

Lower Manhattan Economic Recovery Aid: Who's Benefiting?

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Nine months after the attack on the World Trade Center, economic recovery grants totaling \$292 million have been made to thousands of Lower Manhattan businesses. While much public attention has focused on the grants to 20 big downtown firms such as American Express, the bulk of the economic aid distributed so far has gone to 11,756 small businesses located south of 14th Street. These small businesses, with more than 71,000 employees, have received a total of \$224.8 million through mid-June.

These grants represent the first expenditure from a \$2.7 billion federal appropriation to support the economic revitalization of Lower Manhattan. Plans for spending over \$1 billion of the total are in place, including \$686 million for aid to downtown businesses (with another \$700 million pending), and \$280 million for housing assistance. Plans for spending the remaining nearly \$1 billion more are now being reviewed.

Under the plans already in place, several programs with different purposes and guidelines have been created for distributing the aid. These programs, along with information about the initial recipients of aid, offer some insight into how economic revitalization efforts downtown are being shaped.

Disaster recovery funds. Congress appropriated \$2.7 billion of special Community Development Block Grant (CDBG) funds in two installments. The first installment of \$700 million, approved last September, is being administered by Empire State Development Corporation (ESDC), the state's economic development entity, which is working with the New York City Economic Development Corporation (EDC)—the city's economic development arm—to develop and implement business assistance programs with the funds. The second installment of \$2 billion, approved last January, is under the jurisdiction of the Lower Manhattan Development Corporation (LMDC), which is a joint city-state enterprise, under the legal auspices of ESDC.

For the special disaster appropriation, most of the usual CDBG requirements—such as 70 percent of funds must benefit low- and moderate-income households—have been waived. But all plans for using the funds must still be approved by the federal Department of Housing and Urban Development (HUD), which manages the CDBG program.

Three entities—EDC, ESDC, and LMDC—are working together to make funding decisions. In practice, LMDC was not involved in programming the first \$700 million, because the agency did not yet exist. For the second \$2 billion, EDC and ESDC will offer input and

make requests, but the final grant-making decisions rest with LMDC. This is true on the program design level, as well as for individual grants, although LMDC may also delegate some or all of its decision-making authority, particularly where it is providing additional funding for pre-existing programs.

Plans and programs. Two plans for using the recovery aid have been submitted to HUD. The first, compiled by ESDC and EDC and approved in January, outlined the plans for the first installment of \$700 million, to be used to aid businesses with economic losses as a result of the disaster, and to retain and attract businesses to downtown. The second plan, developed by LMDC, included proposals for programs totaling \$316 million, primarily housing assistance to attract and retain residents in Lower Manhattan.

There are three principal business assistance programs: Business Recovery Grants, Small Firm Attraction and Retention Grants and Loans, and Job Creation and Retention Grants and Loans. The Business Recovery Grants provide aid for small to mid-size companies that suffered economic losses due to the attacks. The other two programs are designed to retain existing companies in the downtown area and to attract new businesses. To date, the business assistance programs have been funded at \$686 million. Grants totaling \$291.6 million have been awarded so far.

ESDC and EDC anticipate that they will need another

\$700 million, in addition to the \$686 million, to fully implement their business assistance programs. LMDC approved \$350 million in May of 2002 (now awaiting final HUD approval), with the remaining \$350 million subject to future review.

Aid for economic loss. The Business Recovery Grant program provides aid to companies south of 14th Street for economic losses they suffered as a result of the attack—because they were forced to close, for example, had no power, or no customers while access to downtown was restricted. Although firms with up to 500 employees are eligible, in practice, the program has primarily benefited smaller firms—on average, firms with 10 employees. To date the program has approved a total of \$196 million to 6,965 grantees. The average grant has been \$28,069. The maximum grant size is dictated by a company’s proximity to ground zero.

Attracting and keeping businesses downtown. The other two business assistance programs provide incentive grants to firms to either remain in, or locate to, Lower Manhattan.

Grants for large firms. The Job Creation and Retention program is intended to retain major corporations and the jobs they provide downtown. It provides grants to larger companies (more than 200 employees) with a significant share of their economic activity in the downtown area. The program’s goal is to retain or create 80,000 jobs. To date, \$66.9 million in grants, ranging in size from \$200,000 to

\$25 million, have been awarded to 20 companies with 19,282 employees. Most of the recipients have been financial services companies. The median grant size is \$1.55 million.

Many assumed that these grants would be targeted to companies that had left or were likely to leave. But the largest single grant—\$25 million—went to American Express, which clearly clearly stated its intention to remain in Lower Manhattan. As a result, advocacy groups and the media have criticized the grant-making process.

