



A CONVERSATION WITH **HOWARD ZEMSKY**

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ALL PHOTOS: JIM COURTNEY

Howard Zemsky, chairman and CEO of Empire State Development Corp., provided an update on regional initiatives in an hour-long conversation with Business First Publisher Jack Connors before a group of business leaders at Hodgson Russ LLP headquarters in Buffalo.

Zemsky talks up WNY

SAYS PRIVATE SECTOR IS KEY TO SUSTAINING GROWTH

BY JAMES FINK

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Howard Zemsky sees the development landscape from both sides of the table.

As a developer, he knows the trials and tribulations when tackling projects. He has prevailed in Buffalo's Larkin District, a project he initiated.

He also wears the hat of chairman and CEO of Empire State Development Corp.

He was appointed one year

ago at the urging of Gov. Andrew Cuomo.

"I'm doing this job because of Gov. Cuomo's commitment to Western New York and Upstate," Zemsky said. "I watched us take a one-step-backward approach for too many years."

The Buffalo Billion has produced not only bricks-and-mortar results but it helped the region regain its swagger.

"There is a very different feel and perception about Buffalo, especially with the millennials, that you didn't see even five years

ago," he said.

"I see it in (the region's) attitude. I see it in our children. I see it in all the new construction," he said.

Western New York has more than \$19.5 billion in its economic development pipeline. Much of that is fueled by the private sector, ranging from Uniland Development Co.'s 250 Delaware Building to BlackRock Financial Group's \$80 million back-office center in Amherst.

Said Zemsky: "At the end of the day, the growth of the private sector will carry the day."

only five, six, seven, eight years ago. I see that in my own kids and I see that in all of their friends. I think what's happening in Buffalo is fabulous. I don't know that we would have predicted that we would have seen it in our lifetime again. So I'm very gratified to have played some role. The governor obviously has played a significant role. All of you in this room have played a significant role. Hodgson Russ, by undertaking projects like this, plays a significant role. I'm the governor's commissioner of economic development, and of course I'm doing this job because I believe in his commitment to Western New York and to Upstate New York. Upstate New York went through a very long period of decline. I grew up Downstate (but) I have lived here in Buffalo for 35 years. I watched this continual sort of one step backward every year for some 30 odd years. I traveled all over the country when I was in the food business. I noticed that wasn't necessarily true of other parts of the country and the other cities in the country. So to finally have a governor say, "Look, I'm really putting my neck out for the Upstate economy, starting in Buffalo." And as you know, this commitment has spread to other Upstate regions. I think that's huge. But I see it in the attitude, I see it in our children and of course I see it in the numbers and the construction and the job metrics that we put out every year as part of the progress report. And I believe fundamentally in this decentralized model of economic development. We have the regional council – that was a change in the way economic development happened. I think we have a compelling, sensible, effective business plan for Western New York. And I think that is grounded in good analysis, it's rooted in our strategic assets and it attempts to mitigate some of our weaknesses. I should probably stop rambling, but I can just keep going and going.

► **That segues into my next question: Is the private sector positioned well enough to carry on that business plan?**

ZEMSKY: I think the private sector is ultimately the only sustainable way to achieve economic growth, and the statistics indicate that the private sector is really where most of this investment is coming from. The Buffalo Billion spread over five years is a significant impact and the state's

► **Is the Buffalo Billion working? Do you really think it has moved people in a different direction?**

HOWARD ZEMSKY: It's interesting. I was recently in Albany doing budget hearings, as we do this time of year, and I had a feeling I might get asked that question by some of the legislatures. So I brought

with me the Business First edition that came out recently. You might recall the headline above the fold in front about this big that says "\$19.6 billion." One of the things you learn in this job is there's an inherent level of cynicism and/or skepticism that just kind of comes with the territory. For a lot of people who ask these questions of the Legislature, they're not from this area so they haven't lived through or visually

seen or experienced what many of you have seen and experienced. And you see and experience it through your own eyes, but in many ways more importantly you experience it through your children, and that really is the test. You have the sense. Those of you who have 20-year-olds and 30-year-olds and teenagers, you know that there's a very different perception and appeal to Buffalo to the millennials than there was

