Cate Taylor

From: Emily Walker
Sent: Monday, April 12, 2004 7:14 AM
To: Cate Taylor
Cc: John Farmer
Subject: FW: Economic impact of 9-11 on NYC

Can you print for John. I made a copy at home and will take it with me on the plane. EMILY

-----Original Message-----
From: Ricks, Marc [mailto:MRicks@cityhall.nyc.gov]
Sent: Sun 4/11/2004 4:57 PM
To: Emily Walker
Cc: Shaffer, Gary
Subject: Economic impact of 9-11 on NYC

Emily -

As promised, please find attached the City's input for the section of the report on the economic impact of 9-11 on NYC. I hope you find that it meets your needs and enables you to craft a section that is appropriate for the report. We have provided a wide variety of data over consistent time periods with sources and units identified, along with proposed language and recommendations. We narrowed down a broader set of recommendations to the ones that we felt were most important for New York City, and any other areas that may - heaven forbid - suffer future attacks.

I am attaching the excel spreadsheet that contains most of the data reflected in the report. Parts of it may not be entirely self-explanatory, but of course you should feel free to contact me with any questions. I am also attaching some of the other documentation on which I relied. If you find that you are missing something you need for the final version, don't hesitate to contact Gary or me. Of course, the same applies to any other questions or concerns as well.

Best of luck in the important effort in which you are engaged.

Regards,

Marc Ricks
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9/11 Personal Privacy

<<9-11 Impact on NYC - 4-11.doc>> <<911_commission master data 4-10.xls>> <<methodology of timelineGCP.doc>> <<Kelly testimony Judiciary 11.20.03.doc>>

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ECONOMIC IMPACT OF THE SEPTEMBER 11TH ATTACKS ON NYC

INTRODUCTION

The attacks of September 11th, 2001 (9/11) were an enormous human tragedy, resulting in the death of nearly three thousand innocent people. Each one left behind grieving family and friends, facing a void that can never be filled. No economic consequence can engender the same sense of loss for family members, New Yorkers, or Americans at-large. That human tragedy was further compounded by the significant economic toll the attacks had on New York City. The World Trade Center was a symbol of American economic strength, in the heart of the nation's third largest central business district. An analysis of the economic impact of the attacks is critical not only for rebuilding New York, but also for helping the entire nation prepare for the economic consequences of any future attacks.

APPROACH

Understanding the economic impact of the attacks is a complex undertaking, since one must consider the impact over time, across multiple geographic regions, and in light of the existing economic conditions on 9/11. While data exists that illuminates the enormous impact of the attacks, it may also be that the full brunt of the impact has not yet been felt. Geographically, the impact on the New York economy extended far beyond the Lower Manhattan business district. As this report describes, all of New York City faced economic challenges from the spillover effects of the attacks and their aftermath, including decreased economic activity and strained City services. Lastly, it is necessary to separate the economic impact of the attacks from trends that were in place before 9/11, whether locally or nationally.[1]

This report handles these challenges as follows. First, it addresses the *retrospective* economic impact, which can be measured through existing data. Specifically it examines changes over the first and second years after the attacks. However, the report also addresses qualitatively the potential *long-term* impact. Second, the report analyzes the impact on *all* of New York City, due both to the substantive citywide impact described above and the fact that most data sources are available only on a citywide level. The report also includes anecdotal data on the Lower Manhattan economy in particular. Finally, the report attempts to separate the impact of the attacks from other economic forces by comparing New York City data to national data. This is, of course, an imperfect approach, in that it does not adjust for structural differences (such as the importance of the securities industry) between the City's economy and the national economy. While a complex statistical analysis would be necessary to fully account for such differences, we believe that the data presented here offer a fair assessment of how the City's economy was affected by the attacks.[2]

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[1] A February 2003 report by researchers at the Federal Reserve Bank of New York suggests that the impact of the attacks was less severe than originally thought, since the City's downturn also resulted from other, cyclical factors – especially the state of the national economy and the financial markets. The report, now over a year old, suggests that expected data revisions for pre-9/11 data might shed more light on the relative importance of the attacks on the New York City economy. Fortunately we now are able to draw upon the most recent data available as of March 2004 – two-and-a-half years after the attacks.

[2] Where possible monthly data is used, where "before" refers to data as of the end of August 2001, one year later refers to the end of August 2002, and two years later refers to the end of August 2003. Where only quarterly data was available, "before" refers to the end of the second quarter (end of June) of 2001, one year later refers to the end

1. OVERVIEW OF IMPACT

At the simplest level, the economic impact of the attacks is reflective of the value of lost output; the City lost the value of productive work that would have taken place had the attacks not occurred, as a result of destroyed offices, closed security zones and other security provisions, longer commutes, and most tragically, the loss of individuals who previously worked Downtown.

