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The Aftermath: How Much Federal Aid for New York?

Just days after the World Trade Center (WTC) attack, President George Bush promised \$20 billion in disaster relief to New York City. Soon after, Congress passed a \$40 billion emergency appropriations bill, at least half of which was earmarked for disaster relief in New York, Virginia, and Pennsylvania. Since then, there has been much confusion about how much federal aid is actually available to the city.

To date, the city has spent \$382 million on cleanup, overtime and related costs. So far, the city has received \$327.5 million in federal aid to cover these costs. A preliminary estimate by the state and city pegged the total cost of cleanup and rebuilding at more than \$12 billion. Under federal emergency aid regulations, there is no limit on how much aid the city can receive for disaster relief. If total costs come to more than \$20 billion, federal aid will cover it—so long as the costs are deemed “eligible.”

There are no such guarantees of federal aid for restoring the city’s economic health in the wake of the attacks. The White House has pledged \$2.5 billion in special Community Development Block Grant (CDBG) funds to the city, including \$1.8 billion announced last week. The fate of federal funds to aid economic recovery more generally remains uncertain. Additionally, federal aid may cover only a small portion of the estimated \$4.6 billion in long-term security improvements needed at airports, subways, bridges, reservoirs and other sites after the attack.

Disaster relief funding for emergency response and rebuilding. The Federal Emergency Management Agency’s (FEMA) Public Assistance program provides assistance to state and local governments for emergency services, cleanup, and repair and rebuilding of publicly owned facilities. The Public Assistance program does not cover lost tax revenues or other operating income of public entities, or economic stimulus measures, but Congress is now debating additional measures to assist New York’s recovery and rebuilding as part of the overall \$40 billion package (discussed below).

To date, the federal government has replenished FEMA’s aid pot with \$2.0 billion. In addition to releasing \$327.5 million to New York City, the state has received \$10.5 million for disaster expenses, such as counseling and national guard deployment costs, and administrative expenses. The Bush Administration has requested an additional \$5.5 billion for FEMA, the majority of which will be allocated to New York City; these funds must be approved through the Congressional appropriations process.

The Guiliani and Pataki Administrations have provided preliminary estimates of immediate disaster-related costs. For the city, the Mayor estimates the costs of emergency response and rebuilding at \$9.1 billion, including agency spending of \$3.8 billion, contracts to clear and stabilize the WTC site of \$5

billion, and infrastructure repair and burial costs of \$300 million. According to the Governor's estimate, the Metropolitan Transportation Authority (MTA) faces costs of \$1.8 billion for emergency spending and repair of destroyed and damaged subway stations and tunnels. The Governor estimated that the Port Authority of New

York and New Jersey would need \$1.2 billion to reconstruct the destroyed WTC PATH station, replace destroyed equipment, and provide emergency ferry services. (Resolution of the question of ownership and the cost of replacing the destroyed twin towers and other buildings is unclear at this point, although at least a portion of it will be covered by private insurance).

Preliminary Estimates of World Trade Center-Related Costs Eligible for Reimbursement	
<i>Millions of Dollars</i>	
New York City	\$9,078
MTA	1,823
Port Authority	1,220
Total	\$12,121

SOURCES: IBO; NYC Financial Plan Update, October 9, 2001; New York State Division of the Budget, *The World Trade Center Attacks: Current Estimated Cost*, October 9, 2001.

These costs—\$12.1 billion in total—should be eligible for reimbursement by FEMA to the extent that they are not covered by insurance. The MTA and port authority each carried \$1.5 billion in private insurance coverage for physical damage and loss of revenue. The Governor's cost estimate put the MTA's revenue losses at \$408 million from lower ridership and tax subsidies, and the port authority's losses at \$159 million. Revenue loss is not covered under federal disaster relief law.

FEMA disaster relief not capped. Whatever the final costs, FEMA is not bound by a fixed budget for disaster relief. FEMA manages the Presidential Disaster Relief Fund, and pays all eligible disaster-related expenses from this Fund. There is no cap on FEMA expenditures for any given disaster. New York City can be reimbursed for all eligible expenses, regardless of federal appropriations made in direct response to the attacks, or other claims on FEMA resources.

FEMA coordinators are working with 60 city agencies and other administrative entities. Working with the coordinators, each agency submits requests for reimbursement to the Mayor's budget office. Agencies are required to submit adequate documentation in order to be reimbursed for WTC-related expenses, although the federal government has shown some flexibility in this instance. For example, FEMA has said that it will reimburse all police and fire department overtime above budget for the first 60 days following the attacks. After 60

days, the departments must submit more detailed records in order to receive reimbursement.

All agency reimbursement needs are sent to FEMA for approval as a single city request. The federal budget office releases the money to FEMA, which gives it to the state, and the state passes it on to the city. The state is required to disburse money as directed by FEMA. The process seems cumbersome, but is based on past experiences mostly limited to natural disasters striking smaller localities.

FEMA anticipates that the bulk of the WTC-related spending—and FEMA reimbursement—has not yet occurred. The stabilization and remediation of the site, and redevelopment of transportation outlets, are still only in the early planning stages. These projects could take several years to complete, with FEMA reimbursing costs as they are incurred.

