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Federal Aid to New York City in the Aftermath of September 11th: How Much, and For What?

Testimony of Ronnie Lowenstein,
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before the Joint Hearing of the City Council Finance, Lower Manhattan Redevelopment,
and State and Federal Legislation Committees

February 11, 2002

Thank you, Councilmember Weprin, Councilmember Baez and Councilmember Gerson, for the opportunity to discuss with your three committees today the federal aid that New York expects to receive in the wake of the September 11 terrorist attack on the World Trade Center. In the immediate aftermath of the attack, President Bush promised \$20 billion in aid to assist New York City and its residents in recovering and rebuilding from this horrendous and devastating act. Congress promptly approved emergency legislation providing a total of \$40 billion, not less than \$20 billion of which was to be for disaster recovery activities and assistance.

Since then, New York's Congressional delegation and the White House have struggled over the timing and amount of federal aid. Last week the President renewed his promise of \$20 billion. There has been a lot of emphasis on "getting the money now," as former President Clinton advised. There has perhaps been less attention paid to what the city's needs are and will be, and how federal aid could best be used to respond to those needs in the aftermath of the World Trade Center attack.

Let me try and help by clarifying some of the numbers: what we have (and have not) received from the federal government, what's been proposed, and what the funds are for.

It is helpful to think of the federal aid as serving two broad purposes: First, for disaster relief and assistance, including security and antiterrorism needs, and second, for economic recovery and rebuilding.

Currently, according to Senator Schumer's office, New York is budgeted to receive \$11.2 billion (see Attachment 1 for details). Over three-quarters of these funds are for disaster assistance and for security and antiterrorism (some of which will not be spent in or for New York City directly) with the balance for economic recovery and rebuilding downtown.

Federal Aid: How Much, and for What?

February 11, 2002

For disaster assistance and security, the federal government has appropriated the following amounts:

- Over half the total—\$6.35 billion—has been appropriated to the Federal Emergency Management Agency (FEMA). These funds are available for disaster relief for New York City and for other public agencies (such the MTA), and for assistance to individuals. Note also that these disaster funds are for the other affected areas, including Virginia, Pennsylvania, and New Jersey.
- Transportation grants totaling \$390 million for rebuilding federal-aid highways (notably the West Side Highway), for emergency ferry service, and for Hudson River rail tunnel security, among other things;
- Relocating damaged and destroyed federal offices, and protecting federal facilities, including monuments, courthouses, and federal office buildings in New York: \$265 million;
- Worker's compensation, job retraining, mental health counseling, and other services: \$259 million;
- SBA loans to businesses and to individuals for housing needs: \$150 million (which backs \$600 million in lending authority);
- Assistance to local hospitals, many of which suffered revenue losses related to September 11th: \$140 million;
- Local counterterrorism efforts, including training and equipment, a statewide wireless law enforcement network, and a counterterrorism surveillance aircraft: \$81 million;
- All other: \$900 million, principally federal agency spending for security and anti-terrorism purposes, but which includes everything from more INS border guards at the Canadian border to protecting the Plum Island research facility.

The remaining one-quarter of the already budgeted aid are for economic recovery and rebuilding. These funds—\$2.7 billion—are for loans and grants to retain and attract businesses and residents to downtown Manhattan. Funneled through the federal Community Development Block Grant (CDBG) program, they are being administered by the Lower Manhattan Redevelopment Corporation (LMRC). I will discuss this in more detail below.

What federal aid has New York City itself actually received to date?

To date, about \$1.7 billion of this aid has made its way to the city—\$1 billion for disaster relief, and \$700 million for economic recovery.

The \$1 billion in disaster relief and assistance includes funds to reimburse city disaster-related spending, direct federal agency spending, and assistance to individuals (see Attachment 2).

The city has received \$392 million from FEMA to meet its disaster-related spending needs. Most of this money was in hand by mid-December, essentially as an advance to help meet the city's emergency response needs.

The city has actually spent nearly twice that amount to date: \$741 million as of January 31st (attachment 3). City spending includes about \$300 million for site clean-up, \$290

Federal Aid: How Much, and for What?

February 11, 2002

million in police and fire department overtime, sanitation overtime and Fresh Kills operations (\$38 million), and other agency spending.

The city and other public agencies (including the MTA, the Port Authority, and New York State) will be reimbursed for disaster-related costs through the normal FEMA process. Allowable reimbursable expenses are restricted to emergency response, debris removal, and—eventually—replacement of damaged or destroyed public facilities. These costs will be 100 percent covered by federal aid: the Bush Administration waived the usual 25 percent local match.

