

World Trade Center Disaster: Tracking Federal Aid for Cleanup and Rebuilding

The staff of the Independent Budget Office is deeply saddened by the events of September 11. We hope that this newsfax will provide useful information on the funds available for the difficult task of coping with this disaster. But we know that there is no compensation for the true cost of this tragedy, which must be measured in thousands of lives. Our thoughts are with the families and loved ones of all those affected by this disaster.

The \$40 billion emergency federal appropriation enacted in the wake of the terrorist attacks on September 11 earmarks not less than \$20 billion for disaster relief in New York City and its metropolitan region, northern Virginia (where the Pentagon is located), and Pennsylvania. The balance will be available for counterterrorism efforts. The initial announcements about these funds provided few details on how much the city could receive and what local expenses the federal aid would cover.

While the final cost of the cleanup and rebuilding of public facilities remains uncertain, it now appears that the city and other local governmental agencies—such as the Port Authority of New York and New Jersey and the Metropolitan Transportation Authority (MTA)—will be largely made whole for expenses and damage incurred as a result of the attack on the World Trade Center (WTC). But many details will be negotiated in the ensuing weeks and months.

The flow of funds. New York City expects to receive the majority of the total disaster relief package made available under the federal Stafford Act, which governs disaster aid. The funds will be appropriated mostly to the Federal Emergency Management Agency (FEMA), with the balance going to the Small Business Administration (SBA), Department of Labor, Department of Health and Human Services, Department of Justice, and other federal agencies. The funds will generally be channeled through New York State's Emergency Management Office.

Although states and localities are usually required to share in the cost of disaster relief, President Bush waived the requirement for reimbursement of costs of state and local governments for debris removal, emergency services, and rebuilding. The federal government will pay 100 percent of these costs. The state will still have to pay one-quarter of disaster grants for affected families and businesses.

The federal legislation made \$10 billion of the \$40 billion available immediately. Another \$10 billion will be made available 15 days after the federal Office of Management and Budget (OMB) provides the House and Senate Appropriations Committees with a plan for use of the funds. The remaining \$20 billion must go through the federal Fiscal Year 2002 appropriations process. The aid will be released by OMB in three stages: immediate emergency aid, recovery, and rebuilding. On September 21, OMB released a spending plan for the immediate emergency aid totaling \$5.1 billion. Of this total, \$2 billion is for FEMA to support debris removal and related activities in New York and the other affected jurisdictions. Some additional funds, including \$100 million for SBA, will likely also go to support New York

City's recovery efforts.

FEMA will release funds to New York and other affected areas incrementally, as work on each phase of the project is completed. FEMA has already released \$125 million for the city's temporary housing needs, grants for medical and funeral expenses, and other residential and business costs not covered by insurance.

New York State has taken several steps to facilitate the flow of federal funds to the city, including passing enabling legislation to cover \$5 billion of the federal aid that it anticipates receiving. The state also appropriated \$500 million of its own funds, a technical step that allowed spending to begin as soon as federal aid was received. The state may not need to spend any of its \$500 million because FEMA will reimburse all disaster-related expenses.

The state also has authorized raising the cap on the city's Transitional Finance Authority borrowing by \$2.5 billion. Funds borrowed under this increased cap must be used for the city's recovery from the attacks, and the borrowing may be repaid from the anticipated federal aid, rather than from city personal income tax revenues.

Covering city disaster-related costs. Two principal FEMA programs will provide assistance to New York. The Individual Assistance Program provides aid for disaster victims for needs that cannot be met through private insurance or SBA programs. This aid covers temporary housing needs and—through Individual and Family Grants—unmet needs of affected households not covered by private nonprofit organizations, insurance, aid from the justice department's Office for Victims of Crime, FEMA housing assistance, or SBA loans. Benefits are capped at \$14,400 per recipient. Unlike other components of the federal aid, the state will have to pay 25 percent of the grants. This program has no impact on the city's budget.

FEMA's Public Assistance Program provides assistance to state and local governments for debris removal, emergency services, and the repair and restoration of public facilities and those owned by certain private nonprofit entities.

As a result of the WTC disaster, the city will incur a variety of unanticipated costs in its expense (or operating) budget that the Public Assistance Program will fully cover. These costs include removal of the rubble from the destruction of the twin towers and other buildings, as well as overtime costs of the police and fire departments and other city agencies,

and extraordinary operations at the Fresh Kills landfill where the debris is being taken.

The city signed four \$250 million contracts for cleanup of the WTC site on September 21. The contracts were let under a provision of the City Charter that allows the city to waive the standard competitive bid process in an emergency. Initial payments on the contracts in the amount of \$10 million each were funded from the first \$125 million installment from FEMA.

The city has also taken other extraordinary steps associated with the disaster, including enhanced protection of the city's water supply, increased security at landmark sites, heightened police presence in Arab-American neighborhoods, and the addition of ferry service from Brooklyn to lower Manhattan. The Stafford Act may cover some of these expenses as well—as emergency protective measures—for six months, or up to one year with an extension approved by the state.

Capital spending. In addition to these operating expenditures, capital costs incurred by the city and other public agencies will also be eligible for disaster relief funds for restoration of damaged or destroyed public facilities. One subway station, the Cortlandt Street 1/9 stop, was largely destroyed in the collapse, and about 1,800 feet of tunnel were destroyed or heavily damaged. Several other stations in the area suffered varying degrees of damage. Reconstruction and repair of the stations will be the responsibility of the MTA, and will run into the hundreds of millions of dollars. The MTA anticipates that the costs of repair and reconstruction will be covered under the disaster-relief package.

The city also will face significant capital costs for repair and reconstruction of its facilities. Several water mains were damaged, and considerable repair work to city streets will be required as part of the reconstruction of the World Trade Center area. Numerous emergency vehicles, including fire trucks and police vehicles, were destroyed and need to be replaced.

While much of the direct cost of the trade center attack will be reimbursed by the federal government, the effects on the local economy will be borne by the city. IBO is currently examining the economic and revenue consequences of the disaster for the city.

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