

## Three Years After: Where Is the \$20 Billion in Federal WTC Aid?

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IN THE IMMEDIATE AFTERMATH of the September 11, 2001 attack that destroyed the World Trade Center (WTC) towers, President George Bush promised \$20 billion in federal assistance to help New York recover and rebuild. Although many New Yorkers interpreted this to mean that New York City would receive a check for \$20 billion, this was never the case. Federal officials structured the aid to New York City in ways that offered immediate emergency relief as well as a substantial amount of assistance to be provided over a much longer term.

The flow of federal aid may be thought of as corresponding to three phases of the city's recovery from the 9/11 attack. About 30 percent of the total funding—\$6.3 billion—was spent for emergency response needs in the immediate aftermath of the attack. The second phase has focused on economic recovery downtown. More than 90 percent of the \$3.6 billion in cash aid for this phase had been received as of July 2004, plus additional business tax benefits. Finally, almost half of the total aid package—\$9.7 billion—will be used for long-term rebuilding purposes, in particular for transportation projects. Relatively little of this money has been spent, because the projects require extensive planning and preparation that is still underway. This third phase will likely stretch over at least the next five to 10 years.

*Phase One: Emergency Response.* Of the total \$20.5 billion, \$6.3 billion was for what we characterize as the emergency response phase of the city's recovery from the 9/11 attack. The majority of the phase one funding came from the Federal Emergency Management Agency (FEMA). FEMA reimburses public agencies for expenditures related to disaster recovery, such as debris removal and the extensive police and fire department overtime costs incurred in the immediate aftermath for rescue and recovery operations and heightened security. These reimbursements accounted for \$2.9 billion of the \$6.3 billion in emergency spending. The city was reimbursed for \$1.6 billion in spending, including \$509.2 million for police and fire expenses, primarily overtime in the weeks after the attack, and \$525.7 million for debris removal and clean-up of the WTC site. The Metropolitan Transportation Authority, the Port Authority of New York and New Jersey, and the state also received some FEMA funds for similar purposes. Eventually, FEMA also agreed to fund a \$1 billion insurance pool to protect the city and its cleanup contractors against lawsuits resulting from work at the WTC site.

FEMA also provided aid to individuals—\$530.8 million was spent for housing assistance, crisis counseling, and other aid directed to affected households. The federal Small Business Administration (SBA) provided loans to residents and businesses in the immediate area of the trade center. Homeowners, residents, and businesses used SBA loans to replace damaged property, and businesses were also eligible for low-cost loans to cover lost income. The \$137.6 million in federal spending on SBA loans secured 412 loans to individuals worth \$6.1 million,

## Federal Aid to New York City In Response to 9/11

Dollars in millions

Program/Project	Funds
<b>Phase One: Emergency Response</b>	
FEMA Public Assistance	\$ 2,905.7
FEMA Insurance Fund	1,000.0
Emergency Transportation Projects	541.0
FEMA Aid to Individuals	530.8
FEMA Operations and Administration	405.9
SBA Loans	137.6
Other	813.0
<b>Subtotal, Emergency Response</b>	<b>\$ 6,333.9</b>
<b>Phase Two: Economic Recovery</b>	
LMDC Business Assistance Grants	\$ 1,153.5
Tax Benefits for Businesses	864.0
LMDC Emergency/Temporary Service Response for Utilities	250.0
LMDC Residential Grant Program	280.5
Financial Assistance to New York City	1,699.1
Other LMDC Projects and Administrative Costs	183.8
<b>Subtotal, Economic Recovery</b>	<b>\$ 4,430.9</b>
<b>Phase Three: Long-Term Rebuilding</b>	
Transportation Projects	\$ 4,550.0
Conversion of Tax Benefits to Transportation Tax Credits	2,000.0
Liberty Bonds	1,228.0
CDBG funding not yet allocated for specific purposes	868.6
LMDC Programs for Utilities	481.5
FEMA Hazard Mitigation	313.3
World Trade Center Memorial	215.1
LMDC Affordable Housing Program	50.0
<b>Subtotal, Long-Term Rebuilding</b>	<b>\$ 9,706.5</b>
<b>TOTAL</b>	<b>\$ 20,471.3</b>

SOURCES: IBO, U.S. Department of Homeland Security, Small Business Administration, General Accounting Office, Federal Office of Management and Budget, Lower Manhattan Development Corp., Joint Committee on Taxation, U.S. Dept. of Transportation.

and 5,685 loans to businesses valued at \$508.1 million.

The federal Department of Transportation provided funds for emergency transportation needs, including repair and resurfacing of damaged roads around the WTC, ferry service to replace PATH connections, and commuter safety measures.

Other funds in this phase were used for Disaster Relief Medicaid, which provided immediate health care coverage to the uninsured, aid to New York City area hospitals, and appropriations for a variety of federal agencies that had office space in the vicinity of the WTC.

*Phase Two: Economic Recovery.* The September 11<sup>th</sup> attack

sharply accelerated an economic downturn that had begun in the spring of 2001, and that hit the city's economy and budget hard. To address this, Congress appropriated funds and enacted tax breaks designed to spur economic recovery in Lower Manhattan and the city as a whole, and to help alleviate the budget crisis the city faced in the wake of the attack. Funds for these purposes total \$4.4 billion. Unlike the emergency response phase, which primarily paid for governmental functions, IBO estimates that about 60 percent of these economic recovery funds are going directly to individuals and businesses. But the city also received financial relief during this period of nearly \$1.7 billion, as it faced some of the largest budget deficits since the fiscal crisis of the mid-1970s.

