Exchange Report. Operating expenses defined as: All expenses incurred to operate office buildings, including utilities, repairs and maintenance, roads and grounds, cleaning, administration and security. Fixed expenses include real estate taxes, property taxes and insurance. N= 5,300 buildings in 250 markets and 115 cities in US and Canada

Although office space in New York City is expensive, with Class A Manhattan office rents of more than $76 per square foot, much of the office building infrastructure is obsolete, making adequate IT access and modern space configurations more difficult.[42] New York's transportation infrastructure is inferior to many modern financial centers. Traffic congestion, both on the roads and in the air, creates delay and adds to costs of doing business. Approvals for new real estate developments are slower, more expensive and more complex than in other jurisdictions. Cost for security, technology and insurance needed to address the threat of international terrorism, including cyber threats, also tends to be higher in NYC.

New York State's community rating health insurance system increases premiums for industries with younger workers, including financial services.

Finally, the cost of living in New York is high — especially housing — which forces most employers to pay at least a 15–25% salary premium so that mid-level employees can have a life style in New York comparable to what they could afford in other regions of the country.[43]

Recommendations to Ensure New York Remains the Global Capital of Finance

From a high-level perspective, this project suggests the following conclusions:

- New York City's competitive advantages are being eroded externally by the rise of new global financial centers, particularly in Asia, and the ability of technology to make other US cities attractive to financial services companies and employees.
- New York City's competitive advantages are being eroded internally by high costs of doing business, high costs of living, high taxes at the federal, state and local levels, aging infrastructure and a difficult regulatory environment.
- New York City provides its crucial financial services industry with many long-term competitive advantages: location, access to customers and counterparties, critical mass of talent and service providers, and good quality of life.
- New York City's financial services industry provides extraordinary benefits to the 5-County economy and New York's tax base.
- This contribution, however, is threatened by a long-term decline in New York City's financial services employment, which is magnified by the industry's large multiplier effect on jobs in other industries.
- New York City's financial services advantages are based primarily on the legacy of US dominance of the world economy since World War I and the rise of New York City as the world's financial capital after World War II. This has been reinforced by the extraordinary talent attracted to Wall Street and the record of innovation of NYC-based financial services firms.

Recommendations for actions that will help sustain the city's future as a world financial capital include the following:

1. Keep the Region Competitive

- Significant investment is needed in the region's outdated, overloaded public transportation system, which is already struggling to keep pace with current demands. The NYC-area transit system compares poorly against competitor cities such as London, Paris, Singapore, Tokyo and Hong Kong that prioritize efficient, reliable and modern public transit systems to provide better access to employment and business centers. Lack of investment in public transportation makes it more difficult for the New York City region to compete for talent, business investment, and tourist dollars.

- Airport capacity and condition are among the most important factors affecting the city's future growth. Travel delays from NYC Metro area airports cost the regional economy $2.6 billion in annual losses.[44] Full implementation of NextGen, modern satellite air traffic controls, on a national scale is required to adequately compete with other global centers of commerce.
- Businesses depend heavily upon reliable and modern digital infrastructure, particularly those involved in financial services that utilize extensive IT systems. While New York is one of the most highly competitive telecommunications markets in the country, its digital infrastructure lags behind its competitors. Although median download speeds are higher than national averages, businesses cite frequent downtime and lack of redundancy as problems. Legal and regulatory barriers that make it difficult for service providers to build-out broadband and wireless infrastructure need to be adjusted to encourage aggressive private investment.
- New York State's Excelsior Jobs Program should be expanded to provide tax incentives for retention of middle wage jobs in selected industries, including finance.[iii]
- New York City and State have reformed their tax structure to provide banks with tax treatment equal to other corporations and simplify the filing and audit process, but the city and state still lag competitors when it comes to high personal income tax rates and commercial property taxes. Combined personal income tax rates on high earners should be dialed back to no more than 50% of earned income (currently over 54% for city, state and federal taxes).[45] The city's Commercial Rent Tax that imposes a 6% surtax on large commercial tenants should be eliminated.
- The commercial courts need additional resources to meet growing demands. Application of investigatory powers of the Attorney General under the Martin Act should be used with discretion and never extended to other agencies or the private bar. The role of the NYS Department of Financial Services should be restored to one of regulation rather than enforcement in order to provide a more conducive legal environment.
- The Federal Reserve Bank of New York should be insulated against political forces and regional rivalries that threaten its role as the center of the US and global central banking system.
- Financial services is New York's largest global export.[46] The industry relies on US trade agreements to ensure its competitive position. Political leaders should join with industry to promote international trade.
- The US should develop a "patent" or "innovation box" tax incentive, modeled after what nine European countries have done. Financial services firms serve clients globally with intellectual property developed here at home. This activity also drives the growth of New York's burgeoning FinTech sector. An American "patent" or "innovation box" would allow a lower tax rate on business income that is patent or innovation related, incentivizing companies to invest in new research, technologies and innovations in the US instead of moving to jurisdictions that tax intellectual property at lower rates.
- Affordable housing is a critical component for the city's long term economic health as cost of living is a challenge that major employers cite as an impediment to growth. Public-private initiatives to expand housing development should be a top priority.