The best measure of output in New York City is Gross City Product (GCP) – which is analogous to Gross Domestic Product (GDP) on a national level. While there are various measures of GCP, the New York City Office of Management and Budget (NYC OMB) computes GCP on the basis of U.S. GDP using the ratio of New York City wage earnings to U.S. wage earnings.[3]

In order to estimate lost economic activity in New York City, NYC OMB estimated GCP generated per working day for each of five major industry sectors (securities, finance, trade, service, other) for both Lower Manhattan and the rest of the City.[4] NYC OMB then created a timeline of production or operational capacity for the fourth quarter of 2001 for each of the five sectors, and both geographic areas, using conservative capacity estimates. Using assumptions about capacity usage across Lower Manhattan and the rest of New York over different timeframes, NYC OMB was able to estimate the value of lost output (GCP).

Based on this approach, NYC OMB estimates that New York City lost at least $10 billion in GCP in the fourth quarter of 2001 alone – a loss directly attributable to the impact of 9/11. Note that this figure does not account for the loss of economic activity *after* the end of 2001, though the data that follows suggests that GCP continues to be lower than it would have been if the attacks had not occurred. Overall New York City real (inflation-adjusted) GCP declined in 2001 and 2002 by 6.3% and 3.1% respectively, compared to the previous year, versus nationwide increases in real GDP of 0.5% and 2.2% in 2001 and 2002.

2. IMPACT ON THE PRIVATE SECTOR

Real estate and utilities

The impact of the attacks on New York City's real estate and utility infrastructure is stark. The impact of the airplanes and the secondary impact of the collapse of the Twin Towers ultimately destroyed seven buildings, including 14.8 million square feet of office space (or more

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of the second quarter of 2002, and two years later refers to the end of the second quarter of 2003. The data is a mix of seasonally adjusted and not seasonally adjusted. However, since all comparisons are year-over-year, the distinction is unimportant.

[3] The New York City Comptroller, by contrast, relies on New York City employment compared to national employment. However, this approach does not adequately reflect the contribution of the securities sector to the City's economy. With only 5% of total employment in the City, this industry contributes approximately 20% of wage earnings.

[4] Based on 220 working days per year.

office space than is contained within the entire Atlanta central business district) and more than four hundred thousand square feet of retail space. Total replacement costs of the commercial office space alone are approximately $7.4 billion, assuming costs of $500 per square foot. Another 21 office buildings were severely damaged but recoverable, accounting for just over 19 million square feet of office space. Total repair costs are estimated at approximately $1.9 billion, assuming repair costs of $100 per square foot.[5] Total commercial office replacement and repair costs, therefore, are approximately $9.3 billion. Insurance proceeds will pay for some of these expenses, but substantially less than 100%.

Destroyed and damaged utility infrastructure includes 4 sub-stations, 33 miles of high voltage cable, 36 miles of communications cabling, and 300,000 telephone lines. Verizon alone estimated total repair and replacement costs at approximately $1.4 billion. The federal government granted $750 million in assistance for utility repair, with insurers, customers, and the utilities themselves absorbing the remainder.

Business and employment

To measure the trend in the number of businesses operating in New York City, we relied upon data on the number of *establishments*.[6] On this dimension, New York City suffered disproportionately relative to the nation in the years after 9/11. One year after the attacks there were 0.2% fewer establishments in New York City than there were before 9/11. By the two-year anniversary New York had 1.4% more establishments than at the time of the attacks. By contrast, the number of establishments nationwide increased by 1.3% and 3.4% over the same periods.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Establishments (thousands)[7]	212	211	215	7,958	8,061	8,232

Total employment in New York City after the attacks also suffered markedly in contrast to the nation, declining by 3.5% over the year following the attacks, and by 5.3% over the two-year period. The national decline was 1.2% and 1.6%, respectively. As of the most recent available data, total employment in New York City is still about 6% below its pre-9/11 peak.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Employment – total (thousands)[8]	3,696	3,566	3,498	131,613	130,044	129,512

Before the attacks New York City's unemployment rate was 1.4 percentage points higher than the national rate. A year later it was 2.1 points higher, and a year after that, 2.3 points higher.

