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SEPTEMBER 11

Overview of Federal
Disaster Assistance to
the New York City
Area





Highlights of [GAO-04-72](#), a report to congressional requesters

Overview of Federal Disaster Assistance to the New York City Area

Why GAO Did This Study

The federal government has been a key participant in the efforts to provide aid to the New York City area to help it respond to and recover from the September 11 terrorist attacks. The President pledged, and the Congress subsequently authorized, about \$20 billion in federal aid. This federal aid was provided primarily through four sources: the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Liberty Zone tax benefits—a set of tax benefits targeted to lower Manhattan. These sources provided 96 percent, or \$19.63 billion, of the committed federal aid to the New York City area.

It has been over 2 years since the attacks occurred, and many efforts have been undertaken to aid the New York City area to cope with the disaster and its many impacts. GAO was asked to describe how much and what type of federal assistance was provided to the New York City area through these four sources and how the federal government’s response to this disaster differed from previous disasters.

We provided a draft of this report to FEMA, DOT, HUD, and Internal Revenue Service (IRS) for their review and comment, and all four agencies generally agreed with the information presented.

www.gao.gov/cgi-bin/getrpt?GAO-04-72.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

What GAO Found

An estimated \$20 billion of federal assistance has been committed to the New York City area through FEMA, HUD, DOT and the Liberty Zone tax benefits. While plans for use of \$1.16 billion in HUD funds have not been finalized, \$18.47 billion have been committed for the following four purposes:

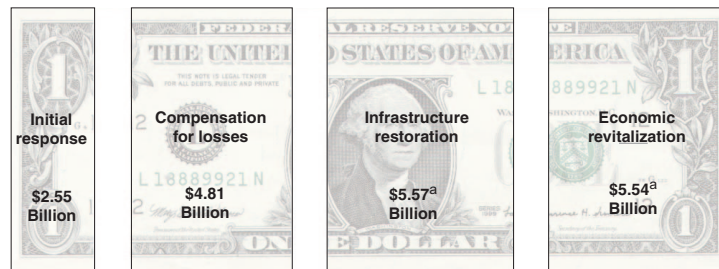
Initial response efforts, which includes search and rescue operations, debris removal, emergency transportation, and utility system repairs, totaled \$2.55 billion. The largest single amount—\$1 billion—has been set aside for the establishment of an insurance company to cover claims resulting from debris removal operations.

Compensation for disaster-related costs and losses, which includes aid to individuals for housing costs, loans to businesses to cover economic losses, and funding to the city and state for disaster-related costs, totaled about \$4.81 billion.

Infrastructure restoration and improvement, which includes restoration and enhancement of the lower Manhattan transportation system and permanent utility repair and improvement, totals \$5.57 billion.

Economic revitalization, which includes the Liberty Zone tax benefits and business attraction and retention programs, is estimated to total \$5.54 billion. The amount of this funding is estimated, and will likely remain so, because the tax benefit amounts are not being tracked.

The designation of \$20 billion to assist the New York City area was the first time in which the amount of federal disaster assistance to be provided was set early in the recovery effort; normally, the level of assistance is determined as needs are assessed against established eligibility criteria. FEMA, in response to the designation of a specific level of funding and enhanced authority from the Congress, changed its traditional approach to administering disaster funds by expanding eligibility guidelines, initiating an early close-out process, and reimbursing New York City and state for nontraditional costs. Further, the designation of a specific level of assistance prompted congressional authorization of numerous forms of nontraditional assistance to be provided.



Total funds committed to specific purposes

Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation’s plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

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Abbreviations

CDBG	Community Development Block Grant
DOT	Department of Transportation
EPA	Environmental Protection Agency
ESDC	Empire State Development Corporation
FEMA	Federal Emergency Management Agency
FHWA	Federal Highway Administration
FTA	Federal Transit Administration
IG	Office of Inspector General
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
LMDC	Lower Manhattan Development Corporation
MTA	Metropolitan Transportation Authority
PATH	Port Authority Trans-Hudson
SBA	Small Business Administration

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United States General Accounting Office
Washington, DC 20548

October 31, 2003

The Honorable James M. Inhofe
Chairman
The Honorable James M. Jeffords
Ranking Minority Member
Committee on Environment and Public Works
United States Senate

The Honorable George V. Voinovich
The Honorable Hillary Rodham Clinton
United States Senate

In response to your request, this report discusses how much and for what purposes federal assistance was provided to the New York City area in response to the terrorist attacks of September 11, 2001. In addition, this report describes the differences in the federal government's response to this disaster as compared with previous disasters.

If you, or your staffs, have any questions about this report, please call me at (202) 512-2834. Major contributors to this report are listed in appendix VI.

JayEtta Z. Hecker
Director, Physical Infrastructure Issues

Executive Summary

Purpose

The terrorist attacks of September 11, 2001, resulted in one of the largest catastrophes this country has ever experienced. The attacks and their aftermath caused the loss of thousands of lives, billions of dollars of property, untold numbers of jobs, and the displacement of many individuals and businesses. In the New York City area, the attacks killed nearly 3,000 people, injured thousands, and dislocated thousands of workers and residents. The World Trade Center towers collapsed, destroying or damaging numerous other buildings on and around the World Trade Center site, and disabling major electrical, communications, and transportation infrastructure in lower Manhattan.

The federal government has played a key role in the efforts to provide aid after the attacks and has been providing the New York City area with funds and other forms of assistance. The magnitude of the disaster and the size and scope of the federal government's response in aiding the city has generated significant interest in the nature and progress of the federal assistance provided the New York City area. Consequently, in a May 2, 2002, letter the Chairman and Ranking Minority Member of the Senate Committee on Environment and Public Works and Senators Hillary Rodham Clinton and George V. Voinovich asked GAO to assess the federal government's response and recovery efforts to the New York City area. They requested GAO to determine (1) how much federal assistance has been delivered to the New York City area and for what purposes and (2) how the federal government's response to this disaster differed from previous disasters.

In performing its work, GAO focused on the primary sources of federal assistance—the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Liberty Zone tax benefits¹—that targeted different aspects of the recovery efforts in the New York City area. To provide information on the amount and purpose of federal assistance, GAO categorized the recovery efforts into four broad purposes:

- Initial response efforts.
- Compensation for disaster-related costs and losses.

¹The Liberty Zone tax benefits are benefits targeted primarily at the area of New York City damaged on September 11, designated as the New York Liberty Zone.

- Infrastructure restoration and improvement.
- Economic revitalization.

GAO briefed your staffs previously on the preliminary results of its work and provided testimony summarizing these results in a September 24, 2003, hearing.² GAO also issued a separate report on one aspect of the response, FEMA's public assistance program.³

Background

After a disaster, the federal government, in accordance with provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act),⁴ assists state and local governments with costs associated with response and recovery efforts that exceed a state or locale's capabilities. FEMA is the agency responsible for coordinating federal disaster response efforts under the Federal Response Plan, a signed agreement by 27 agencies and the Red Cross to deliver federal disaster assistance. As a result, FEMA provides assistance, through a variety of programs to state and local governments. However, at times, the Congress directly funds agencies to conduct specialized activities in response to particular disasters, such as HUD's Community Development Block Grants for economic development.

After the attacks on September 11, 2001, the New York City area was faced with significant human and economic losses, over a million tons of debris, and severely damaged infrastructure. In the days immediately following the attacks, the President pledged at least \$20 billion in federal assistance to the New York City area to address these impacts. Subsequently, over the next 11 months, the Congress enacted several pieces of legislation to

²See U.S. General Accounting Office, *Disaster Assistance: Federal Aid to the New York City Area Following the Attacks of September 11th and Challenges Confronting FEMA*, [GAO-03-1174T](#) (Washington, D.C.: Sept. 24, 2003).

³See U.S. General Accounting Office, *Disaster Assistance: Information on FEMA's Post-9/11 Public Assistance to the New York City Area*, [GAO-03-926](#) (Washington, D.C.: Aug. 29, 2003).

