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**Budget Options
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World Trade Center Aid: Too Much for Some Needs, Not Enough for Others?

In the days and weeks following the World Trade Center attack, state and city officials focused considerable attention on ensuring that President Bush met his promise of providing \$20 billion in aid to New York. Now, with the cleanup of the trade center site drawing to a close this week and an appropriation of \$21.7 billion nearly complete, a new question is emerging: Is there a mismatch between the money available and what the city wants or needs it for?

Congress did not provide the city with a \$21.7 billion check. Rather, funds are appropriated in specific amounts for defined purposes such as paying for the removal of debris from the trade center site and reconstructing destroyed PATH and subway stations. Roughly \$9 billion is available from the Federal Emergency Management Agency (FEMA) for cleanup, reconstruction of damaged facilities and equipment, police and fire overtime, and similar needs. As of May 23, the city had spent about \$1 billion on such disaster relief, and it now looks like the total city and state bill will not exceed \$3 billion. That means roughly \$6 billion may not be available for other than the currently defined purposes.

At the same time, needs are arising for which federal funding appears to be insufficient. As the rebuilding phase takes center stage and increasingly encompasses not just the 16-acre trade center site but the revitalization of all Lower Manhattan, a number of large and costly proposals are under consideration—from putting a section of West Street underground to building a new downtown mass transit hub. The price tag associated with these and other proposals is large, much larger than the funding appropriated for such purposes.

\$21.7 billion for what? The \$21.7 billion in federal World Trade Center-related assistance has come in three installments: the first in the September 2001 emergency appropriation, the second in the economic stimulus bill passed in March 2002, and the third in the supplemental appropriation that has passed in the House but is still awaiting Senate approval.

Emergency appropriations. In the weeks following the terrorist attacks, Congress appropriated \$40 billion, at least half of which was intended for disaster assistance and relief for New York and other areas affected by the attacks. After the final allocations were complete, \$11.2 billion had been earmarked for New York.

Over half the total—\$6.35 billion—went to FEMA. These funds are available to the city; to public agencies such as the Metropolitan Transportation Authority (MTA); and for funeral, medical, housing and other assistance to individuals and families affected by the disaster.

The federal government has also made \$2.7 billion available through the Community Development Block Grant (CDBG) program for loans and grants to retain and attract businesses and residents to downtown Manhattan. The Lower Manhattan Development Corporation (LMDC), together with the city's Economic Development Corporation, has developed \$1.9 billion in programs for local businesses and residents. Proposals for the remaining \$800 million have not yet been released.

bonds, which can be issued through December 31, 2004, must be used for construction and rehabilitation of commercial property and residential rental property. If the city and state are unable to use all of the bonding authority in Lower Manhattan, up to \$1 billion can be used for commercial property in other parts of the city.

The stimulus bill also allows the state and city to do one more refunding of previously refunded bonds. The city projects savings of \$150 million in 2003 from this provision.

Federal WTC-Related Assistance to New York	
<i>Dollars in millions</i>	
Category	Funding for New York
September 2001 Emergency Appropriation	
• FEMA	\$6,350
• CDBG for Economic Development	2,700
• Transportation	390
• Repair/Relocation of Federal Offices	265
• Aid to Individuals	259
• SBA Loans	150
• Assistance to Hospitals	140
• Local Counter-Terrorism Activities	81
• All Other	900
Subtotal: September 2001 Emergency Appropriation	\$11,235
Economic Stimulus Package	
Federal Supplemental Appropriation	
• FEMA	\$2,750
• Intermodal Transportation Hub	1,800
• Utility Infrastructure	750
• Repair Federally Aided Highways	167
Subtotal: Supplemental Appropriation	\$5,467
TOTAL	\$21,702
SOURCE: IBO	

Supplemental Appropriation. On March 21, President Bush submitted a \$27.1 billion supplemental appropriation request to Congress for federal fiscal year 2002. This included \$5.5 billion for New York City. The President proposed allocating an additional \$2.75 billion in FEMA disaster relief funds, \$1.8 billion to build an intermodal transit station in Lower Manhattan, \$750 million to rebuild destroyed electric and telephone equipment, and \$167 million for reconstruction of the West Side Highway and other federally aided highways. These provisions are now awaiting Senate approval.

The remaining \$2.15 billion of the September emergency appropriation was allocated for a variety of other purposes, including transportation security, worker's compensation, and local counter-terrorism efforts.