[5] Source: Tenantwise Damage Summary of April 2003 (modified to reflect recent agreement to demolish Deutsche Bank building at 130 Liberty Street); construction and repair costs based on comparable projects, as estimated by the New York City Economic Development Corporation.
[6] An establishment typically refers to a location for a business, so long as that business is required to file unemployment insurance, thereby excluding many sole proprietorships and other small businesses. This data is used as a proxy for tracking bankruptcies. Many New York City businesses of various sizes went bankrupt in the months and years following the attacks, particularly in Lower Manhattan. However, comparable and reliable bankruptcy data are difficult to obtain.
[7] Source: Bureau of Labor Statistics/New York State Department of Labor – ES202 (quarterly)
[8] Source: Bureau of Labor Statistics (monthly)

	NYC			USA		
	Pre-9/11	After 1 yr	After 2 yrs	Pre-9/11	After 1 yr	After 2 yrs
Unemployment rate[9]	6.3%	7.8%	8.4%	4.9%	5.7%	6.1%

Some would attribute the disproportionate decline in New York employment to the City's reliance on the securities industry, which suffered especially high job losses during that period. However, securities industry employment in New York fell by 12.2% over one year and 16.4% over two years, versus national declines of 6.0% and 8.8% during the two time periods.

	NYC			USA		
	Pre-9/11	After 1 yr	After 2 yrs	Pre-9/11	After 1 yr	After 2 yrs
Employment – securities (thousands)[10]	194	171	163	838	787	764

Finally, total New York City quarterly wage earnings were 3.8% lower than before the attacks both one year and two years later. National wage earnings, meanwhile, increased by 0.3% over one year and 2.1% over two years. During 2002, New York wage earnings fell by 6.1% - a much steeper fall than in past economic slowdowns, and substantially worse than the national wage increase of 0.6% nationwide. Following the 9/11 attacks, New York City wage earnings fell for seven consecutive quarters – an unprecedented string in the City's history.

	NYC			USA		
	Pre-9/11	After 1 yr	After 2 yrs	Pre-9/11	After 1 yr	After 2 yrs
Wage earnings – quarterly (billion)[11]	$193	$186	$186	$4,594	$4,609	$4,692

Not surprisingly, commercial office vacancy rates increased in New York City as employment declined. The increase in vacancy is especially remarkable in light of the office space lost at Ground Zero. After adjusting for the office space lost, New York City commercial vacancy rates worsened by 164% in the year after the attacks, and 167% in the two-year period.[12] During the same two periods, national commercial vacancy worsened by 27% and 61%, respectively. Thus, national vacancy rates went from two-times worse the New York City number to just 22% worse two years later.

	NYC			USA		
	Pre-9/11	After 1 yr	After 2 yrs	Pre-9/11	After 1 yr	After 2 yrs
Commercial office vacancy – adjusted[13]	5.1%	12.3%	13.6%	10.3%	14.6%	16.6%
Commercial office vacancy – unadjusted[14]	5.1%	9.4%	10.8%	10.3%	14.6%	16.6%

Of course, the economic impact and associated hardships on individual citizens was significant as well. Thousands of residents lost their possessions, and experienced the hardship of losing their home for substantial periods of time. The fact that this report does not account for these losses does not diminish their significance.

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[9] Source: Bureau of Labor Statistics – CPS Household Survey (monthly)
[10] Source: Bureau of Labor Statistics – Non-Farm Payroll Survey (monthly)
[11] Source: Bureau of Labor Statistics – Non-Farm Payroll Survey (monthly)
[12] Adjusts for office space lost by adding back in the square footage lost in the attacks to the total amount of available space.
[13] Source: Coldwell Banker; Cushman & Wakefield (quarterly)
[14] Source: Coldwell Banker

Tourism

The tourism industry is vital to New York City, and suffered significant losses as a result of 9/11 – especially in the immediate aftermath of the attacks. While the sector continues to recover, the effects linger – though these effects likely are the result of multiple factors, including the war in Iraq. The recession and fears of terrorism dampened air travel around the nation, but New York City was disproportionately affected. Domestic air passenger activity for New York's airports fell 12.6% over one year and 7.1% over two years, versus national domestic travel declines of 8.3% and 5.7%. International air traffic dropped even more sharply in New York – 20.5% over one year and 16.7% over two years.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Air passengers – domestic (millions)	16.7	14.6	15.6	155.4	142.5	146.5
Air passengers – international (millions)	7.2	5.7	6.0	35.8	29.4	n/a
Air passengers (total)[15]	23.9	20.3	21.5	191.2	171.9	n/a

Average hotel room rates in New York City dropped by 9.1% by the first anniversary, and 13.4% by the second anniversary. Nationwide rates were slightly worse than flat over the same time periods.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Average daily hotel room rates[16]	$187	$170	$162	$85	$84	$84