CONTINUED ON PAGE 14

A CONVERSATION WITH HOWARD ZEMSKY

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CONTINUED FROM PAGE 13

commitment through these regional councils, remember, is an annual commitment. The state is there in a variety of ways, and a lot of policies have a positive impact completely independent from this Buffalo Billion initiative. At the end of the day, the growth of the private sector and the investment of the private sector will carry the day. That's why I think the most important guiding philosophy that the governor has economically is really around competitiveness. So what does that mean? It means that New York state, for the first time in I think any of our lifetimes, has kept spending under 2 percent a year. That's a dramatic change from the 7 percent a year spending that we had the previous three or four decades. It's an extraordinary difference, and so much has changed in five years. It may be hard for you to remember that five years ago we were looking at a \$10 billion state deficit. If we can be fiscally responsible, we can reduce the tax burden on businesses. You know, we have the lowest tax burden on businesses, in some cases, since 1917. If we can be fiscally responsible, we can continue to improve New York state's competitiveness. That's the most significant thing we can do because you can't simply target different people in businesses and have conversations with everyone and tell them about the Excelsior tax credit. The decisions that everyone is making every day about where they live, where they invest, where they have a future, what the decisions their kids make – those are all the decisions that create the economy. And so creating that environment that is conducive to "I want to invest here. I believe in the future here. I think it's a competitive place to do business. I think it's a great quality of life here. I think there's good education here. There's good health care here." Those are call critical components of the economy. And so, again, to the point of why am I doing this, I believe in two things fundamentally. I believe that this regional approach as I discussed and I believe in his commitment to fiscal discipline and economic competitiveness, which is something we haven't seen in state government. Regardless of whether you're a Democrat or a Republican, I'm telling you there's a note going around. For many decades we spent more money. We spent at a rate that was much faster than the rate of inflation, much greater than the rate of personal income growth. If you're spending at a rate continually that exceeds inflation and exceeds income growth, that only leads to one conclusion. The state is taking a greater and greater percentage of your money. And that doesn't create a competitive environment. A lot of people left New York; people invested elsewhere. So I think you're right – the private sector investment is key to a sustainable economic future.

► CLOSER LOOK AT THE SERIES

The Feb. 11 conversation with Howard Zemsky continues a series of discussions with Western New York business leaders.

Throughout the year, decision makers from diverse industries meet for a discussion moderated by Business First journalists.

Excerpts are published two weeks after the roundtable.

Upcoming topics include nonprofits, health care, food manufacturing, education, family business and the tourism economy.

Roundtable discussions, sponsored by Hodgson Russ LLP, are held at the law firm's Pearl Street offices in Buffalo.

Competitiveness of this state is key, and the right strategy for each of the regions to deploy is key. So it's all those things together.

► **As the Buffalo Billion and some of the money starts to disappear, where will the focus be? We've had conversations about infrastructure, about Buffalo becoming an intermodal center. If the infrastructure is not here, are you able to do that? Education funding has decreased. How do we bring those things together so that one could have infrastructure to continue growing but also have the educational systems in place to be able to prepare young people to enter the new job market that is totally different than what it was two, three, five years ago?**

ZEMSKY: You're right. Infrastructure is key, and if there's any one thing that everybody in this room and pretty much everybody in the state would agree, one of government's most significant roles is to invest in its infrastructure. And I think one of the things that you're seeing this year is, if you watch the governor's State of the State address, this is a huge year for investing in infrastructure. So whether you're talking about New York's bridges, roads, airports, rail lines, train stations, downtowns, broadband infrastructure ... these are all very clear. And I would say purposeful investments that the governor is making. You know, we have no future without a great infrastructure. He is clearly focused on infrastructure investing. Look, education, we need people and we need a workforce to have the skills and the increasing level of skills that are required to fill jobs in the economy. As time moves on, the skills and the education required to fill a job gets higher and higher. And so it's incumbent on us in Western New York and throughout the state to really see some of these initiatives in the Buffalo Billion and see other initiatives in other regions to try

and make sure that we are giving people the opportunity to get the skills they need to find employment. To some extent, we're always going to be in a situation where there are jobs that are looking for people and there are people that are looking for jobs. And you say, "How would that possibly be where there are jobs looking for people that can't find it and there's people looking for jobs that they can't find?" It's a question, obviously, of aligning the skills with the opportunity. You would have to say our institutions of higher education are extraordinary across the state, public and private. There's no future without commitments to education, obviously; that only becomes more critical over time. And there's no future without the kind of infrastructure investments that I think we're seeing across the state, whether it's in transit or roads or bridges or broadband, which is such an important part – enabling the human infrastructure, education. Look, these are all critical components of the economy.