Economic Stimulus Package. On March 9, President Bush signed an economic stimulus package that contained \$5 billion in benefits (as measured by their impact on the federal budget) for New York City. Most of these provisions are in the form of tax breaks intended to stimulate the private market, rather than cash grants or spending. The act includes an employment tax credit for businesses in Lower Manhattan and several other tax provisions that apply to business property located in the Liberty Zone, an area generally south of Canal Street.

In addition, the stimulus bill allows New York State and New York City to issue up to \$8 billion in tax-exempt "private activity bonds"—nearly seven times the combined city and state annual authorization of around \$1.2 billion. These

What does the city need? There is no doubt that New York needs significant financial assistance to recover from the attack on the World Trade Center. Most frequently discussed are three types of needs.

Disaster relief. The funds appropriated for FEMA disaster relief total \$9.1 billion (\$6.35 billion appropriated in September and an additional \$2.75 billion awaiting final approval). These funds may only be used to reimburse the city; state; and other public entities (such as the Port Authority) for uninsured emergency, recovery, and rebuilding costs incurred as a result of the attacks. For infrastructure rebuilding, FEMA funds replacement costs only; with the exception of changes made to bring a facility into compliance with the Americans with Disabilities Act, any improvements are not eligible for FEMA money.

The city has budgeted \$1.5 billion in FEMA-reimbursable expenditures. The major costs include contracts to clear the site, and police and fire department overtime. As of May 23, the city had spent just over \$1 billion for World Trade

Center-related expenses. The Port Authority estimates that it will cost \$544 million to restore basic PATH service to Lower Manhattan, and the MTA has projected the cost of property damage to the subway system at \$855 million. Unlike the city, these two agencies carried insurance that will cover some or all of these costs. Finally, FEMA has disbursed \$72 million to individuals and businesses affected by the attacks. Under criticism for its eligibility criteria, the agency has promised to review many applications it had earlier rejected.

Altogether, it appears at this time—eight months after the attack and as the site cleanup draws to a close—that the total need for FEMA funds is not likely to exceed \$3 billion total, or about one-third of what has been appropriated.

Transportation. Transportation infrastructure is often mentioned as a critical piece of downtown rebuilding. FEMA funds can be used for transportation, but only to restore damaged facilities to their pre-September 11 condition. Plans for transportation infrastructure, however, go far beyond rebuilding what was lost. The Port Authority, MTA, and LMDC have recently presented an ambitious proposal for downtown transportation improvements estimated to cost \$7.3 billion, according to a *New York Times* report. The proposal includes developing a new subway hub, building an underground drop-off point for buses, and bringing West Street underground. The pending supplemental federal aid package currently includes \$1.8 billion for downtown transportation infrastructure improvements, or about one-quarter of the proposal's estimated cost.

Improving security. Another critical need is for capital investments to improve the security of important public sites against future acts of terrorism. When the original FEMA aid was appropriated, the Bush Administration waived the usual requirement for a 25 percent local match. At the same time, the President reduced the amount available for “hazard mitigation” projects—projects designed to prevent or protect against future similar events—from 15 percent of the total FEMA funds eventually used by the city and other public agencies, to 5 percent. This amount will most likely be insufficient to cover the eventual needs of the city, state, MTA, and Port Authority for anti-terrorism projects.

Getting the money to match the needs. Congress has appropriated more money to FEMA than likely will be needed to cover eligible expenses in New York and elsewhere. On the other hand, funding available for rebuilding the downtown transportation infrastructure and for anti-terrorism improvements fall short of the anticipated need.

Senator Schumer has proposed that if New York has not used the total FEMA appropriation once eligible recovery and rebuilding activity is complete, the difference should come to the city in other forms. But even if the funds can be transferred to other uses, the FEMA reimbursement process could easily take a decade or more, so it is not clear when these funds might be available. Congress will have to reappropriate the funds to make them available for other purposes.

The World Trade Center attack was unprecedented, and FEMA and other public officials had little experience on which to quickly base their estimates of costs and needs. It now appears that some costs will be far less than projected in the days just after the attack, and some needs far greater. But with the restrictions on how the \$21.7 billion in federal aid can be used, the city and state have limited ability to direct the funds where time and experience shows they may be most needed.

Written by Merrill Pond and Molly Wasow Park

Other IBO Publications on Federal Aid After September 11

Plans for Using Special Federal Community Development Funds Allocated to the City After September 11, April 2002

Effect of the Federal Stimulus Act on the City's Tax Revenue, March 2002

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The Aftermath: How Much Federal Aid for New York? November 2001

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