Thanks to aggressive tourism promotion efforts (including the decline in room rates just described), hotel occupancy in New York declined for just one year, before rebounding – similar to the nationwide trend observed.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Hotel occupancy[17]	76.8%	75.9%	79.2%	67.6%	66.5%	67.7%

This drop-off manifested itself in a variety of parts of the New York City tourism industry. For example, quarterly Broadway attendance was down 9.0% one year after the attack, and 12.4% two years later.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Broadway attendance (thousands)[18]	3,333	3,034	2,920			

While millions of tourists continued traveling to New York, the mix changed substantially. Nearly half a million fewer international visitors arrived in New York in 2002 versus 2001, which corresponded with a drop in direct visitor spending over the period, as

[15] Source: U.S. Bureau of Transportation Statistics/Port Authority of New York and New Jersey (quarterly) – totals may not sum due to rounding.
[16] Source: NYC & Company/Smith Travel Research (monthly)
[17] Source: NYC & Company/Smith Travel Research (monthly)
[18] Source: League of American Theaters and Producers (monthly)

international visitors typically spend more per visit.[19] The contrast between employment in the restaurant and bar industry in New York and nationwide is illustrative. Sector employment dropped in New York by 2.3% over one year and 1.5% over two years, while nationwide sector employment increased by 0.3% and 2.1% over the same periods.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Employment – restaurants and bars (thousands)[20]	165	161	163	8,358	8,386	8,538

Not surprisingly, employment in New York City's leisure and hospitality sector was 3.1% lower than before the attacks after one year, and 2.6% lower after two years. National employment in the sector fell by 1.2% in the first year but had risen by 0.2% by the second anniversary. Leisure and hospitality *wages* in New York City fell even more dramatically – by 4.0% and 3.1%, while national wages in the sector increased marginally.

	NYC			USA		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**
Employment – leisure and hospitality (thousands)[21]	263	255	256	12,068	11,928	12,086
Wages – leisure and hospitality (millions)[22]	$1,943	$1,866	$1,844	$47,925	$48,103	$48,059

Lower Manhattan

The preceding information relies upon available citywide data to illustrate New York's economic performance in the wake of the 9/11 attacks. Of course, Lower Manhattan felt the impact disproportionately – and continues to feel that impact. Although the Downtown residential population is growing and companies continue to commit or recommit to the area, commercial activity continues to suffer. Employment in the area fell 17.3% over one year and 13.6% over two years. Wages fell by 17.0% in the first year and 17.8% over the two-year period.

	NYC – Lower Manhattan Only					
	Pre-9/11	**After 1 yr**	**After 2 yrs**			
Employment – private sector (thousands)[23]	311	257	258			
Wage earnings – private sector (millions)[24]	$7,045	$5,845	$5,717			

One powerful illustration of this economic decline is quarterly subway usage Downtown compared to the rest of the City. While citywide subway usage was 4% lower than its pre-9/11 level two years after the attack, Lower Manhattan subway ridership was 25% lower – and remains similarly low to this day.

	Lower Manhattan Stations			All NYC Stations		
	Pre-9/11	**After 1 yr**	**After 2 yrs**	**Pre-9/11**	**After 1 yr**	**After 2 yrs**

[19] Source: NYC & Company
[20] Source: U.S. Bureau of Labor Statistics/New York State Department of Labor (quarterly)
[21] Source: New York State Department of Labor (quarterly)
[22] Source: U.S. Bureau of Labor Statistics (quarterly)
[23] Source: New York State Department of Labor (quarterly)
[24] Source: U.S. Bureau of Labor Statistics (quarterly)

Subway ridership (millions)[25]	23.4	17.2	17.6	348.3	344.2	335.8

3. IMPACT ON CITY GOVERNMENT FINANCES

Public infrastructure

The bulk of the public infrastructure destroyed on 9/11 belonged to the Port Authority and the Metropolitan Transit Authority – especially PATH and subway stations and tracks. However, the collapse of the Twin Towers also destroyed City property, including emergency vehicles, the City's emergency response center, and other facilities. Additional damage occurred during the rescue and cleanup operations, especially to City streets, which sustained severe damage from high-volume heavy equipment traffic. The federal government has reimbursed the City for substantially all of the costs of replacing City-owned public infrastructure.