⁴P.L. 93-288, 88 Stat. 143 (1974), as amended.

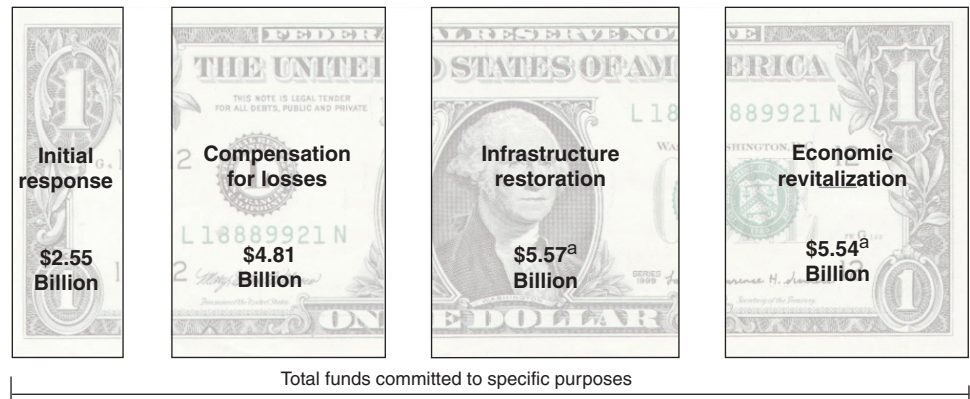
provide an estimated \$20 billion in direct funding and tax benefits.⁵ Of the assistance authorized by the Congress, 96 percent is provided through four primary sources; FEMA, HUD, and DOT—for funds directly appropriated to assistance for the New York City area—and the Liberty Zone tax benefits—seven provisions that provide specific federal tax benefits for businesses in lower Manhattan damaged by the terrorist attacks.

Results in Brief

About \$18.47 billion in federal assistance has been committed to specific projects for the New York City area primarily through FEMA, HUD, DOT and the Liberty Zone tax benefits for: (1) initial response efforts, (2) compensation for disaster-related costs and losses, (3) infrastructure restoration and improvement, and (4) economic revitalization. An additional \$1.16 billion in HUD funds that have not been committed to a specific purpose will most likely be directed to infrastructure restoration and/or economic revitalization. Figure 1 shows the amount of assistance committed to the primary purposes.

⁵The \$20 billion federal assistance to New York does not include financial assistance to victims as part of the September 11 Victim Compensation Fund of 2001. It also does not include financial benefits being provided by the Internal Revenue Service providing administrative tax relief to individuals and businesses in the period following the terrorist attacks.

Figure 1: Primary Purpose and Amount of Disaster Assistance Committed by FEMA, HUD, DOT, and Liberty Zone Tax Benefits



Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

- Initial response activities totaled \$2.55 billion. FEMA, DOT, and HUD assistance funded many activities, including search and rescue operations, debris removal operations, emergency transportation measures, and emergency utility service repair. In addition, funds were provided for environmental cleaning and testing in a widespread area of lower Manhattan.
- Assistance to compensate for disaster-related costs and losses equaled \$4.81 billion. This funding, provided by FEMA and HUD, compensated state and local organizations, individuals, and businesses for disaster-related costs. Such compensation included funds to New York City and State to rebuild damaged facilities, to individuals for rental and mortgage assistance and for crisis counseling, and to businesses for days of lost revenue and recovery loans.
- Funding to restore and improve infrastructure totaled \$5.57 billion. The majority of this assistance is a combination of FEMA and DOT funds designated to rebuild and enhance the lower Manhattan transportation system, including the construction or repair of transit terminals, streets, and ferry stations. New York is currently evaluating projects for which to use these funds. Planning studies evaluating transportation improvement options are underway, and a portion of the \$1.16 billion of the remaining HUD funds may be committed for these efforts. HUD has also committed funds to improve utility infrastructure and to complete a variety of short-term capital projects.

- Efforts to revitalize the economy in lower Manhattan are underway and are estimated to total \$5.54 billion. The revitalization efforts include an estimated \$5.03 billion Liberty Zone tax benefit plan. The tax benefits have several provisions, such as special depreciation deductions, to reduce tax burdens and spur economic development in lower Manhattan. The total amount of assistance provided by the tax benefits will depend on benefit usage; however, the IRS does not track the usage of these benefits, and consequently, the total amount of this benefit will remain unclear. In addition, the Congress appropriated HUD funds that made available \$515 million to revitalize the lower Manhattan economy, including incentives for existing businesses to remain in the area and as well as to attract new businesses to lower Manhattan. A portion of the \$1.16 billion of the remaining HUD funds may also be used for revitalization efforts.

The designation of \$20 billion to assist the New York City area was the first time in which the amount of federal disaster assistance to be provided was set early in the response and recovery efforts and resulted in two major changes in the federal approach to this disaster. FEMA, in response to the designation of a specific level of funding, changed its traditional approach to administering disaster funds, and with congressional authorization, FEMA reimbursed the city and state for “associated costs” that it could not have otherwise funded within provisions of the Stafford Act to ensure that the entire amount of funds appropriated to FEMA for this disaster would be spent for the New York City area. In addition to the flexibility given FEMA, this specific level of funding for the entire disaster prompted congressional authorization of numerous forms of nontraditional assistance to be provided by other agencies, including the first geographically targeted tax program in response to a disaster.

We provided a draft of this report to FEMA, DOT, HUD, and the Internal Revenue Service (IRS) for their review and comment, and all four agencies generally agreed with the information presented.

GAO Analysis

Initial Response Efforts Totaled \$2.55 Billion

Initial response assistance totaled \$2.55 billion for activities, such as search and rescue operations, debris removal operations, emergency transportation measures, temporary utility repairs, testing and cleaning efforts. FEMA activated 20 of its 28 urban search and rescue teams from across the country to conduct search and rescue operations immediately

following the collapse of the World Trade Center towers. Debris removal operations funded by FEMA included costs to recover and identify the remains of victims. These activities included screening, sorting, and disposing of nearly 1.6 million tons of debris from the World Trade Center. As part of the \$2.55 billion for initial response efforts, FEMA has established a \$1 billion insurance company to cover the city and its contractors for claims resulting from debris removal work at the World Trade Center site. FEMA and DOT funded emergency measures to restore operation to the transportation systems, such as temporary repairs to local roads. In addition, HUD funds have been committed to reimburse utilities for costs associated with emergency repairs to the utility infrastructure. FEMA also provided funds to clean buildings in the lower Manhattan area damaged by debris and fires and to monitor air quality. Table 1 shows how much each agency committed, obligated, and disbursed for initial response efforts.

Table 1: Initial Response Assistance, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Search and rescue operations	FEMA	\$22	\$22	\$22
Debris removal operations ^a	FEMA	1,698	698	695
Emergency transportation measures	FEMA / DOT	299	298	298
Temporary utility repairs	HUD	250	0	0
Testing and cleaning efforts	FEMA	53	53	42
Other initial response services	FEMA	232	232	114
Total		\$2,554	\$1,303	\$1,170

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

^aFEMA obligated \$1 billion for its debris removal insurance program to New York on September 3, 2003, which is not reflected in the table. None of these funds have been disbursed yet.

Compensation for Disaster-Related Costs and Losses Totaled \$4.81 Billion

Approximately \$4.81 billion in federal assistance has been committed to compensate state and local organizations, individuals, and businesses for disaster-related costs and losses. FEMA reimbursed the city and state of New York and other organizations for a multitude of projects through its public assistance program. In addition, the Congress authorized FEMA to provide funding to the city and state for expenses associated with the disaster but not reimbursable under the Stafford Act, such as costs for heightened security throughout the area. FEMA and HUD provided assistance to individuals and families that included funds to lower Manhattan residents for mortgage and rental assistance, crisis counseling, and family grants to cover disaster-related expenses not covered through other programs. In addition, HUD funds were used for a variety of business assistance programs, such as recovery grants and loans, to compensate for economic losses and recovery efforts. Table 2 shows how much each agency committed, obligated, and disbursed to compensate for disaster-related costs and losses.

