State and City Subsidies Help Spur Construction On World Trade Center Site

Delays and disagreements over planning and financing the redevelopment of the World Trade Center (WTC) site, as well as a weak market for downtown office space, marked much of the first half decade following 9/11. A significant portion of the $20.5 billion in federal assistance was for the site, but redevelopment languished as the various public and private entities and interest groups argued over the goals and the processes, and little had progressed by 2006. Agreements in 2006 and 2010 have resolved disputes over responsibilities, timing, and financing, allowing the various projects on the site to finally get underway.

The Port Authority and Silverstein Properties have collaborated on the redevelopment of the site, with input from city and state officials. The site is owned by the Port Authority, a bi-state agency, but the towers themselves had been leased to Silverstein Properties just months before the attack. Insurance proceeds and unsubsidized funding have financed much of the costs for both the Port Authority and Silverstein. Both have also received significant contributions from the federal aid to New York City and what some have called a “Marshall Plan” for Lower Manhattan, a series of city and state tax incentives and rent subsidies enacted in 2005.

A Set of Subsidies. In June 2005, New York City and State announced a series of incentives intended to stimulate commercial activity in Lower Manhattan. According to the Mayor’s Office of Management and Budget (OMB), the plan’s tax incentives are estimated to cost the city $224.9 million in the first 10 years.

In brief, the provisions are:

- Rent subsidies of $5.00 per square foot for the first 750,000 square feet of office space leased at the WTC site and $3.80 per square foot for the first 750,000 square feet at 7 WTC. The cost of the rent subsidies, which are provided for the lesser of the entire term of the lease or 20 years, are paid by the state’s Empire State Development Corporation, and capped at $115.0 million.
- Commercial rent tax exemption for WTC tenants and retail businesses below Murray Street and a reduction for businesses within the wider Liberty Zone. According to OMB, the commercial rent tax exemption, net of the cost of existing commercial rent tax abatements, has cost the city $9.9 million from 2006 through 2011 and will cost about $2 million a year from 2012 through 2015.
- Sales tax exemption on build-out costs in the Financial District. OMB estimates that, through 2011, the city has foregone $106.4 million due to the sales tax exemption. The annual tax expenditure is estimated to be $18.8 million from 2012 through 2015.
- Expansion of Relocation and Employment Assistance Program. According to OMB, this provision cost $12.6 million through 2011, and will cost the city $3.2 million a year from 2012 through 2015.
- The package also eliminated incentives for conversion of downtown commercial space to residential use that had been in place since the mid-1990s.

Agreements in 2006 and 2010 Move Development Forward. The 2006 agreement divided up the development and operation of the site’s office towers, committed the Port Authority and New York City to leasing space in the Silverstein towers, and divided the city and state’s remaining commercial Liberty Bond allocations between the Port Authority and Silverstein. A follow-up agreement in 2010 provided additional financial support for the site.

Silverstein relinquished to the Port Authority control of Tower 1 (1 World Trade Center, formerly known as the Freedom Tower), Tower 5 (to be located on the southern site purchased by LMDC), and all the retail at the site. Construction on Tower 1 now reaches nearly 80 stories and is expected to be substantially complete by late 2013. In May 2011, the publishing firm Conde Nast agreed to lease 1 million square feet in Tower 1, exhausting the on-site rental subsidy.

Under the 2006 deal, Silverstein retained the responsibility for building and operating Towers 2, 3, and 4. Tower 4 is currently under construction with completion expected in 2013. The Port Authority and city lease guarantees account for approximately 60 percent of the tower's 1.2 million square feet of office space. A strategy for construction of Towers 2 and 3 was negotiated in the 2010 agreement. Partial construction is occurring, but their full build-out is dependent on triggers such as raising specific amounts of financing and meeting preleasing goals. The city, state, and Port Authority agreed to "backstop" the loans on Tower 3 by contributing up to $390.0 million toward debt service should rents from the towers prove insufficient. The city and state also agreed to a combined equity contribution for Tower 3 of $210.0 million (the city, state, and Port Authority contributions to the combined backstop and equity are each limited to $200.0 million). The city's contribution will come from payments in lieu of taxes negotiated with the Port Authority.

The 2006 agreement also divided the remaining Liberty Bond allocation. Silverstein received $2.6 billion of the remaining $3.3 billion, and the Port Authority received $701.6 million. In December 2010, the state awarded Silverstein additional government tax-exempt bond financing with $285 million of Recovery Zone Facility Bonds.[1]

The Port Authority is now managing a wide range of responsibilities on the site with the addition of 1 World Trade Center, Tower 5, and the site's retail development added to its portfolio. These projects are in addition to the Port Authority's responsibilities for the WTC Transportation Hub, Vehicle Security Center, other infrastructure projects, and partial funding for the WTC memorial. The Port Authority's total capital budget for the WTC is currently $11 billion.

In summary, federal assistance that will go directly to the WTC site consists of:

Port Authority of New York & New Jersey

- Federal Transit Administration grants of $2.9 billion for the WTC Transportation Hub and $19.9 million for the WTC Vehicle Security Center.
- $701.6 million of Liberty Bonds for 1 WTC (Tower 1) and WTC Retail. (These bonds have not been issued. In December 2010, the Port Authority received a retroactive extension, giving them until December 2012 to do so.)

Silverstein Properties

- $475.0 million of Liberty Bonds in 2005 for 7 WTC, adjacent to the north side of the main site.
- $2.6 billion of Liberty Bonds for Towers 2, 3, and 4. Short-term bonds were issued in 2009 in order to beat a December 2009 deadline. The proceeds were escrowed, with the intention to issue long-term bonds at a later date. In December 2010 and again in April 2011 there was discussion of the reissuance, but it was not completed due to unfavorable market conditions both times.

Lower Manhattan Development Corporation

- $841.6 million of Community Development Block Grants for memorial and cultural programs at the site, including the acquisition of adjacent parcels directly to the south of the main site, for the planning, design and construction of the National September 11 Memorial & Museum and a performing arts center.

Endnote

[1]Recovery Zone Facility Bonds, created under the 2009 federal stimulus act, are tax-exempt private-activity bonds. Counties and large municipalities received allocations to be awarded at their discretion, within certain limitations. As the deadline for issuing the bonds neared and most New York State counties had not used their allocations, the state mandated the counties transfer them to the state, which subsequently allocated them to Silverstein Properties.

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Federal Aid 10 Years After the
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