Cleanup

Early estimates suggested that site cleanup would take 12 months and cost $2 billion. In fact, the City of New York and its private contractors finished the effort in 10 months, at a cost of just $650 million. The federal government has reimbursed the City for substantially all of these cleanup costs. Both City and private sector employees participated in this effort, with both immediate assistance (thousands of rescue personnel and skilled construction workers rushed to the site), as well as ongoing joint participation in clearing the site. This response to the attacks was largely due to the coordinated response of the private community with governmental agencies. Immediately after the attacks on September 11th, the City responded by deploying police officers, firefighters, EMS workers and other employees to the site for rescue, recovery and debris removal. At the same time, the City contacted four construction management companies to aid in its efforts. These companies, along with dozens of sub-contractors, acted with a sense of patriotism, and worked without contracts, insurance or indemnity. Private companies unhesitatingly provided manpower and equipment without regard to cost and notwithstanding potential liabilities. However, this effort generated subsequent litigation against the City and these private companies. The City and contractors continue to work with the federal government in an effort to try to crate a captive insurance company to protect both the City and contractors from this liability.

NYC lost revenues

The impact on the private sector described above also greatly impacted public sector revenues, since tax revenues are dependent on economic activity. While the events of 9/11 exacerbated a national economic slowdown, as described above New York City also suffered the physical destruction of a significant portion of its most valuable real estate, the displacement of many tax-paying firms and individuals, and a collapse of the travel and tourism sector of the economy. As a result, the terrorist attacks had a dramatic and direct impact on the City's budget, in contrast to the more limited and indirect effects felt by other localities throughout the U.S., and on a national level. The City has estimated that the tax loss attributable to the attacks is $1,570 million in fiscal year 2002 and $1,437 million in fiscal year 2003.[26] Important drivers of this loss in tax revenues include lost sales, property, and income taxes. While some have argued

[25] Source: Metropolitan Transit Authority – New York City Transit (quarterly)
[26] Source: New York City Office of Management and Budget; estimate made in July of 2002. While new information would alter these estimates, the analysis has not been updated.

that it is impossible to link the loss of these revenues to the terrorist attack, the General Accounting Office issued a report reviewing these estimates on July 26, 2002, and noted that the tax revenue loss estimates for 2002 "appear to reasonably approximate the impact of the terrorist attacks on tax revenues."

4. LOOKING FORWARD

The immediate economic impacts of the 9/11 attacks on Lower Manhattan were severe and easily apparent. Less obvious are the long-term ramifications for the viability of the area that is the nation's third largest central business district, and an engine for the nation's economy and financial markets. For decades, companies flocked to Downtown to reap the benefits of *proximity* – to customers, partners, and even competitors – despite the area's relative weaknesses compared to Midtown in terms of transportation, open space, and cultural vibrancy. After the collapse of the World Trade Center towers, some companies are seeking to disperse their employees across a wider geographic area, thus threatening Lower Manhattan's ability to serve as a source of prosperity for the City, the region, and the nation. If Lower Manhattan is to continue to attract the headquarters of global companies and thus act as an economic engine for the nation and the region, investments will be required. In December of 2002, Mayor Bloomberg released *New York City's Vision for Lower Manhattan.* In partnership with plans put forward by Governor Pataki, the Vision outlines a three-pronged program for the redevelopment of Lower Manhattan by: 1) improving transportation; 2) strengthening neighborhoods; 3) creating public places, including especially the World Trade Center site. The Vision recognizes that recovery in Lower Manhattan is predicated on a restoration of economic vibrancy throughout the area.

Like all cities, New York City faces long-term challenges resulting from the need to prevent further terrorist attacks. It can, however, be reasonably argued that New York City faces disproportionate risks. Already New York City has suffered two terrorist attacks – in 1993 and 2001. Police Commissioner Raymond Kelly testified to Congress that New York City has been the target of six separate known plots in the last decade alone.[27] A reasonable assessment of the threat suggests that New York is at high-risk for future attacks, due to its size, its mass transit system, and its high number of high-profile targets. Press reports have noted the frequency with which New York City is mentioned as a possible target in intercepted terrorist communications. As a result, New York City faces additional long-term economic impacts, including a drain on City resources from the need to spend municipal dollars on security equipment and personnel. The Police Department alone is spending $200 million per year in operational expenses for counter terrorism, on top of a variety of expenditures for equipment.[28] Moreover, the greater perceived or actual risk of terrorist attacks can dampen economic development by raising the cost of doing business (e.g., through higher insurance premiums), or altering corporate location decisions. For example, rate guidelines for terrorism insurance suggest premiums in New York and selected other high-risk cities should be twice as high as a second tier of major cities, and thirty times higher than the rest of the United States.[29]

[27] Kelly, Raymond. Testimony before the House Judiciary Subcommittee on Crime, Terrorism, and Homeland Security; 11/20/03.
[28] Kelly testimony
[29] "The Impact of the Current Insurance Industry Crisis on New York City's Construction Industry," Rosemary Scanlon, November 2003.