Table 2: Compensation for Disaster-Related Costs and Losses, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Assistance for state, city, and other organizations	FEMA	\$3,319	\$1,857	\$1,593
Assistance for individuals and families	FEMA/HUD	807	729	546
Assistance for businesses	HUD	683	574	510
Total		\$4,809	\$3,160	\$2,649

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

About \$5.57 Billion Has Been Committed for Projects to Restore and Enhance Infrastructure

About \$5.57 billion has been committed for projects to restore and enhance infrastructure in lower Manhattan. The majority of this financial assistance, \$5.01 billion, is a combination of FEMA and DOT funds to restore and enhance elements of the transportation system supporting lower Manhattan. These efforts include a permanent replacement for the destroyed Port Authority Trans-Hudson (PATH) terminal and enhancements to the Fulton Street Transit Center and the South Ferry Subway Station, although these latter two facilities were not damaged in the attacks. New York is currently considering other projects to fund with the allotted transit funds. At this point, a small percentage of funding has been obligated for transportation projects. HUD has funded several planning studies to determine whether to commit funds to transportation improvement efforts. The attacks and subsequent recovery efforts also heavily damaged utility infrastructure in lower Manhattan, and HUD has committed \$568 million to rebuild and enhance utility infrastructure and to fund other short-term capital projects for infrastructure improvements to the areas around the World Trade Center site. As shown in table 3, most funds committed for infrastructure restoration and improvement projects remain to be obligated and disbursed, due to the long-term nature of such projects.

Table 3: Infrastructure Restoration and Improvement, as of June 30, 2003

Dollars in millions				
Activity	Agency	Total committed	Total obligated	Total disbursed
Rebuilding and improving lower Manhattan transportation system	FEMA/DOT/HUD	\$5,006	\$238	\$54
Permanent utility infrastructure repairs	HUD	500	0	0
Short-term capital projects	HUD	68	0	0
Total		\$5,574	\$238	\$54

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003. This table does not include \$24 million appropriated to DOT for formula grants.

Efforts to Revitalize the New York Economy Include Tax Benefits and Assistance to Businesses

In an effort to revitalize the New York City area economy, the Congress enacted the Liberty Zone tax benefits—estimated by the Joint Committee on Taxation to be \$5.03 billion—and appropriated \$515 million to HUD for revitalization programs. Estimates vary regarding what the ultimate usage of the Liberty Zone tax benefits will be and IRS is not collecting—nor is it required to collect—data on the Liberty Zone tax benefit usage and financial impact. As a result, the actual financial benefit of the tax provisions to the New York City area will remain unclear. HUD is providing funds to revitalize the lower Manhattan economy to attract and retain businesses through job creation and retention grants. These funds will also supplement multiple planning efforts to revitalize lower Manhattan, including coordinating the World Trade Center site rebuilding and memorial design competition. In addition to the \$5.54 billion, the Lower Manhattan Development Corporation has not yet committed \$1.16 billion in HUD funds to specific activities that will likely fund a mix of economic revitalization efforts and transportation improvements. Table 4 shows the amount of assistance committed for economic revitalization.

Table 4: Economic Revitalization Efforts, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed/ estimated benefits	Total obligated	Total disbursed
Tax benefits				
Liberty Zone tax benefits	IRS	\$5,029 ^a	^b	^b
Other revitalization efforts				
Job creation and retention grants	HUD	320	320	130
Small firm attraction and retention grants	HUD	155	155	31
Other planning efforts	HUD	40	39	12
Subtotal		515	514	173
Estimated total		\$5,544	\$514^b	\$173^b

Source: GAO analysis of agency-provided data.

Note: Numbers may not add due to rounding.

^aRevenue estimate by the Joint Committee on Taxation.

^bTax benefits are not obligated or disbursed.

Designation of a Specific Level of Assistance Led to a Distinct Federal Government Response for this Disaster

The \$20 billion to assist the New York City area differed from previous disaster response efforts in that it was the first time in which the amount of federal disaster assistance to be provided was set early in the response and recovery efforts, which altered the federal approach to this disaster. FEMA, in response to the designation of a specific level of funding for this disaster and enhanced authority from the Congress, revised its historic approach to administering FEMA funds. In an effort to ensure that all FEMA funds appropriated for this disaster were spent for the New York City area, FEMA broadly interpreted its provisions within the Stafford Act, and the Congress authorized FEMA to compensate the city and state for “associated costs,” such as increased security, that it could not otherwise have funded within provisions of the Stafford Act. In addition to the flexibility given to FEMA, the Congress appropriated and authorized numerous forms of nontraditional assistance, such as the Liberty Zone tax benefit plan and improvements to the transportation infrastructure that exceeded normal replacement cost.

Agency Comments

We provided a draft of this report to FEMA, DOT, HUD, and IRS for their review and comment, and all four agencies generally agreed with the information presented. In commenting on the draft report, FEMA, DOT,

and HUD provided technical comments, which we incorporated into the report as appropriate.

Chapter 1: Introduction

The terrorist attacks of September 11, 2001, caused tremendous emotional, physical, and economic damage in the New York City area. Nearly 3,000 people—including passengers aboard the hijacked aircrafts, individuals in and around the World Trade Center buildings at the time of the disaster, and emergency workers responding to the disaster—lost their lives in the disaster, and countless more were devastated and disrupted by this human tragedy. In the aftermath of the attacks, New York was faced with over a million tons of debris, severely damaged utilities, and damaged and destroyed transportation infrastructure.

The attacks had a substantial negative impact on the lower Manhattan economy as well, strongly affecting businesses, both large and small. Some businesses were destroyed, some were displaced, and others were unable to conduct business due to street closures and the lack of utility services. The New York City area lost about 83,000 private sector jobs from September 11, 2001, through the end of December 2001 as well as the tax revenues that those jobs would have generated. The damage or destruction of buildings by the terrorist attacks will result in lower property-related tax revenues losses in 2003 and beyond. The attacks seriously disrupted the entire New York City area transportation network and continue to impact hundreds of thousands of commuters.

Many Agencies Play Significant Roles in Responding to Disasters

In accordance with provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act),¹ when a major natural catastrophe, fire, flood, or explosion occurs that is beyond the capabilities of a state and local government response, the President may declare that a major disaster exists. This declaration activates the federal response plan for the delivery of federal disaster assistance. The response plan is an agreement signed by 27 federal departments and agencies as well as the American Red Cross. The plan supplements other federal emergency operation plans to address specific hazards by providing a mechanism for coordinating delivery of federal assistance and resources to augment efforts of state and local governments overwhelmed by a major disaster or emergency. The Federal Emergency Management Agency (FEMA) is responsible for coordinating the federal and private response efforts. The Congress may also fund specific agencies to assist disaster relief efforts for areas in which they retain expertise, including the Department of Housing and Urban Development (HUD) to administer funds for economic

¹P.L. 93-288, 88 Stat. 143 (1974), as amended.

redevelopment and infrastructure restoration, the Department of Transportation (DOT) to provide assistance for road restoration, and other agencies for activities such as providing small businesses disaster assistance loans and public health or medical service that may be needed in the affected area. Listed below is a description of the roles of specific agencies:

- **FEMA.** The disaster declaration from the President triggers FEMA's role as coordinator of the federal response plan and initiates FEMA's responsibility to deliver assistance through several programs it administers. These programs include individual assistance to victims affected by a disaster and hazard mitigation funds to state and local governments to reduce the risk of damage from future disasters. In addition, FEMA's public assistance program is typically the largest disaster assistance effort. It is designed to provide grants to eligible state and local governments and specific types of private nonprofit organizations that provide services of a governmental nature, such as utilities, fire departments, emergency and medical facilities, and educational institutions, to help cover the costs of emergency response efforts and work associated with recovering from the disaster. The Stafford Act sets the federal share for the public assistance program at no less than 75 percent of eligible costs of a disaster, with state and local governments paying for the remaining portions.
- **DOT.** The Federal Highway Administration (FHWA), an agency of DOT, has existing authority to assist in disaster relief. FHWA can provide up to \$100 million in emergency relief funding to a state for each natural disaster or catastrophic failure event that is found eligible for funding under its Emergency Relief Program. For a large disaster that exceeds the \$100 million per-state legislative cap, the Congress can pass special legislation to increase the amount FHWA can provide to an affected area. The Emergency Relief funds are available for permanent repairs and for work accomplished more than 180 days after an event at the pro rata federal-aid share that would normally apply to the federal-aid facility damaged. For interstate highways, the federal share is 90 percent. For all other highways, the federal share is 80 percent. Emergency repair work to restore essential traffic, minimize the extent of damage, or protect the remaining facilities, accomplished in the first 180 days after the occurrence of the disaster, may be reimbursed at 100 percent federal share. Other agencies within DOT, such as the Federal Transit Administration (FTA) and the Federal Railroad Administration, have had limited roles in previous disaster relief efforts.