We are now at the stage where the city must submit detailed reimbursement requests, which FEMA will scrutinize carefully before determining whether to approve them. FEMA is notoriously slow—some city agencies still have outstanding reimbursables from the 1993 World Trade Center bombing. So this process will undoubtedly take several years.

In addition to reimbursing the city and state for their spending, FEMA has paid directly for recovery activities such as activation of Urban Search and Rescue teams to work at the trade center site and additional assignments through other federal agencies.

Finally, FEMA, the federal Small Business Administration (SBA), and other federal agencies have also provided \$332.5 million in aid to businesses and individuals, mostly in the form of loans to businesses and residents, but also including about \$75 million in unemployment and housing assistance grants, food stamps, mental health counseling, and other services.

How much disaster relief funds are needed?

In general, estimates of the costs of clean-up and reconstruction have come down from the earliest estimates. The site clean-up has proceeded faster than expected, for instance, and the estimated cost is now down to \$750 million—there were early estimates that ran as high as \$5 billion. Similarly, the MTA's estimate of the cost to repair the World Trade Center subway station and tunnels is now \$855 million, less than half the original estimate of \$1.8 billion. (Moreover, the MTA expects that its insurance, not FEMA, will cover this cost.) Overtime and other city agency spending has begun to level off in recent weeks. It appears possible, therefore, that FEMA-eligible costs for World Trade Center-related disaster relief ultimately may be well below the \$6.35 billion that has been appropriated for this purpose.

There will also eventually be funds available from FEMA for “hazard mitigation”—projects that will help prevent the recurrence of or reduce the damage from similar future events. In the past, these funds typically have equalled up to 15 percent of the total FEMA reimbursement for a given disaster. However, when the Bush Administration waived the local matching requirement, it also reduced the hazard mitigation amount to 5 percent of the total. If the total FEMA reimbursement for this disaster reaches \$6.35 billion, in other words, the amount available for hazard mitigation will be less than \$320 million. Local governments and agencies will have to compete for these funds. It is

Federal Aid: How Much, and for What?

February 11, 2002

worth noting that the MTA estimated security-related capital projects worth \$1.1 billion, which they hope to partially fund from this source. The city issued \$550 million in general obligation bonds last October, at least a portion of which was for security-related capital projects, some of which might also be eligible for FEMA hazard mitigation funds.

Economic recovery

The broader, long-term need is for addressing the economic impact on lower Manhattan and the city more generally, in terms of lost jobs, businesses, and residents.

So far, the Lower Manhattan Redevelopment Corporation has received \$700 million through the federal Department Of Housing And Urban Development (HUD), with another \$2 billion appropriated. These funds are being funnelled through HUD's CDBG program, although they are not subject to the usual use and public participation requirements as regular CDBG funds. I should also point out that these funds will not reduce in any way the city's usual annual CDBG grant.

The Lower Manhattan Redevelopment Corporation, as you know, is an arm of the state's urban development corporation, Empire State Development, and has a board appointed by the Governor and by Mayor Giuliani. LMRC has started distributing grants to businesses downtown. The main components of the plan are small business recovery grants (\$331 million), job creation and retention grants and loans (\$170 million), and small firm attraction and retention grants (\$80 million). (Attachment 4 provides a summary of the plan for the \$700 million.*)

Grant amount are scaled according to proximity to Ground Zero, up to a maximum of \$300,000, and are intended to replace up to 10 days' lost earnings. Job and business creation and retention grants require multi-year commitments to staying in Lower Manhattan.

The recovery grants help fill an important gap. The application rate for SBA loans was lower than expected, because many small businesses were afraid to take on loans when they weren't sure when—or if—their business would return to pre-disaster levels. LMRC is also making grants to not-for-profit organizations affected by the attack. Not-for-profits were not eligible for SBA loans for economic losses, and so this also helped meet an important need. Within the past several weeks, however, the restriction on SBA lending to non-profits was waived and SBA has begun making loans to non-profits downtown for economic losses—although like their for-profit counterparts, grants will provide welcome relief for non-profits.

This plan applies to the first \$700 million that LMRC has received. LMRC is developing a plan for the \$2 billion recently appropriated, which the State expects to submit to the federal government for approval shortly. The plan for the remaining \$2 billion will reportedly also include a residential component, similar to the business grants. As it has

* The detailed plan for the use of the first \$700 million is available on the state's Web site, at www.empire.state.ny.us.

Federal Aid: How Much, and for What?

February 11, 2002

been described to us, this plan would provide grants to tenants (not landlords), tied to rent or income levels.