Economic Recovery Programs			
<i>Millions of dollars</i>			
	Current Funding	Grants Approved	Pending
Business Assistance			
Business Recovery Grants*	\$331.0	\$218.7	
Job Creation and Retention Grants and Loans	170.0	66.9	
Small Firm Attraction and Retention Grants and Loans**	105.0	6.0	
Other	80.0	0.0	
Balance of ESD/EDC Retention Program Request			350.0
Additional Business Assistance Grants			350.0
<i>Total, Business Assistance</i>	<i>\$686.0</i>	<i>\$291.6</i>	<i>\$700.0</i>
Individual Assistance			
Housing Assistance	\$280.5	\$0.0	
Resident Owners Loss of Services			10.0
Employment Training Assistance	10.0	0.0	
<i>Total, Individual Assistance</i>	<i>\$290.5</i>	<i>\$0.0</i>	<i>\$10.0</i>
Program Support	\$39.4	<i>n.a.</i>	
Total	\$1,015.9	\$292.0***	\$710.0
SOURCES: IBO, Empire State Development, Economic Development Corporation, Lower Manhattan Development Corporation.			
NOTES: *Business Recovery Grants total includes ESD and EDC precursors to the current program. **Total grants approved include first of two payments, with the second to be made 18 months after the first, based on employment at that time. ***Does not include grants for planning activities and administration, for which information was not available.			

According to ESDC and EDC, four principal criteria determine which companies receive grants: the risk that the company will leave downtown; employment levels; economic/fiscal impact; and “project value”—a qualitative measure. Project value allows EDC and ESDC to account for factors such as “first-mover” status—companies that quickly returned downtown were better compensated than subsequent companies will be. A prominent example of a grant recipient chosen for its project value is the department store Century 21—a highly visible downtown business that reopened quickly after the attacks.

The grant program for large firms also places conditions on the aid. For example, companies are required to commit to specific employment levels in Lower Manhattan for a minimum of seven years. If the company relocates jobs out of Lower Manhattan and therefore does not meet these levels, it will be subject to “recapture,” or pay back, of up to twice the original grant amount. If a “significant” number of workers are laid off but the company does not leave downtown, it will have to pay back the original grant amount.

	Number of Awards	Total Funding Approved (millions)	Average Award	Maximum Allowable Award	Average Employment	Total Employment
14th Street to Houston	785	\$7.0	\$8,859	\$50,000	10	8,166
Houston to Canal	1,138	\$22.3	19,557	100,000	12	13,598
South of Canal	3,011	\$79.5	26,414	150,000	11	34,303
West of Broadway, Chambers to Rector	2,031	\$86.7	42,676	300,000	7	14,983
TOTAL	6,965	\$195.5	\$28,069	NA	10	71,050

SOURCES: IBO, Empire State Development, Economic Development Corporation, Lower Manhattan Development Corporation.

Grants for small firms. Small Firm Attraction and Retention Grants and Loans are directed to small businesses south of Canal Street that agree to stay in Lower Manhattan for at least five years. Grants are based on both the number of employees and location. Eligibility for firms with fewer than 10 employees is pending final approval. The goal of this program is to attract and retain 52,000 jobs. To date, 80 applications have been approved to firms employing 3,016 people—38 employees on average.

The grants to small firms have not escaped criticism either. HUD’s Inspector General is required to audit ESDC/EDC grants. The preliminary results suggest that some grantees

are receiving both SBA loans and economic recovery grants, which may conflict with program rules (although those rules are themselves under review). In addition, all recovery grant applicants were required to document their economic loss in order to receive a grant. A more detailed worksheet to calculate economic loss was recently included in the application at the request of HUD, which is investigating whether the lack of detail in the initial applications will result in some firms receiving aid in excess of their economic loss. The final audit is due in November.

Housing program. LMDC submitted a \$290.5 million housing assistance plan in May. HUD approved the plan earlier this month (except for \$10 million to help state agencies and authorities—in particular the Battery Park City Authority—compensate owners of residential property). The plan provides three types of grants, scaled in size according to proximity to ground zero. Renters or owners in Zone 1 (south of Chambers and west of Nassau and Broad Streets) would be eligible for up to \$12,000 if they make a two-year commitment to living downtown. Smaller grants are available to residents who lived in the

area on September 11th or to families with children who make a year’s commitment.

Nearly \$1 billion still unallocated. While plans and programs are now in place for over \$1 billion of the economic aid, with another \$710

million pending, partial plans and grant programs for the remaining \$974 million are under review. The state and city governments also have authority to issue up to \$8 billion in tax-exempt “Liberty Bonds” for economic recovery and development purposes. Plans for using all of these remaining funds will further affect who ultimately benefits from the economic recovery aid.

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