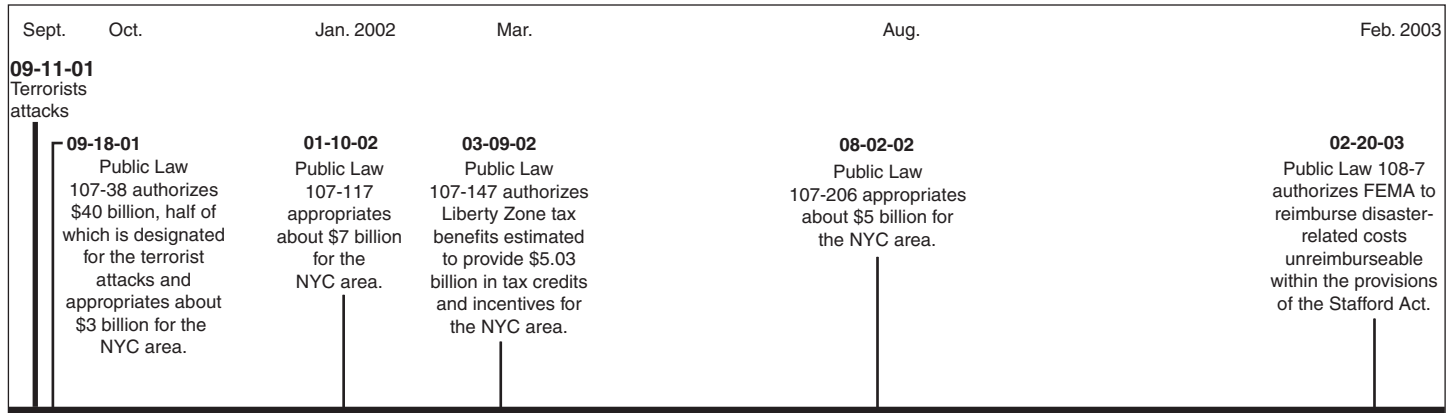
- **HUD.** HUD has been provided authority to assist in disaster relief efforts at different times in the last few decades, primarily through its Community Development Block Grant (CDBG) program. Although the CDBG program's primary purpose is community development, not disaster assistance, supplemental CDBG appropriations have been made to provide recovery assistance from past natural disasters, usually severe hurricanes, earthquakes, or floods. Typically, HUD awards funds to the affected state or local government, and then the funds are administered at the state or local level.²
- **Other agencies and organizations.** Many other agencies play active roles in federal disaster relief. For example, the Small Business Administration provides disaster loans to businesses for physical damage and economic injury and to homeowners to help those with disaster losses. The Department of Health and Human Services provides critical services, such as health and medical care; preventive health services; mental health care; veterinary services; mortuary services; and any other public health or medical service, that may be needed in the affected area. The Department of Agriculture and Forest Service, among other things, are responsible for managing and coordinating firefighting activities on federal lands and providing personnel, equipment, and supplies in support of state and local agencies.

Federal Disaster Assistance to the New York City Area Set at about \$20 Billion

In the days immediately following the terrorist attacks in New York on September 11, the President pledged to commit at least \$20 billion to help the New York City area recover from the terrorist attacks. The President sent a letter to the Speaker of the House requesting that the Congress pass emergency appropriations to provide immediate resources to respond to the terrorist attacks. Over the next 11 months, the Congress enacted three emergency supplemental appropriation acts that provided more than \$15 billion in direct federal assistance as well as an estimated \$5 billion tax benefit plan for the New York City area. Figure 2 shows a time-line of the legislative actions to assist the New York City area.

²The Empire State Development Corporation (ESDC) is the New York State entity designated by the Governor to administer the first of three CDBG appropriations for New York. ESDC is a corporate governmental agency of the state of New York and is currently engaged in housing and economic development and special projects throughout the state. In November 2001, ESDC's board of directors authorized the creation of the Lower Manhattan Development Corporation (LMDC) to assist in the economic recovery and revitalization of lower Manhattan, to develop programs and distribute assistance appropriated in the second and third CDBG appropriations for New York.

Figure 2: Timeline of Supplemental Appropriations and Other Related Legislation Enacted by the Congress That Provided Assistance to the New York City Area

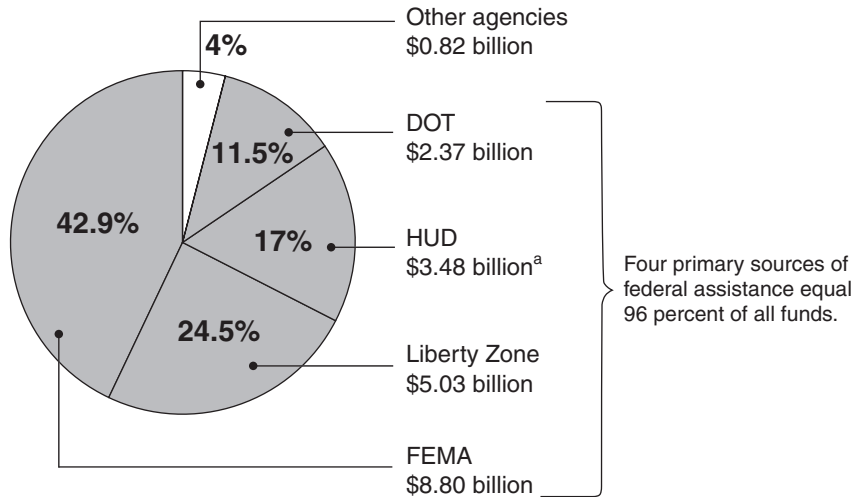


Source: Congressional Budget Office and GAO.

In addition, the Congress passed legislation providing details on how appropriated funds could be spent. The Consolidated Appropriations Resolution, enacted February 20, 2003, allowed FEMA to provide already appropriated funds to the city and state of New York for costs associated with the disaster that are unreimbursable under the Stafford Act. In addition, the legislation required FEMA to provide \$90 million from existing appropriations to administer screening and long-term health monitoring of emergency services personnel. FEMA was also directed to provide up to \$1 billion from existing appropriations to establish an insurance company or other appropriate insurance mechanism for claims arising from debris removal, including claims made by city employees.

The funds appropriated to FEMA, HUD, and DOT, along with the Liberty Zone tax benefits, constitute about 96 percent of all assistance designated to the New York City area, as shown in figure 3.

Figure 3: Allocation of Federal Assistance to the New York City Area by the Federal Government



Source: GAO.

^aHUD funds include the \$1.16 billion yet to be committed to a specific purpose.

In total, FEMA was appropriated \$8.80 billion to its Disaster Relief Fund for the New York City area. Of this amount, FEMA’s public assistance-related funds totaled approximately \$7.4 billion for activities such as debris removal and infrastructure restoration, while the remainder of the funding was committed for individual assistance and other nonpublic assistance. The Congress appropriated HUD \$3.48 billion of CDBG assistance to provide the New York City area through the Empire State Development Corporation (ESDC) and its subsidiary, the Lower Manhattan Development Corporation (LMDC), to aid businesses and individuals and spur economic revitalization. DOT received a total of \$2.37 billion to assist in the restoration and enhancement of the transit system in the New York City area.