Other Proposed Federal Aid

A number of other measures have been included in the various Congressional economic stimulus bills, none of which has yet managed to pass both houses of Congress. The following provisions are reportedly included in the current House-Senate compromise version, and apply to the so-called Liberty Zone (south of Canal Street on the west side and East Broadway and Grand on the east side):

- An increase in the private activity bond volume cap, to \$8 billion, available through the end of calendar year 2004. Private activity bonds are tax-exempt bonds issued by state and local governments for the benefit of private businesses and non-profits for housing and economic development purposes. New York State's annual allocation is usually roughly \$1 billion, of which the city generally receives around \$150 million. Up to \$2 billion of this additional authority may be used outside the Liberty Zone but within the city, and up to \$1.6 billion for residential rental property.
- An annual \$2,400 per employee tax credit to New York City businesses either still in the Liberty Zone or that were forced to relocate elsewhere in the city because of the attack. This would only apply to businesses with less than 100 employees.
- An additional advance refunding of tax exempt bonds, up to a total of \$9 billion. Federal law currently limits state and local governments to one debt refinancing for the life of a particular bond issue.
- In addition, the proposal would provide bonus depreciation for new business equipment and property, increase expensing allowances, and permit the non-recognition of gain from insurance proceeds that are reinvested in New York City.

It is not clear at this point whether these provisions, if passed, would be counted toward the promised \$20 billion total. The total estimated cost to the federal government of these measures is roughly \$6 billion over 10 years.

Conclusion

A great deal of political energy has been spent on ensuring that the city will get the promised \$20 billion, and New York now has a public commitment from President Bush for this amount. The city's leaders, in the wake of an enormous tragedy—one which I, like many of you here, witnessed first-hand—now have a singular opportunity. With \$8.8 billion still outstanding, now is the time to develop a well-thought out, responsible plan for how we will use this money to rebuild New York. Our disaster relief needs are being met; the need now is for economic recovery and rebuilding. Many observers have discussed the importance of transportation and other infrastructure to the long-term economic vitality of Lower Manhattan, and this would certainly be an area where federal aid could make a tremendous contribution. Another possibility to consider would be a request to raise the percentage of federal disaster relief funds available for hazard-mitigation projects, to protect against the risk of future acts of terror: Under-investing in this area could have tragic consequences.

Federal Aid: How Much, and for What?

February 11, 2002

I hope this information has been helpful. I welcome any questions you have now, and I hope also that you will always feel free to call upon IBO for help in answering any questions you may have about this or other subjects.

Attachments

1. "New York Disaster Relief Funding; January 2, 2002." Source: Office of Senator Charles E. Schumer.
2. "Federal Disaster Assistance Released to New York." Source: Federal Emergency Management Office: "Federal/State Disaster Assistance Tops \$1 Billion." Press Release, Feb. 4, 2002
3. "City World Trade Center Spending by Agency," New York City Independent Budget Office, January 31, 2002.
4. Empire State Development Corporation: "LMRC Economic Recovery and Revitalization Action Plan Summary." January 30, 2002.



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Attachment 1

Federal Appropriations for New York Disaster Relief Funding; January 2, 2002

Million of dollars

	Admin allocated	Conference Report	Total
FEMA emergency response/debris removal	2,000.0	4,350.0	6,350.0
CDBG economic development	700.0	2,000.0	2,700.0
Worker's Compensation		175.0	175.0
WIA job training for dislocated workers		32.5	32.5
FHWA repairs to federal aid highways		75.0	75.0
FTA replacement buses and transis kiosks		4.8	4.8
SBA loans		150.0	150.0
CDC safety screening programs		12.0	12.0
NIH environmental assessment program		10.5	10.5
Offices: SEC/EEOC/CFTC/OSHA/DOL/PWBA		36.9	36.9
DOJ Crime Victims Fund counseling		41.0	41.0
DOE SAFE crisis counseling		10.0	10.0
HHS Soc Svcs Admns for Chldrn/Fam & Aging		10.0	10.0
NPS: Rebuild Fed Hall & Stat Liberty security		21.6	21.6
NTIA: replace public broadcast facilities		8.2	8.2
Hudson River rail tunnel security		100.0	100.0
FTA New Starts grants		100.0	100.0
HHS assistance to hospitals		140.0	140.0
Fed Hwy Admin: NY/NJ ferries; NYC roads		110.0	110.0
DOJ antiterrorism surveillance aircraft		9.8	9.8
NYC counterterrorism preparedness trng/eqpmt		47.6	47.6
NYS statewide law enforcement wireless network		24.0	24.0
Miscellaneous (see detail below)	200.0	865.0	1,065.0
TOTAL	\$2,900.0	\$8,333.9	\$11,233.9