Finally, it is not possible to quantify the economic value of the human capital lost with the death of thousands of productive New Yorkers. Each of the nearly three thousand men and women lost carried with them a lifetime of expertise and talent that is irreplaceable. Though new residents and employees continue to fill job openings in New York, untold amounts of knowledge, intelligence, and energy were lost on 9/11. One can only speculate as to what these individuals would have accomplished for themselves and the entire City had they not been taken from us.

5. FEDERAL ASSISTANCE

In the months following the terrorist attacks, the federal government offered unprecedented assistance to New York City – approximately $20 billion in total.[30] While various estimates of the amount of federal aid directed to New York City have appeared, the NYC OMB relied upon all available information and Joint Committee on Taxation scoring to produce an estimate of $20.577 billion, broken down as follows:

Source	Amount ($ million)	Purpose
Direct Appropriations **Disaster Recovery**		
FEMA	$6,106.70	Disaster recovery
FHWA	242.00	Road repairs; ferry service
Response		
Dept of Health & Human Services	266.20	Hospital reimbursement
Small Business Administration	250.00	Business recovery
Dept of Labor	236.50	Workers compensation; employment clearinghouse
Dept of Justice	149.70	Counter-terrorism preparedness; counseling
Amtrak	100.00	Transit security
FHWA	100.00	Ferry service
Centers for Disease Control	12.00	Screening emergency personnel
NIH	10.50	Training and research
Dept of Education	10.00	Counseling
Dept of Commerce	8.25	Public broadcasting facilities
Lower Manhattan Redevelopment		
Dept of Housing and Urban Development	3,483.00	Business recovery; utility reconstruction (CDBG)
FEMA	2,650.00	Disaster recovery - transit
Dept of Transportation	1,923.50	Mass transit rebuilding

[30] Includes direct aid to the City of New York along with aid to other government and private entities; some funds directed to New Jersey, Pennsylvania, and the Virginia/DC area.

Tax Incentives		
Liberty Zone Tax Package	5,029.00	
TOTAL	**$20,577.35**	

Overall, the vast majority of the disaster recovery and response funds have been received. To date, the City of New York has received $3,483.92 in FEMA funds[31], with the remainder of FEMA funding going to other government and private entities. This FEMA assistance was provided under the Stafford Act, which governs Federal disaster assistance. The Stafford Act, however, was designed to respond to natural disasters, such as fire, flood, earthquakes and hurricanes – not terrorist attacks. FEMA efficiently and flexibly provided assistance under the constraints of the Stafford Act. Nonetheless, the 9/11 attacks demonstrated a need to alter the Stafford Act, as described in the recommendations.

Of the Lower Manhattan redevelopment funds, to date the Empire State Development Corporation has allocated $700 million for business assistance, and the Lower Manhattan Development Corporation has committed nearly $1 billion for a variety of Downtown programs. The State and the Port Authority have proposed plans to allocate almost $3 billion in transit funds. Planning is underway to enable the allocation of the remaining funds. It is expected that demand for funds will far exceed the amount available.

The Liberty Zone tax incentives included provisions relating to tax-exempt financing, benefits related to private investment and tax credits for employment. However, because the tax incentives, in the context of a weaker than expected economy, have not stimulated the amount of Lower Manhattan investment activity assumed in 2002 by Congressional analysts, many of these tax benefits have not been used and may not ever be used. Discussions are underway – as described below – to extend certain of these provisions to enable them to contribute to a revival in the Lower Manhattan economy, and to transform other programs into tax credits that will enable the City and State to make critical infrastructure investments.

6. RECOMMENDATIONS

The economic response in New York City to September 11th represents an unprecedented level of cooperation between the federal, state, and local governments, and the private sector. Despite the success of their joint efforts, there are a variety of improvements that can be made both to accelerate New York City's economic recovery, and to be better able to address the economic challenges of future attacks.

Support the economic recovery of New York City

- **Homeland security:** As noted earlier, New York City faces the most pressing demands on its municipal resources in the effort to prevent or respond to future terrorist attacks. Moreover, the increased risk places pressure on long-term economic development in New York, due to disincentives to locate there and the increased cost of doing business. Despite these factors, New York City has not received federal homeland security aid

[31] About $1 billion of this has not actually been received, but rather committed for the captive insurance program for site cleanup.

commensurate with the risks it faces. In fiscal year 2003 the City was allocated approximately $232 million out of a nationwide total of $3.45 billion in homeland security funds for first responders, or 7% of the total appropriation.[32] That same year, for example, Centers for Disease Control funding for public health emergency preparedness to New York was $2.59 per capita versus $2.99 per capita nationally, placing the City 45th out of 54 states and municipalities.[33] Almost 80% of federal homeland security funds are distributed without regard to level of the threat faces. As a result, the State of New York ranks near the bottom in per capita funding (49th out of 50 states) – a fact that is even more disturbing in light of the disproportionate risks the State and City face.