► **Your role obviously takes in the entire state as far as economic development policy goes. There have been rumblings when the regional council presents plans that Buffalo got more than others. How do you balance this as you go around the state?**

ZEMSKY: One of the things that was part of last year's budget was this commitment to what we referred to as the Upstate Revitalization Initiative. So this was born out of a successful Buffalo Billion initiative. The governor is watching what's happening in Western New York. He's going, "OK, I made a commitment to Western New York and I've watched this transformation. How can we spread that success?" And so there are three regions this year of the Upstate regions that won \$500 million. It's not quite a billion dollars but the governor would say, "You know, if you go back five years, Western New York was in the most difficult situation in the state." So the Finger Lakes region, the Southern Tier and Central New York have all recently been awarded this \$500 million initiative, and

that's based on the success of the Buffalo Billion, which I think was in turn based on the success of Western New York's planning efforts in year one of the regional economic development council. I, as part of my responsibilities, now spend a decent amount of time – more than a decent amount of time – on these initiatives in Syracuse, in Rochester, Binghamton and elsewhere because Buffalo is a role model to some of the other regions. It's incumbent on us to share some of our experiences to help other parts of the state grow, and I think that's in part why I was asked to do this job, for that reason.

► **How long did you think about it before you said yes when you were asked to take this job?**

ZEMSKY: That's a good question. I did think about it for a bit. Let me tell you how I look at it. I had a conversation with the governor a couple of times on this issue. No. 1, I will tell you that I think this is a great honor, so I look at it very simply. To have the opportunity to be the governor's commissioner of economic development is a great honor. It's very difficult to say no when the governor asks you to play that role, and it was a great honor for me. And I was frustrated watching the Upstate economy be neglected for a very long time. I lived through that here in Buffalo so I saw what a difference we could make; we could be a difference maker. I said to the governor, "I don't want one person to think that I spent those years working with the regional council in the hopes of landing some nice job with New York state. So I have a great reluctance based on the perception that maybe all of this work had some payback." And I told him, therefore, I would be pleased to do the job but not work actually for New York state, kind of the way I was doing it as head of the Regional Economic Development Council. He said, "You have to work for the state of New York, but the gentleman who was in the role with my father (former Gov. Mario Cuomo) that I'm asking you to take worked for \$1 a year, and so you, too, can work for \$1 a year." And that sort of solved my dilemma and I feel like I got out-negotiated. But again, because I see it as an honor and because I wanted to be clear to everybody about why I'm doing this, I think I feel good about it. I think it has been a tremendously interesting job, so it should be said that this job is very, very interesting and challenging. And the activities that Empire State Development are involved with are more varied than I would imagine anyone sitting in this room knows. So it adds a lot of texture to your life. You know, at the end of my days I will have some extraordinary memories and experiences and I

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have always wanted – I’ve never been good at just hanging out. I always wanted to do the next thing. I was in the food business for 20 years and then even with no commercial real estate background took on the Larkin project, which I was told for three years was ridiculously stupid. Then I took on this challenge with the Regional Economic Development Council, which was an unexpected opportunity. “Hey, Howard, we are starting these regional councils. Would you be willing to do that?” OK. “Hey, Howard, would you mind doing this statewide?” So I’ve always said yes to these kind of unexpected opportunities or I have sought out challenges that keep life interesting and challenge your mind.

► Are you looking forward to getting back to being an entrepreneur/developer, especially with what has been happening around your role in the governor’s economic policy?

ZEMSKY: Yes, and we are continuing to develop Larkinville, as you know. You can find me, on occasion, at Kosta’s on the weekend having breakfast with my partners or occasionally in the evening or I’ll

take a Friday vacation day and have a full day of meetings. I have a business; I haven’t stopped being a businessperson. Obviously there’s very clear lines that you have to draw. Not only do I get paid nothing but also, in many instances, I can’t pursue opportunities. So it’s been very easy, actually, to make sure that there’s no conflict of interest. But, yes, Larkinville continues to develop and we continue to actively work on the next generation of planning in Larkinville. We are excited about that.