Other agencies also received funding as part of the emergency appropriations; however, throughout the report we will focus on FEMA, DOT, and HUD, as funds to these agencies constitute about 95 percent of all appropriated funding provided to the New York City area. Table 5 provides a breakdown of all funds appropriated for recovery efforts in the New York City area by agency.

Table 5: Emergency Supplemental Funds for New York Disaster Relief Appropriated, by Agency

Dollars in millions	
Agency	Appropriation
Federal Emergency Management Agency	\$8,799
Department of Housing and Urban Development	3,483
Department of Transportation	2,366
Small Business Administration	250
Department of Labor	249
Department of Health and Human Services	120
Department of Justice	75
General Services Administration	32
Department of Treasury	26
Securities and Exchange Commission	21
Commodity Futures Trading Commission	17
Department of Education	10
Department of Commerce	8
Social Security Administration	4
Federal Drug Control Programs	2
Equal Employment Opportunity Commission	1
Department of Housing and Urban Development Office of Inspector General	1
Export-Import Bank	^a
Total^b	\$15,464

Source: CRS, Congressional Budget Office, and GAO analysis.

Note: Numbers may not add due to rounding.

^aThis agency received less than \$1 million in emergency supplemental funds for recovery efforts in the New York City area.

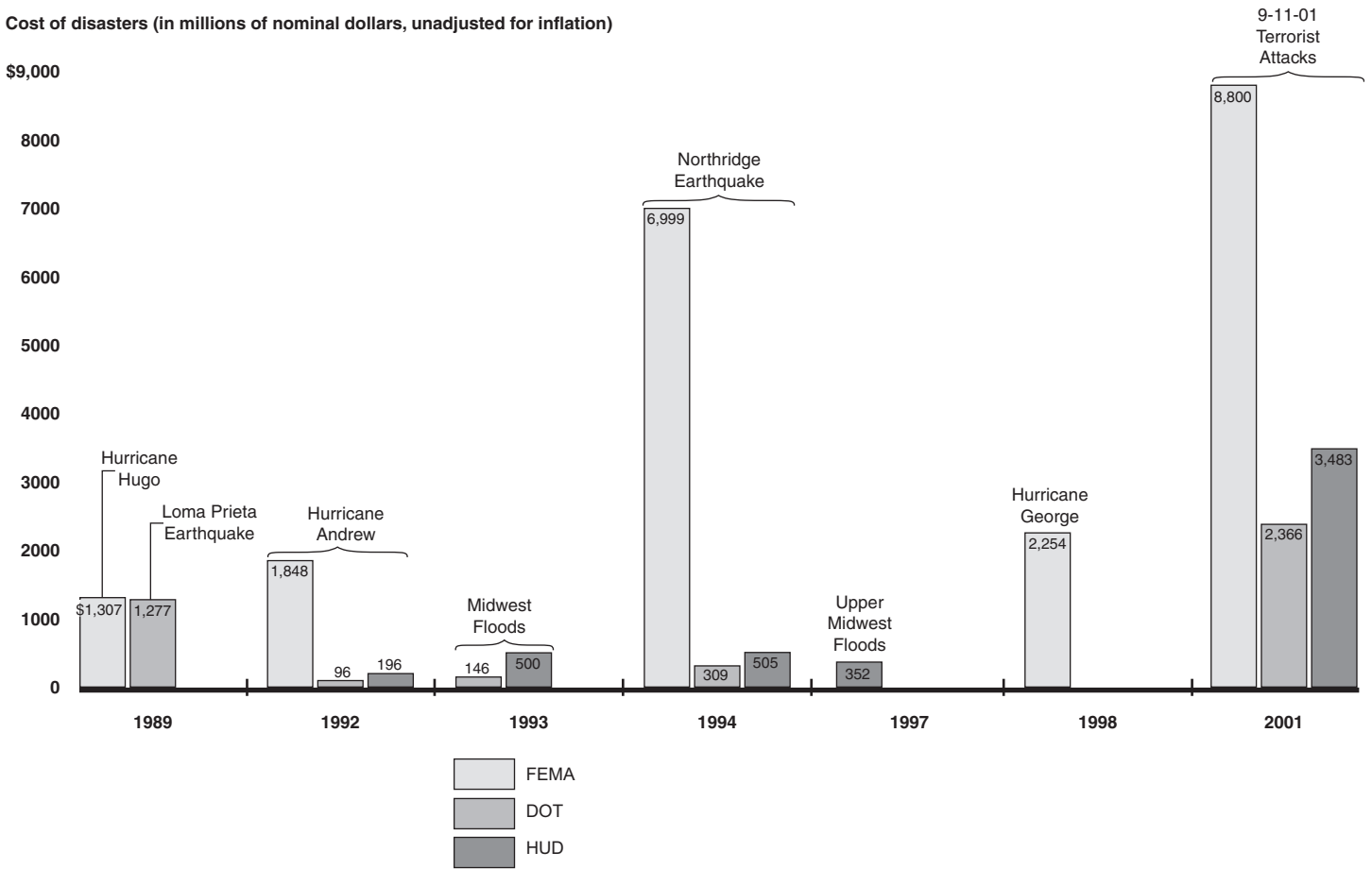
^bThese figures represent direct appropriations, therefore, do not include the \$5.03 billion Liberty Zone tax benefits, the September 11 Victim Compensation Fund, or tax deferrals.

Not only were FEMA, HUD, and DOT the primary sources of assistance to the New York City area, but each of these agencies provided more assistance for the September 11 disaster than it had for any other single disaster. For example, prior to September 11, FEMA disaster assistance exceeded \$1 billion in six other disasters, the largest of them being the Northridge Earthquake in California in 1994. The \$3.48 billion appropriated to HUD for the New York City area is nearly seven times the amount of assistance HUD has provided for any other single disaster. DOT was also appropriated more funds for recovery efforts after September 11 than in

any other disaster. Figure 4 displays several large disaster relief efforts and how much of these efforts the three agencies funded.

Figure 4: Costliest Disasters for FEMA, HUD, and DOT

Cost of disasters (in millions of nominal dollars, unadjusted for inflation)

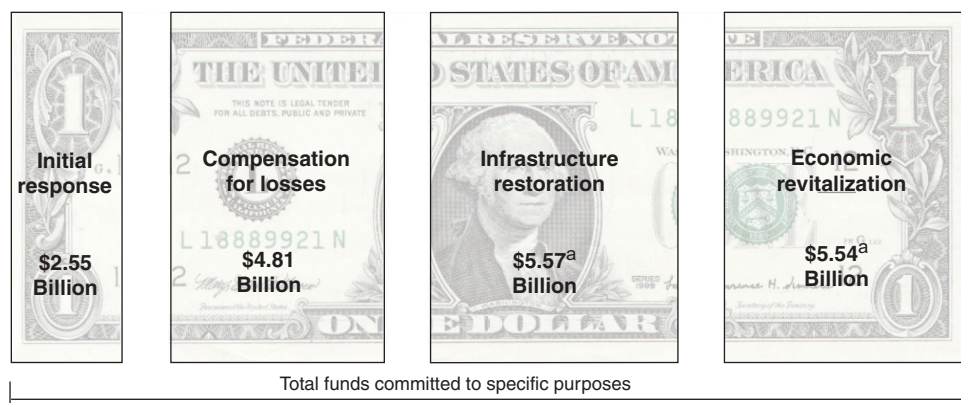


Source: GAO analysis of agency-provided data.