- **Extension of terrorism insurance:** Earlier it was noted that terrorism insurance is more expensive in New York City and selected other high-risk cities due to the high perceived risk of attack, thus raising the cost of doing business. Going forward, a more significant obstacle may be the lack of availability of this insurance. The Terrorism Risk Insurance Act (TRIA) – enacted in 2002 – provided significant government backing for large claims resulting from terrorist attacks. It also required insurers to "make available" terrorism insurance, the absence of which after 9/11 had slowed the real estate business dramatically. This "make available" provision will expire at the end of 2004 in the absence of future action. Congress should extend this provision by September 1st of this year in order to ensure the continuation of critical coverage for 2005 and beyond.

- **Completion of $20 billion federal aid package:** Much of the estimated value of the $20 billion in federal aid was in the form of $5.029 billion in Liberty Zone tax incentives. Because of the slower than expected recovery, much of the value of the tax incentives has not been received. Congress should enact several proposals that have been made to ensure that New York City receives the promised value of the federal aid package outlined by Congress and the President. These proposals include an extension in the time period for tax exempt financing, or Liberty Bonds. These bonds are intended to assist in the revitalization of commercial and residential construction in Lower Manhattan, and around New York City. However, the slow economic recovery has meant that the City and the State will be unable to apply the full value of the bonds to worthy projects in advance of their expiration at the end of 2004. As a result, the City and the State have requested, and the President has proposed, an extension of the Liberty Bond program to the end of 2009. Another example applies to other elements of the Liberty Zone tax incentives, which also were predicated on a dramatic recovery in the Lower Manhattan economy. For example, developers and tenants will benefit from bonus depreciation on new commercial construction only if and when that construction occurs. As a result, the City currently estimates that of the $3.1 billion in value associated with four of the tax incentives, less than $500 million will have been realized by the middle of 2004 – leaving $2.6 billion in unrealized benefits. The City and the State are proposing that the federal government approve the conversion of unused tax incentives into tax credits that can be sold, thus generating cash that can fund necessary investments in Lower Manhattan infrastructure.

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[32] New York City Office of Management and Budget

[33] New York City Department of Health

- **Vision for Lower Manhattan:** True recovery Downtown depends not just upon rebuilding lost structures, but also upon restoring the commercial vibrancy that made the area a target for terrorists. Only by ensuring that Lower Manhattan continues to be a place of economic opportunity for all will we have demonstrated the resolve to face down terrorist attempts at intimidation. The plans outlined by Mayor Bloomberg in partnership with Governor Pataki propose transportation improvements, investments in growing neighborhoods, and new public places. The Vision thus describes a way to not just rebuild, but also to renew Lower Manhattan. The federal government should continue its support for this rebuilding effort.

Enable better economic responses to future disasters

- **Discretion in allocation of federal monies:** Congress and the President responded rapidly to 9/11 in order to commit aid to the recovery and rebuilding in New York in a way that was both admirable and necessary. However, in the months following the attacks it was not yet clear precisely to what end aid could best be directed. The allocations made were fixed and relatively unflexible in nature, preventing local authorities from exercising full discretion as needs became clearer. Though FEMA and other agencies exercised as much discretion as possible in responding to priority needs, statutory restrictions prevented full adjustments. While the federal government should act quickly to commit aid to areas that suffer significant attacks, it also should provide for greater flexibility in responding to needs as they become clearer.

- **Changes to the Stafford Act:** Congress should making a variety of changes to the Stafford Act to enable the federal government to respond to future terrorist attacks, including especially the following four major changes:
    - First, costs incurred as a result of an attack, even if they are incurred elsewhere than at the site of the attack, should be reimbursable. After the attacks, prudence demanded unprecedented security measures across the City, including shutting down bridges and tunnels, suspending subways and rail traffic, and heightening security at the United Nations and other key locations. These costs were incurred directly as a result of the City being a terrorist target. However, the Stafford Act does not recognize these expenses as eligible reimbursements since these additional expenses did not occur at the actual site of the "disaster". It took a special act of Congress to allow FEMA to provide reimbursement to the City of New York for these costs, which would clearly not have been incurred but for the terrorist attacks.