► Any questions from the audience?

► Charles Zukoski, provost, University at Buffalo: We talked a little bit about competition when the SUNY Nano was built in Albany. We felt harmed here because we were jealous. Do you see it as a pie that we’re trying to get a bigger slice of? Or is the pie actually growing when you imagine growth of the economy in New York or

as we think about attracting jobs from around the U.S.?

ZEMSKY: The pie is growing. I’m going to Dunkirk this morning. The governor is coming to town and making an announcement with respect to Athenex. There is a model that the state has embraced, which is next-generation technologies induced by the state through investment and equipment that the state continues to own. So that model is emerging in Utica, it’s emerging in Dunkirk. It’s obviously very present here in Western New York, in Rochester. Every region is obviously pursuing somewhat unique strategies at the same time. So we have a focus on manufacturing and tourism and the medical campus, but not everyone has a medical campus, not everyone has a particularly strong tourist asset, so there are other strategies. All of these regions are trying to play to their strengths and grow the kind of unique assets that they have. Maybe it’s tourism assets or different strengths that colleges and universities have. Across the state in every region there is very robust planning, very robust progress reporting, very robust metrics on how these economies are doing. And the state is always looking to make its investment leveraging private investments. We always talk

about the expression of leverage. We don’t ever really want to be just, “Hey, the government is investing all this money and we’re creating jobs.” This is really about how does the state’s money leverage private-sector investments? And that’s when you see your headline and it says, “\$19.6 billion.” I know that some of the investment that the state and the public has made is stimulating confidence and/or additional investment in the economy.

► One of the challenges I think that local development agencies have is trying to attract outside investment, outside of New York state. What is ESD’s recommendation on streamlining that process so that it really becomes a one-stop shop for bringing investment in from the outside?

ZEMSKY: I would say that here in Western New York that process is working effectively. ESD working with the BNE, working with the ECIDA, working with other IDAs.

CONTINUED ON PAGE 16



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A CONVERSATION WITH HOWARD ZEMSKY

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CONTINUED FROM PAGE 15

I think there is a very comfortable communication level that's going on. I think it's very efficient and effective communication; in some cases we're literally co-located. My offices here in Buffalo are on the same floor as the ECIDA, which is one floor below the rest of ESD and next to the lieutenant governor. So I think it works easily here and comfortable here.

► **Is there any nervousness on the part of the state right now with SolarCity that it may not happen?**

ZEMSKY: No, no. Here's what I would say about that. No. 1, I think there are a lot of things to say about that. It doesn't matter what sector of the industry – it has been tough sledding. SolarCity has the largest market share in the U.S., so let's start there. We got the biggest player in the industry. One thing that I learned in business over time is that the big typically get bigger. So even in difficult times, that suggests to me that this industry, like every other sector of the energy industry, will probably go through some consolidation. And I would imagine a company the size of SolarCity – remember, this is still a company that even after their stock has been hit, it has a multibillion-dollar market capitalization. The company that we invested in originally called Silevo was sold to SolarCity for I think \$200 million. So we went from doing business as a community with a \$200 million startup, a promising technology company, to a multibillion-dollar, industry-leading solar company. Despite all that has happened, I think that's a better situation to be in than not. So I'm very bullish on SolarCity. Now, if you told me that solar power was just made illegal in the country, I would toss and turn more. But I think what we're seeing is the dynamics of the marketplace. And we're dealing with a company that is positioned to weather that circumstance.

► **John Amershadian, Hodgson Russ LLP: You spoke of government's role in infrastructure. What lessons are you drawing from what's happening in Flint, Mich.?**

ZEMSKY: I think there's a clear warning that if you let your infrastructure deteriorate and you're not paying attention to your environment, you're going to have some negative consequences. So I think that public water systems are not just a concern for the state, it's a concern for municipalities, counties,



JIM COURTNEY

Howard Zemsky, Gov. Cuomo's economic development point man, discussed development topics in Western New York and beyond.