Federal Response Provided to the New York City Area Represents Four Broad Purposes of Assistance

Federal assistance provided to the New York City area for response and recovery activities covered a wide spectrum of efforts and various types of direct and indirect aid. To organize this discussion of the overall funding provided to New York, we identified four broad purposes of assistance. The first purpose includes initial response efforts to save lives, recover victims, remove debris, and restore basic functionality to city services, among other things. The second purpose consists of government actions to compensate state and local organizations, individuals, and businesses for losses of income and housing resulting from the attacks. The third purpose of assistance is the restoration and enhancement of the lower Manhattan transportation and utility infrastructure that was severely destroyed by the buildings' collapse and the subsequent response efforts. The last purpose is the provision of federal aid to help revitalize the lower Manhattan economy that was impacted by the disaster. Figure 5 shows the amount of funds provided by the four primary sources—FEMA, DOT, HUD, and the Liberty Zone tax benefits—for each purpose of assistance. The remaining portion of HUD funds is in the planning stages and will most likely be directed to infrastructure restoration and/or economic revitalization activities.

Figure 5: Primary Purpose and Amount of Disaster Assistance Committed by FEMA, HUD, DOT, and Liberty Zone Tax Benefits



Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will most likely be directed to either infrastructure restoration or economic revitalization.

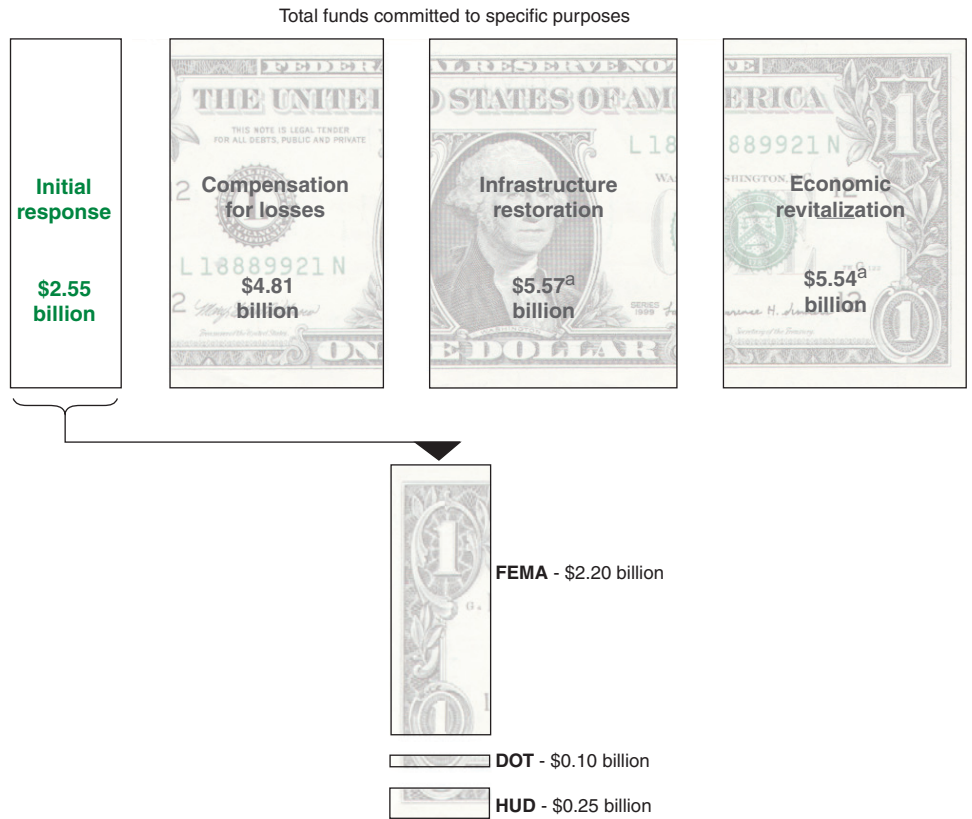
This report assesses the federal government's response and recovery efforts to the New York City area by determining how much federal assistance has been committed for specific purposes, and how the federal government's response to this disaster differed from previous disasters. To

respond to our objectives, we reviewed relevant legislation, budget documents, funding plans, status reports, program plan documents, and databases. Though federal assistance was administered through 18 agencies in total, we focused on the primary sources of federal assistance—FEMA, HUD, DOT, and the Liberty Zone tax benefits—that targeted different aspects of the recovery efforts in New York. Accordingly, we interviewed FEMA, DOT, HUD, and IRS officials, as well as state and local officials and officials from nonprofit planning and research organizations. All data are recorded as of June 30, 2003, unless otherwise noted. We provided a detailed description of the federal government’s response and recovery efforts, but did not evaluate the administration or impact of recovery funds. While we reported on the differences between response to this disaster and previous disasters, we did not evaluate the implications of these differences. We conducted our work from June 1, 2002, through September 30, 2003, in accordance with generally accepted government auditing standards. See appendix I for complete details on our objectives, scope, and methodology.

Chapter 2: Initial Response Assistance Totalled \$2.55 Billion

Initial response assistance to the New York City area began immediately after the hijacked aircraft collided with the World Trade Center towers and totaled \$2.55 billion. Efforts to search for and rescue victims and clear more than a million tons of debris began immediately after the disaster, as part of the initial response effort that was funded by the Federal Emergency Management Agency (FEMA). In addition, the Department of Transportation (DOT), Department of Housing and Urban Development (HUD), and FEMA took measures to provide funds to restore operation to utilities, transportation systems, and to monitor poor air quality resulting from the debris and fires. Figure 6 shows the amount each agency funded in this category of assistance, and table 6 shows how much each agency committed, obligated, and disbursed to perform initial response activities.

Figure 6: Amount of Assistance Committed to Initial Response Activities, by Agency



Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

**Chapter 2: Initial Response Assistance
Totalled \$2.55 Billion**

Table 6: Initial Response Assistance, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Search and rescue operations	FEMA	\$22	\$22	\$22
Debris removal operations ^a	FEMA	1,698	698	695
Emergency transportation measures	FEMA/DOT	299	298	298
Temporary utility repairs	HUD	250	0	0
Testing and cleaning efforts	FEMA	53	53	42
Other initial response services	FEMA	232	232	114
Total		\$2,554	\$1,303	\$1,170

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

^aFEMA obligated \$1 billion for its debris removal insurance program to New York on September 3, 2003, although none of these funds have been disbursed yet. This information is not reflected in this table.

Search and Rescue Operations Totalled \$22 Million

The terrorist attacks on September 11 prompted the largest Urban Search and Rescue operation in U.S. history, a \$22 million effort. FEMA oversees 28 national Urban Search and Rescue Task Forces across the country, and 20 were activated to respond to the attacks in New York. The teams operate under FEMA authority and were deployed as part of the National Urban Search and Rescue Response System. Almost 1,300 members of the Urban Search and Rescue teams and 80 dogs worked at the World Trade Center site. Representatives from the rescue teams at the World Trade Center site are shown in figure 7.

Figure 7: Urban Search and Rescue Teams Assist in Searching for Survivors at the World Trade Center Site



Source: FEMA Photo Library.



The rescue teams worked closely with officials from the Department of Agriculture’s Forest Service Incident Management Team. The Forest Service Team members are activated by FEMA, as part of the Federal Response Plan, to manage large emergency situations. The Forest Service Team managed the rescue operation providing support for federal, state, local, and voluntary workers busy at Ground Zero.

Debris Removal Operations Totalled \$1.70 Billion, Including Liability Insurance Coverage

Immediately after the World Trade Center towers collapsed, the debris removal operation began in order to help workers look for survivors. Debris removal operations—including funds to establish an insurance company to cover the city and its contractors for debris removal claims resulting from work at the World Trade Center site—totalled \$1.70 billion. New York City’s Department of Design and Construction and Department of Sanitation, with support from FEMA, the Federal Highway Administration, and the U.S. Army Corps of Engineers, completed the daunting task of removing debris piled 11 stories aboveground and extended seven stories below street level and weighing nearly 1.6 million tons. FEMA provided \$630 million to reimburse the city for the costs associated with the 9 month operation to remove the debris from the World Trade Center site and barge it to a landfill on Staten Island, New York, for screening, sorting, and disposal—much less than initial estimates that the operation would take 2 years and cost \$7 billion. Figure 8 shows debris removal operations.