Other disaster-related spending. In addition to these costs, the city, the MTA, and the port authority expect to incur a total of \$4.6 billion in expenses for long-term safety and security projects. "Anti-terrorism preparedness" measures costing \$1.36 billion were included in the Mayor's presentation of estimated WTC-related costs. The MTA has estimated that needed measures to improve safety and security will total \$1.9 billion. And the Governor included an estimate of \$1.3 billion for "security enhancements" at the port authority's three airports, ports, tunnels, bridges, and terminals.

At least some of these costs may be eligible for reimbursement through FEMA's provision for "hazard mitigation" projects. The total amount available for such projects, however, is limited to 5 percent of total disaster-related costs—or perhaps as little as \$600 million if the above recovery and rebuilding estimates are correct.

City spending as a result of the attacks. To date, the city has spent \$382 million as a direct result of the attacks. The police and fire departments have spent over \$200 million, primarily in overtime costs. The Department of Sanitation has spent more than \$13 million in overtime costs and to manage the activities at the Fresh Kills landfill.

Actual spending to date understates the contractual obligations the city has entered into as a result of the trade center attacks. For example, the city signed four contracts with a total value of \$1 billion for cleanup of the WTC site. Under City Charter emergency provisions, city agencies have let a number of other disaster-related contracts. Numerous contracts have been let that are still in the process of being registered, so IBO was unable to determine the total amount of outstanding disaster-related con-

tract obligations at this time.

Economic recovery assistance for New York City. In addition to the immediate costs of emergency response and rebuilding, and measures to enhance future security, the events of September 11th accelerated a dramatic economic downturn in New York City and the nation. IBO estimated that city tax revenues will be \$925 million less this fiscal year than forecast in the city budget adopted in June, and nearly double that in the next fiscal year. Lower Manhattan was most drastically affected, with many businesses closed for weeks, others still experiencing sales well below normal, and still other businesses displaced from downtown to other parts of the city or beyond.

The Mayor included in his estimate of disaster-related costs a \$975 million economic stabilization and recovery program, including business retention initiatives and funds for rebuilding and reconstruction. Although these kinds of costs are not normally part of federal disaster relief to localities, the Bush Administration has made \$700 million in community development funds available to the city to aid economic recovery, and last week proposed an additional \$1.8 billion. The city typically receives around \$200 million annually in CDBG funds, awarded on a formula basis, and restricted to use predominantly in low- and moderate-income areas. The federal Department of Housing and Urban Development is seeking authority to waive these rules, along with planning and

City Spending Attributable to the World Trade Center Attacks		
<i>Millions of Dollars</i>		
Agency	Expenditures	Purpose
Police Department	\$169.9	Overtime; some equipment
Fire Department	41.5	Overtime; some equipment
Sanitation Department	12.9	Overtime; landfill operations
Department of Design and Construction	137.1	WTC debris removal contracts
Department of Health	4.3	Office of the Chief Medical Examiner
All Other	16.7	Includes Board of Elections, Dept. of Transportation, Dept. of Citywide Administrative Services, and others
Total	\$382.4	

SOURCE: IBO
NOTE: Spending as of November 15, 2001

citizen participation requirements, to allow these funds to be used in lower Manhattan. These funds will come out of the \$40 billion package approved by Congress in September.

The Bush Administration has also announced a plan to allow New York State and City to utilize unspent Temporary Assistance for Needy Families (TANF) funds without a “maintenance of effort” requirement. Federal OMB has estimated that this and other measures included in the proposal could save the city and state \$110 million, although whether the savings actually materialize will depend in large part on welfare caseloads remaining at their recent low levels.

Congress is also working on a multi-billion dollar national economic stimulus package which could include economic recovery assistance specifically targeted to New York. The Senate rejected a version of the bill on November 14 which would have given New York authority to issue \$15 billion in tax-exempt bonds, and provided for a federal tax credit for employees of effected businesses. The House version currently does not include any aid provisions specific to New York City, so the final form of any city-specific provisions remains unknown.

Federal Emergency Funds Released Through November 14, 2001 and President’s Proposal			
<i>Millions of Dollars</i>			
Agency	Total Released to Date	President’s 2002 Proposal	Total
Department of Defense	\$13,396	\$7,349	\$20,745
FEMA ^a	2,000	5,500	7,500
Housing and Urban Development	700	1	701
Health & Human Services	126	1,600	1,726
Small Business Administration ^b	100	150	250
Department of Labor	29	2,013	2,042
All Other	2,623	3,381	6,004
Total	\$18,974	\$19,993	\$38,967

SOURCE: IBO; federal Office of Management and Budget.
NOTES: President’s 2002 proposal does not reflect subsequent decision to allocate an additional \$1.8 billion in CDBG funds. ^aAvailable disaster relief funds are not limited by these appropriations. ^bBudgeted amount would support \$1 billion in SBA lending authority. For further details the federal OMB Web site (www.whitehouse.gov/omb).

Breaking down the \$40 billion Of the total emergency appropriations, \$20 billion was available immediately, while the remaining \$20 billion must go through this year’s appropriations process. To date, \$19 billion of the first \$20 billion has been released in six installments, including \$2 billion for FEMA and \$13.4 billion for the Department of Defense. The President has submitted a spending plan for the second \$20 billion to Congress, but final approval is still pending.

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