iii The Excelsior Jobs Program, implemented in 2011, is specifically designed to encourage expansion in and relocation to New York by businesses in growth industries. The program includes jobs, investments, R&D and property tax credit components.

- Cybersecurity breaches pose an outsized risk to the New York City and State economy due to the concentration of financial services firms here. State and local government and law enforcement must work collaboratively with industry to share information and enhance protections for employers as well as consumers. Further, New York City should promote itself as the venue to develop new products, like cyber insurance, to address this risk globally.
- New York's public and private sector leaders should launch a concerted marketing campaign aimed at retention and attraction of financial services companies and jobs. At the same time, the industry and its allies should mobilize a public education and advocacy program that explains the contributions of the industry.
- New York State is one of the nation's most heavily regulated business environments. Many state laws and regulations have not been modernized to account for changes in the ways companies do business, overall shifts in the economy and the way people work. A review of existing regulations by a commission made up of public and private sector experts, paying particular attention to those where New York is "the only one of the 50 states" to maintain certain policies would be an important first step. Laws and regulations that make New York an outlier add to costs, complicate the operations of companies headquartered here and will increasingly result in loss of jobs and relocation of business operations.

2. Prepare New Yorkers for Financial Services Jobs

- Government should work with industry and educators to develop a "roadmap" of career opportunities in financial services and organize pathways that provide diverse populations with access and preparation for jobs in financial services. Industry should be actively engaged in career and technical education at the high school and college levels in order to strengthen the local pipeline of skilled workers.
- There should be a coordinated public and private investment in nonprofit organizations such as the National Academy Foundation (NAF), Sponsors for Educational Opportunity (SEO), Futures & Options, Year Up and Junior Achievement that have a proven record of preparing students for positions in financial services.

3. Leverage Financial Services to Drive Tech Growth

- Support the work of the Partnership Fund for New York City, Accenture and major financial services firms to build on the success of the Fintech Innovation Lab in cybersecurity, risk management and big data applications that support new tech companies that service the financial services industry. Proximity to large clients and a huge financial technology workforce are assets that New York can continue to utilize to promote its future as the center of financial innovation.
- Government and industry should organize expanded procurement opportunities for local tech vendors, working with venture capitalists to identify promising new firms for demonstration projects that reaffirm New York City's reputation as the center of financial innovation.

Conclusion

For more than thirty years, "Wall Street" has been the primary magnet for attracting international business talent and investment to New York, driving job creation, innovation, and economic growth across all industries.

New York is the US hub of the largest domestic and foreign banking operations, which invest billions annually in local residential, commercial and infrastructure development. Five of the top ten global private equity firms and half of the world's largest hedge funds are based in the metropolitan region.[47,48] New York's asset managers are the stewards of more than $5 trillion of the country's retirement savings. The city's insurance industry accounts for a quarter of the nation's life insurance premium dollars.[49] New York is second only to Silicon Valley when it comes to venture capital activity and is the global center of financial technology, with investment in local startups growing nearly tenfold since 2009.[50]

The indirect impact of the financial services industry is also enormous. Nearly half the city's professional services firms attribute a majority of their global business to their work with the financial services industry.[51] Similarly, the hospitality, entertainment and retail industries draw their most lucrative business from the world of finance.

On the philanthropic front, the men and women of the financial services industry are by far the largest contributors to the city's nonprofit sector, accounting for as much as 90% of donations to the city's largest charitable institutions.[52]

New York's financial services industry cluster has continued to thrive in recent years, even as the macro forces of technology and globalization have redefined the international competitive landscape. The city's anchor institutions bounced back stronger than ever after the 2008 financial crisis. But the consequences of that crisis are taking a toll, as financial institutions have been blamed for the severe recession and slow economic recovery that followed.

A punitive legal, tax and political environment limits profitability, growth, and innovation in the financial services industry, putting New York City's future as the world financial capital at risk, with significant potential consequences for the regional economy and US preeminence in the global economy.

The impetus for a renewed partnership between government and the US financial services industry must start in New York with accelerated investment in housing, infrastructure and economic development activity, on the one hand, and a more supportive regulatory and political environment on the other.

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