Figure 8: FEMA-Funded Debris Removal Operations Were a Major Component of Initial Response Assistance



Source: FEMA Photo Library.

As part of the debris removal operation, FEMA assigned the U.S. Army Corps of Engineers to manage the sorting and disposal of debris at the city landfill; FEMA paid \$68 million for this service. The sorting activities were an intense, meticulous effort to recover remains and personal belongings of victims and to gather criminal evidence of the terrorist attacks. The Corps of Engineers provided labor, heavy equipment, conveyer belts, and screening equipment. It also provided temporary buildings for the storage of supplies and to shelter workers, worker decontamination facilities, and food service facilities.

As directed by the Congress, FEMA also committed \$1 billion for an unprecedented project to establish an insurance company to protect contractors and New York City against liability claims resulting from debris removal operations.¹ According to New York City officials, private contractors came to Ground Zero to do search and rescue, recovery, and debris removal work in the immediate aftermath of the terrorist attacks before entering into formal contract agreements with New York City. Contractors and city officials were unable to reach a final agreement on compensation for debris removal work because they had not secured liability insurance coverage. City officials said that liability insurance could not be obtained from a private insurance company because of the unknown long-term risks and potentially large number of liability claims. On the basis of input from insurance experts, city officials and FEMA

¹P.L. 108-7.

determined that the best solution was to establish an insurance company with \$1 billion in federal funds to provide coverage for a period of up to 25 years. The insurance company will cover debris removal contractors and New York City.²

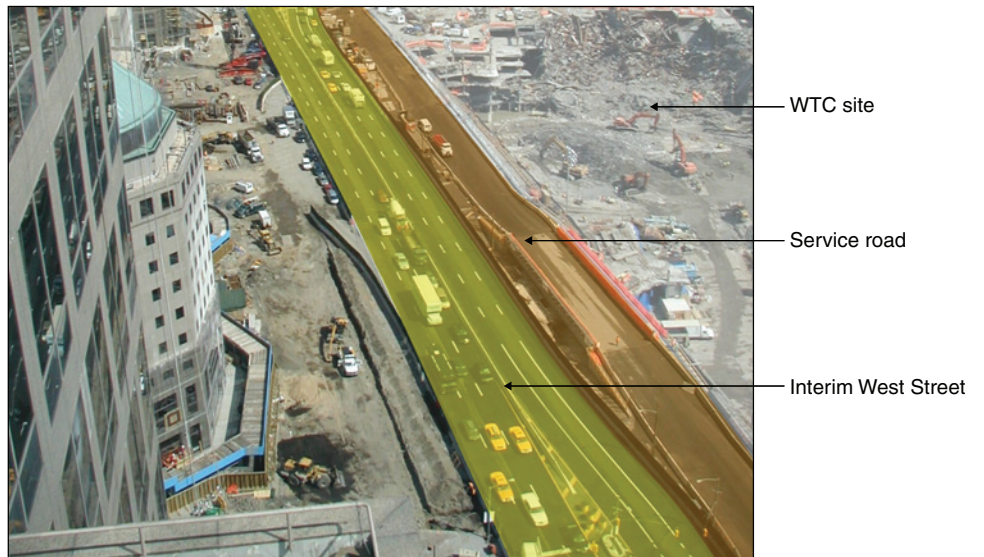
Emergency Transportation Measures Totalled \$299 Million

The collapse of the World Trade Center buildings and subsequent recovery efforts wreaked havoc on lower Manhattan's transportation system: subway stations and the PATH terminal, located under the World Trade Center site were destroyed, sections of local roads were impassable due to damage or recovery efforts, and subways and ferries were overcrowded as commuters returned to work using different means or routes of transportation. FEMA and DOT coordinated as part of several work groups, which included a variety of transportation, public works, public safety, and utility providers, to plan emergency/interim projects to address shifts in travel demand after September 11, capacity issues, and delays associated with revised travel patterns. Another bi-state, interagency task force met regularly to discuss ferry-related issues. Overall, FEMA and DOT funds for emergency transportation measures totaled \$299 million. Primary examples of the emergency efforts to restore transportation around lower Manhattan are described below.

- **Clean-up and emergency repair of local roads and tunnels.** During the initial response after September 11, officials were focused on removing debris quickly to look for survivors and victims and on restoring vital utilities to the area. Many of the local roads around the World Trade Center were damaged by the heavy truck traffic and emergency utility work. FEMA provided \$5 million to the New York City Department of Transportation to repair local roads. Additionally, FEMA provided \$6 million for interim repairs to West Street (Route 9A), a major thoroughfare in lower Manhattan. West Street was damaged by the collapse of the World Trade Center towers and surrounding buildings; the interim repairs were completed in March 2002. Figure 9 shows the interim West Street under construction.

²As of September 3, 2003, FEMA obligated \$1 billion for insurance coverage; however, no funds will be disbursed until details are finalized.

Figure 9: FEMA Funded Interim Repairs to West Street



Source: New York State DOT and GAO.

Note: West Street was damaged by the collapse of the World Trade Center towers. FEMA funded interim repairs to the road that are highlighted in yellow. Plans for permanent repairs to the street have not yet been finalized.

FEMA also provided assistance to the Port Authority of New York and New Jersey (Port Authority) to remove debris and repair the PATH tunnels that were extensively damaged and flooded after the collapse of the World Trade Center buildings. The Port Authority had to repair the tunnels to curb the flooding before workers could begin to clear away debris, as shown in figure 10.

Figure 10: FEMA Funded Efforts to Remove Debris from the PATH Tunnel

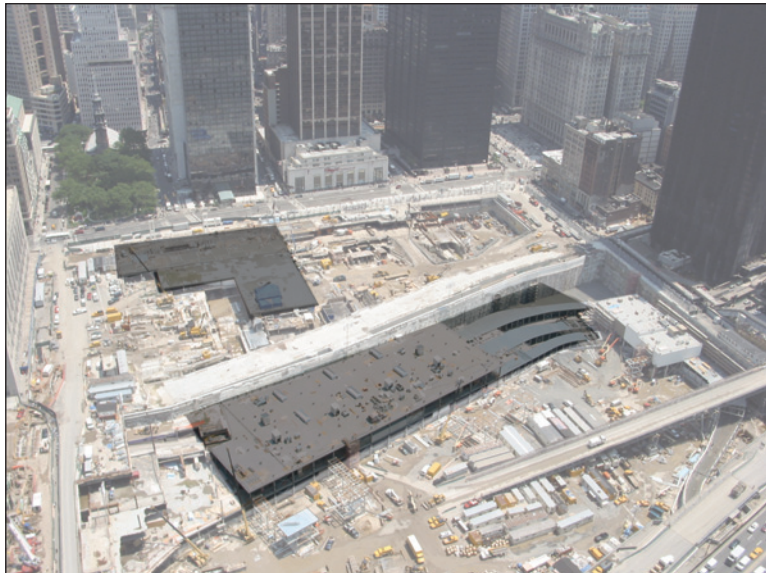


Source: Port Authority of New York and New Jersey.

Left: A view of PATH tunnels that suffered extensive damage and flooding. Right: Port Authority workers completing repairs to allow the tunnels to be used again; a FEMA-funded operation.

- **Construction of a temporary PATH terminal.** The collapse of the World Trade Center towers also destroyed the World Trade Center PATH terminal located under the buildings. Prior to September 11, more than 67,000 passengers boarded the PATH system at the World Trade Center station every day. FEMA provided \$140 million to the Port Authority, which will construct a temporary PATH terminal with these funds along with insurance proceeds from the original terminal. The temporary terminal is scheduled for completion in November 2003. Planners intend to use portions of this temporary terminal, pictured in figure 11, as a basis for the construction of an enhanced, state-of-the-art, permanent PATH terminal that will be integrated with other portions of the New York City transit system.

Figure 11: FEMA Provided Funds to Build the Temporary PATH Terminal Currently under Construction



Source: Port Authority of New York and New Jersey.