SOURCE: Office of Sen. Charles Schumer

Detail of Miscellaneous Allocation

Agency	Amount \$	Purpose
<i>(Entirely in New York)</i>		
Ag-ARS	23.0	Plum Island Rsch facility
EPA	1.0	Temp relocate EPA region 2 site
HUD	1.0	Replace IG offices at WTC
DOL-ETA	4.1	Rebuild state unemployment insurance/employment svc
GSA	126.0	Upgraded security at fed'l bldgs, replace damaged space
SSA	7.5	Costs of closing NY local/regional offices
Treasury	2.0	Replace IG/Tax admin offices at WTC
Treasury/IRS	33.4	Replace IRS offices destroyed; tax law enforcement
Subtotal, Entirely in New York	\$198.0	
<i>(Some percentage of total in New York)</i>		
NPS	10.0	Increased security at high High profile sites
NPS police	25.0	Enhanced preparedness, I increased patrols, equipment upgrades
Secret Service	104.7	Overtime, travel, protect White House, replace WTC vehicles & equipment
Smithsonian	21.3	Cleaning of GG Heye Ctr and heightened security
ATF	31.0	Salaries and eqpmt
U.S. Marshals	5.2	Security upgrades at courthouses, etc.
FBI S&E	7.5	
FDA	9.3	
Judiciary	57.0	Security upgrades at courthouses such as Foley square
USPS	500.0	Replacement facilities and security upgrades
FEMA	21.0	Grants to state and local fire departments
Customs	235.0	Northern Border Guards and Port Inspection Guards
INS	79.7	Northern Border Patrol agents
Subtotal, Some in New York	\$1,106.7 (estimated \$667 million spent in New York)	
<i>(Disaster assistance not in New York)</i>		
National gallery of art	2.1	Security enhancements
NCPC	0.8	Develop security plan
Kennedy Center	4.3	Security enhancements
State & local grants	200.0	District of Columbia
DOJ enforcement	180.0	Grants for local law
Subtotal, Not in New York	\$387.2	
Total, Miscellaneous	\$1,691.9	

SOURCE: Office of Sen. Charles Schumer

Attachment 2

Federal Disaster Assistance Released to New York

Agency	Program	Amount
FEMA	Public Assistance Program*	\$428.0
FEMA	Urban Search and Rescue and other federal agency	245.0
SBA	Loans to businesses/residents	257.9
FEMA	Disaster Housing Program	28.2
FEMA	Mortgage/rental assistance	5.9
DOJ/NYCVB	Crime victim assistance	5.5
FEMA/SEMO	Individual/Family Grant Program	3.7
FEMA	Disaster food stamps	3.8
FEMA/NYDOL	Disaster unemployment	4.8
FEMA/NYOMH	Project Liberty mental health counseling	22.7
TOTAL		\$1,005.5

*NOTE: Includes \$392 million to New York City; rest to New York State and other.

SOURCE: Federal Emergency Management Office: "Federal/State Disaster Assistance Tops \$1 Billion." Press Release, Feb. 4, 2002

Attachment 3

City Spending Attributable to the WTC Attacks			
<i>As of January 31, 2002, Millions of Dollars</i>			
	PS	OTPS	Total
Police Department	\$234.6	\$9.5	\$244.1
Fire Department	56.3	17.9	74.2
Department of Sanitation	32.4	5.8	38.2
Department of Design & Construction	1.0	320.4	321.5
Department of Health	1.7	4.6	6.3
Elections	0	11.2	11.2
Other	13.6	32.3	45.9
TOTAL	\$339.7	\$401.8	\$741.5
SOURCE: IBO, NYC Financial Management System			

LMRC Economic Recovery and Revitalization Action Plan Summary*Millions of dollars*

Action Plan Categories	Funding
Compensation for Economic Losses	
Small Business Assistance	
• Bridge Loan Program	\$15.0
• WTC Business Recovery Grant Program	331.0
• Business Recovery Loans	50.0
Subtotal: Small Business	\$396.0
Compensation	\$5.0
Total: Compensation for Economic Losses	\$401.0
Technical Assistance for Small Business Recovery	
• Grants to Service Providers	\$5.0
Retention and Attraction Assistance	
• Job Creation and Retention Grants & Loans	170.0
• Small Firm Attraction and Retention Grants	80.0
Total: Retention and Attraction	\$250.0
Business Information	
• Business Information	\$5.0
Infrastructure Rebuilding	
• Initial Planning and Design	\$25.0
Administration	\$14.0
TOTAL	\$700.0

SOURCE: Empire State Development: World Trade Center Disaster Final Action Plan for New York Business Recovery and Economic Revitalization; January 30, 2002. For full report, see www.empire.state.ny.us.