cities, villages, towns. We all have responsibility to invest in this kind of infrastructure, but I think that water infrastructure is important to the economy, it's important to your health, it's important to future prospects, sewer infrastructure. It's huge, it really is. And it means different things in different parts of the state. When I go to Long Island, it's interesting – different parts of the state have different problems. Long Island has a problem of brain drain because housing is so expensive. Does anyone here think that we have housing that's pushing young people away. We don't have that problem, right? Nobody has ever left Buffalo saying they couldn't get housing, that they couldn't afford it. So it's interesting how some of these infrastructure issues – New York City, Long Island – how are they going to grow without continual investments in transit? As I said earlier, if there's one thing that I think everyone can agree on, it's government's unique role in providing modern infrastructure. So whether you're talking about airports where you're seeing big investments, roads, bridges, transit, rail lines on Long Island, train stations in New York – and I'm happy to say ESD is involved in so many of those projects.

► **Have you been able to come away with some really great ideas that we can implement in Western New York that maybe haven't been used before?**

ZEMSKY: Well, this community is serving as a model for the rest of the state in many ways. What you're seeing here in Buffalo is how important that smart growth mantra is to the community. We, like every other region basically in the state, sprawled while we lost population for a long time. We lost population for 40 years. We spread over two and a half

or three times the land mass during that period of time. Think about that: We lost population for 40 years. Now, we spent a fortune spreading out our infrastructure, duplicating services, creating more governments, creating more school districts. The list goes on and on. So what Buffalo has done particularly well, and where I think it has served as a model, is we call that out for what it is. It's stupid, OK, and it's destructive to the economy of this state. We have invested in our core, and I think that's important to create a place-based investment, place-based investments in historic buildings, place-based investments on brownfield sites, place-based investment on waterfront, place-based investment to make sense, to create greater vitality, create more density and create a place where millennials want to stay and return to. We have to create and make investments in a way that doesn't continue to burden us and create an environment where everyone says, "Why are the taxes high there?" The taxes are high there because they created four times more infrastructure than they needed because no one was ever willing to say, "We aren't sprawling out past this point. We need to leverage our existing infrastructure." Buffalo has the infrastructure for twice the population because we had twice the population. It has made no sense for a very long time. I'm never running for office; I don't really care if people want to hear that or don't want to hear that. That is the truth and that is driving some of our economic development decisions as part of our strategic plan, as part of the Buffalo Billion and as part of an economic development philosophy now spreading to other parts of the state. I don't remember what the question was, Jack, but you really got me going.

► **It was basically about ideas. What do you see after SolarCity gets up? What do you see as the next big investment area for Western New York?**

ZEMSKY: I am going to answer that question but I want to clarify something I said earlier. The investment in downtown – this is not just major urban areas. You see what we're doing in Olean; you see what we're doing in town centers. We're trying to create communities – not just major cities but communities around the state – that make it easier for businesses to recruit people to. Make it easier for our kids to imagine staying there. So this isn't just a question of urbanization; it's also town centers and less urban areas that I'm talking about. I think our strategy makes great sense for a long time. So we pick tourism for obvious reasons. Why is tourism important for us? Why should we expect people to continue to invest in tourism? Because we see this as an area of economic growth. We have a great waterfront, we have Niagara Falls. Look out these windows. We have amazing architecture, we have Richardson, we have Sullivan, we have Wright, we have Burnham – the list of great American architects is long and wide here. We have some of the best art in the world. There are so many reasons why people will continue to come here, and we continue to do a better job of keeping people longer, improving the tourism experience. And that is very explicit in our strategy. Manufacturing makes sense for this region. It doesn't mean that every year manufacturing is going to grow. I can tell you that the U.S. dollar will present some headwinds for manufacturers. But we're making long-term investments, strategic investments that I think will work. Our focus on the medical campus – I mean, how much money has been invested in that medical campus? How do you not look at that and say this is an opportunity for continued public and private investment? How can that not be on anyone's short list of what are we going to hang our hat on? There are a lot of other sectors of the economy that are important. But these are some that we are particularly focused on. We just can't go, "Oh, we're interested in tourism manufacturing" and then two years from now it's something else. Look, plans are living, breathing documents; they're continually being updated. I don't mean we can never update it; of course we do. But I think that at its core there's a good, sensible strategy that's rooted in some of the strengths of this region. And I think we should continue to stay in that direction.