    - Second, a government's lost revenue, including taxes or fees, resulting from a catastrophic or terrorist disaster should be reimbursable. Currently the Stafford Act does not allow FEMA to provide any reimbursement for lost tax revenue to local governments. Since the Stafford Act does not accommodate this very real need for disaster-stricken local governments, the people of the City and State of New York have been forced to shoulder these additional financial burdens caused by an act of war, as described above.

- Third, federal indemnification should be provided for local governments (and their agents and contractors) for prudent actions (such as debris removal) taken in response to a catastrophic or terrorist disaster. This is especially important in disasters where there are significant environmental concerns. One of the most complex obstacles to full reimbursement under the Stafford Act encountered by the City involved environmental liability as it relates to debris removal. This response by the municipality and its contractors was immediate and necessary, and all parties took substantial risks. This has highlighted the need for legislation to provide immunity and/or federal indemnification for actions taken in response to any future terrorist attacks. Absent such legislation, states and municipalities may find missing the public/private partnership that proved so successful in New York City. Similarly, states and municipalities will find themselves saddled with the tremendous, - and unjustified - costs and burdens of litigation, as well as the enormous costs of rescue and recovery operations. In order to protect against liability for the City and its contractors, the City sought to obtain insurance in the private market, but, because of the great dangers of the disaster site, virtually no insurance was available. The City and its contractors accordingly sought legislation providing for federal indemnification of these claims, but without success. Finally, as a result of Congressional action, FEMA set aside approximately $1 billion for a "captive" insurance company to protect the City and its contractors from claims relating to the debris removal process. Due to certain interpretation of that law by FEMA, however, this captive insurance company has not yet been created.

- Fourth, Congress should amend the Stafford Act's current disaster response program so that the mental health component of FEMA's program can better meet the needs of victims of terrorist attacks, and to provide funding to strengthen the long term local mental health systems to better respond to future disasters. New York City's FEMA-funded Project Liberty program was able to provide crisis counseling and outreach education and subsequent brief clinical intervention services to more than 900,000 New Yorkers for two years following the September 11, 2001 terrorist attacks. It is now clear that the ramifications – especially psychological – of terrorism are more widespread, pervasive and longer-lasting than the effects of typical natural disasters such as floods, earthquakes, and hurricanes. Specific problems that New York City's Project Liberty program encountered included the Stafford Act prohibition of reimbursing for mental health treatment and the extremely short-term nature of the counseling that is permitted. Project Liberty staff also encountered a need for case management services, particularly for the first responders.

- In addition to the four major proposals above, the City also is recommending a series of other changes to the Stafford Act not identified in this report.

Impact of 9/11 on NYC Economic Activity

- OMB has estimated that the City lost at least $10 billion in economic activity in the fourth quarter of 2001 directly attributable to the impact of 9/11. This figure accounts for the loss of economic activity in the City.

- Methodology

  - The estimate of lost economic activity in NYC, due to 9/11, is based on an estimated Gross City Product (GCP) generated per working day, disaggregated by major industry sectors (Securities, Finance, Trade, Service and Other) for Downtown and the rest of the City.

  - The average daily value of goods and services produced is based on a 220 day work year.

  - A timeline of production or operational capacity was created for the quarter for each sector for Downtown and the rest of the City. A conservative assumption of capacity used in each sector was picked for each day.

    - For example in the first week the capacity usage was assumed to be zero percent in all the sectors in Downtown because the area was inaccessible. Subsequently, as businesses returned and access was granted, capacity usage also gradually returned.

    - It was assumed that by the end of the fourth quarter of 2001 capacity usage in the rest of NYC (excluding Downtown) was normal, but Downtown continued to operate at below full capacity due to loss of infrastructure and demand.

GCP Estimate Methodology

- OMB's estimate of Gross City Product (GCP) is computed by sharing down U.S. Gross Domestic Product using the ratio of NYC wage earnings to U.S. wage earnings.

- The City comptroller estimates GCP using a different methodology where the share of City to U.S. employment is the main factor.

- We feel using wage earnings to derive GCP is more meaningful because it better reflects the securities sector's contribution to the City's economy. With only 5 percent of total employment in the City this industry's share of wage earnings is 20 percent. Wage earnings are the main component of income, which in turn should be reflected in the GCP estimate.

Raymond W. Kelly

Police Commissioner of the City of New York

Testimony Before

The House Judiciary Subcommittee on Crime, Terrorism and Homeland Security

Funding for First Responders

November 20, 2003
2141Rayburn House Office Building
10:00 AM