*Business Grants.* About \$1.2 billion of the economic recovery funding provided grants for businesses. These grants used specially appropriated Community Development Block Grant (CDBG) funds channeled through the Lower Manhattan Development Corporation (LMDC), the Empire State Development Corporation, and the city Economic Development Corporation. The bulk of this funding—\$993 million as of April 2004—has been distributed.

*Tax Benefits.* Congress also enacted changes in the tax laws to benefit downtown businesses. The tax benefits included tax credits for businesses that hired or retained employees; an accelerated depreciation schedule for new equipment; an extension of the period during which property could be replaced without recognizing gain; and other technical changes. These tax benefits were originally valued at \$2.9 billion, which is the Congressional Joint Committee on Taxation's estimate of income tax revenue the federal government will forgo over 10 years. The President has recently agreed to convert \$2 billion worth of the tax benefits to long-term rebuilding purposes (described below). To date, there is no way to know how much of the benefits have been claimed, although future analysis of city tax returns may make that possible. Moreover, the benefits' value will likely change over time. For example, recent corporate tax reductions also reduce the tax benefits' value.

*Utility Companies.* The federal legislation appropriating the final installment of disaster CDBG funds provided \$750 million to be used for reconstructing damaged telephone and electrical equipment and aid for utility companies. LMDC designated \$250 million of this funding for "emergency and temporary service response." Although this was called an emergency program, we include it here because the funding decision came two years after the attack, and most of the spending took place in the second quarter of calendar year 2004.

*Residential Grants.* The economic recovery phase includes \$280.5 million for the LMDC's Residential Grant Program, which gave grants to households that made a two year commitment to live in Lower Manhattan or who were living in the area on 9/11 and continued to do so.

*Budget Relief.* Also included in the economic recovery phase is \$1.7 billion in essentially unrestricted aid to help New York City meet its most severe budget crisis in a quarter-century. The federal tax bill passed in March 2002 allowed the city to refinance some outstanding debt at lower interest rates, thereby saving the city money. The cost to the federal government of this provision was estimated at \$937 million, although the actual budgetary savings to New York City was less. In addition, in city fiscal year 2003, FEMA ended its reimbursement of public agencies and transferred the difference between the reimbursements already approved and the \$8.8 billion originally appropriated by Congress to New York City. This unprecedented transfer provided the city with \$762.1 million in unrestricted budgetary relief.

*Phase Three: Long-Term Rebuilding.* The largest portion of the aid to New York City is \$9.7 billion for long-term rebuilding projects. While most of this funding has been allocated to specific projects, actual spending has barely begun.

*Transportation Rebuilding.* Rebuilding of the downtown transportation system is the largest component of this phase. Congress appropriated \$1.8 billion for a Lower Manhattan transportation hub, and FEMA transferred \$2.75 billion of its original appropriation for use for transportation projects, for a total of \$4.55 billion to rebuild and improve the transportation infrastructure downtown. In December 2003, the Secretary of Transportation allocated \$2.8 billion of this funding to three projects: \$400 million for the South Ferry Subway Terminal, \$1.7 billion for the permanent World Trade Center PATH station, and \$750 million for the Fulton Street Transit Center. Construction is scheduled to begin in September 2004, January 2005, and February 2005, respectively. Other possible use of funding include a one-seat connection from Lower Manhattan to Kennedy airport, building a tour bus parking facility, and constructing a promenade along West Street.

President Bush has agreed to a proposal advanced by Mayor Michael Bloomberg and Governor George Pataki to convert \$2 billion of the tax benefits for businesses to tax incentives that will generate funding for transportation infrastructure. The conversion requires Congressional approval, and it is still not yet clear exactly what form the incentives will take. For example, Congress could create tax credits that would be sold

to businesses. The proceeds of these sales would be used to pay for transportation projects. The Governor and Mayor are supporting using these funds for the rail link to the airport.

*Liberty Bonds.* The March 2002 tax legislation created \$8 billion in new tax-exempt bonding authority, and estimated the cost to the federal government at \$1.2 billion in foregone tax revenues. These so-called Liberty Bonds are being used to support residential and commercial construction. The city and state each allocate one-half the total and up to \$1.6 billion can be used for residential development. To date, the city and state have awarded \$1.3 billion in Liberty Bonds for 12 residential projects and \$1.5 billion to 10 commercial projects. The city also is nearing a \$1 billion deal for the Goldman Sachs building in Lower Manhattan.

With only about half the \$8 billion used, the authority to issue Liberty Bonds is now scheduled to expire on December 31, 2004. While it is likely that the residential bonds will be fully utilized, the city and state will not have used all the available bonding authority for commercial projects by that date. Both the House and Senate have passed tax bills that include extending the Liberty Bond expiration date to December 31, 2010. The bills are currently in conference committee.

*CDBG Funds.* Funding for the rebuilding phase also includes \$1.6 billion in CDBG appropriations. LMDC has designated \$481.5 million for utility reconstruction and development, \$215.1 million for the permanent memorial to the victims of the 9/11 attack, and \$50 million on affordable housing programs. As of April 2004, none of this money had been spent. In addition, the LMDC has yet to allocate \$868.6 million in CDBG funds to specific projects. There are many competing uses for these unallocated funds, including the transportation projects described above.

Finally, FEMA is providing the city with \$313.3 million in hazard mitigation funds for projects that will limit damage in the event of a future attack. For example, the city is using some of these funds to enhance reservoir security.

*Conclusion.* The Bush Administration and Congress are now in the process of making good on the initial promise of \$20 billion in aid. Roughly half the aid has been received and used for emergency response to the attack and for assisting the city's economic recovery in its aftermath. The remaining aid will be used for longer-term rebuilding projects, and is expected to flow to the city as these projects progress.

*Written by Molly Wasow Park*