Note: The original PATH terminal was located under the World Trade Center towers and was destroyed by the collapse of the buildings. The temporary PATH terminal, highlighted in gray, is expected to be operational in November 2003.

- **Expansion of ferry service.** The private ferry fleet operating in New York Harbor is the largest in the United States, with lower Manhattan being the prime destination. To address commuter capacity that was dramatically reduced by the cessation of lower Manhattan PATH service and subway services near the World Trade Center site as well as vehicle restrictions, FEMA also provided \$48 million for emergency ferry service. These FEMA funds reimbursed the Port Authority and other city agencies for costs associated with operating additional ferries.
- **Capital projects to improve commuter transportation.** Recognizing the importance of transit to millions of commuters in the New York City area, FTA has committed almost \$99 million for various transit capital projects in New Jersey and New York. These projects include nearly \$25 million for acquisition of five high-powered electric locomotives and about \$56 million for accelerated construction of modifications to New Jersey Transit's main rail maintenance facility to meet increased demand on the New Jersey transit system due to transit traffic that could not access lower Manhattan following September 11. Additional funds went toward other projects to upgrade infrastructure and to improve passenger facilities.

Emergency and Temporary Utility Repairs Total \$250 Million

The collapse of the World Trade Center buildings and subsequent debris removal efforts resulted in widespread damage to the energy and telecommunications utility infrastructure. Utility firms worked quickly to provide service for rescue operations in the days immediately following the disaster and to stabilize delivery of service to lower Manhattan, including the reopening of the New York Stock Exchange 6 days after the attacks. The Congress appropriated funds to HUD for the Lower Manhattan Development Corporation (LMDC) to reimburse utility companies for uncompensated costs associated with restoring service. The primary objective of this assistance was to prevent consumers from bearing the burden of these costs in the form of rate increases. LMDC and the Empire State Development Corporation (ESDC) worked with utility providers, New York State Department of Public Service, and transportation agencies to develop a program that will provide reimbursement for emergency and temporary repair costs.³ Eligible firms will be reimbursed up to 100 percent of actual, incurred, uncompensated, and documented costs. The amount awarded to each applicant will be considered based on various criteria and requests will be subject to a multiagency review process to validate costs.⁴ It is estimated that this reimbursement will total \$250 million. LMDC has designated ESDC to administer the program, which will coordinate with New York State and city agencies to avoid duplication of other federally funded programs.⁵

Testing and Cleaning Efforts Totalled \$53 Million

The collapse of the World Trade Center buildings created a large cloud of dust and debris that enveloped many buildings in lower Manhattan, and covered an extensive area—up to a mile beyond the center of the attacks. The Environmental Protection Agency (EPA) advised rescue workers and lower Manhattan residents about the possible release of asbestos and other dangerous contaminants from the collapsed buildings and fires. As a result, concern about air quality prompted demand for federal assistance in testing and cleaning the interiors of buildings and residences in lower

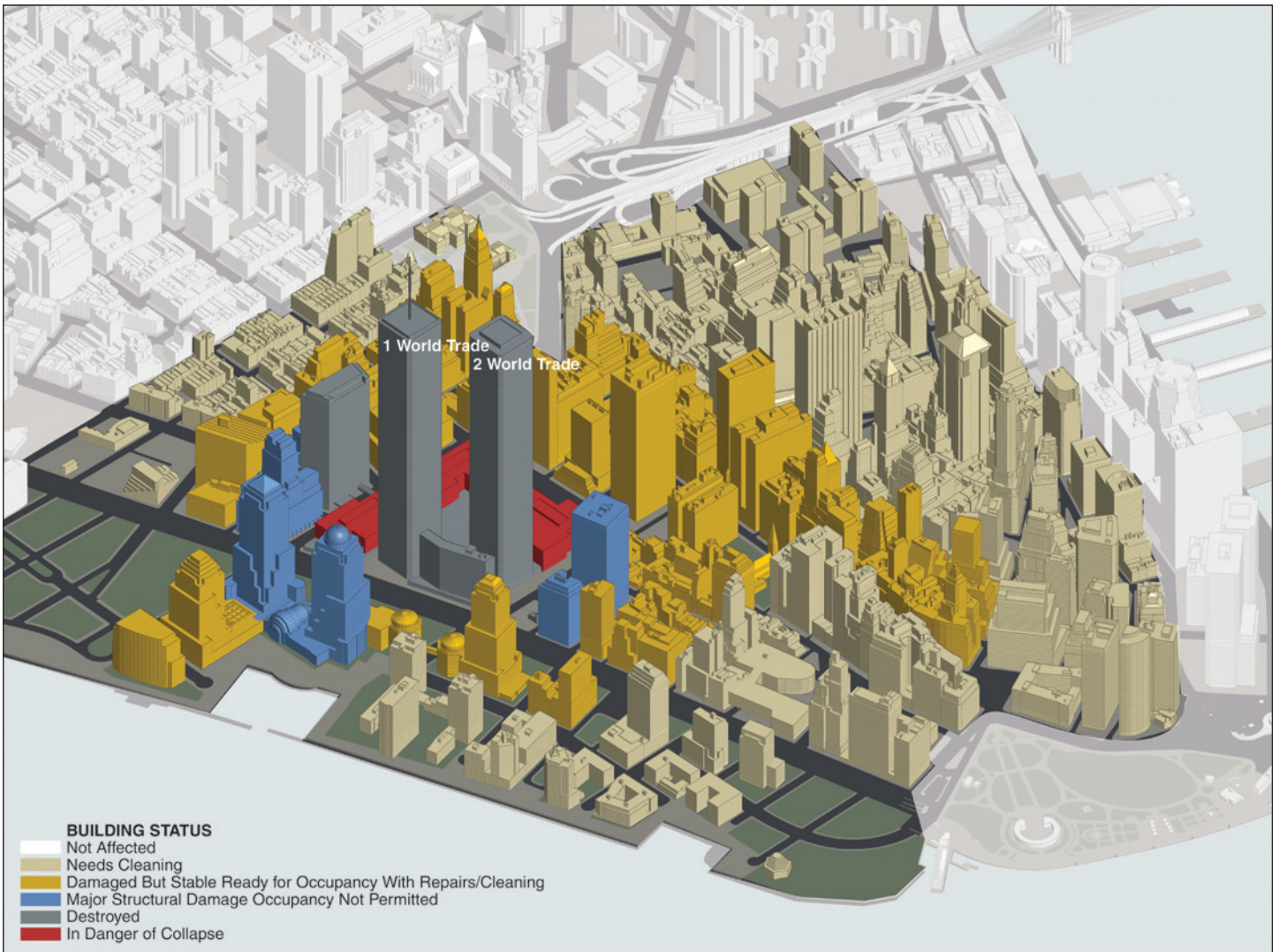
³A total of \$750 million in HUD funds was authorized for infrastructure rebuilding. Other funds to improve and enhance infrastructure will be discussed in chapter 4.

⁴Criteria include: (1) assurance of dollar benefit of funding on consumer rates, (2) the extent to which funds will be used to repair or replace equipment and infrastructure facilities that will provide a direct benefit to the public, and (3) consideration of pursuit of insurance claims to cover losses.

⁵These funds have not been disbursed to utility companies; however, HUD approved LMDC's plan for distributing these funds on September 15, 2003, and HUD officials expect the disbursement of these funds to begin shortly.

Manhattan. In addition, numerous other buildings required exterior cleaning after the disaster, as shown in figure 12.

Figure 12: Buildings Needing Cleaning after September 11, 2001



Source: Urban Data Solutions.

FEMA worked with EPA officials to conduct clean-up efforts that included vacuuming streets, parks, and other areas covered by dust from debris and fires; washing vehicles used in the debris removal efforts; and providing protective gear to workers. In addition, FEMA reimbursed the New York City Board of Education for air quality testing and cleaning public schools. Officials from FEMA, EPA, the Occupational Safety and Health Administration, and New York City coordinated and participated in a task force to complete residential cleaning efforts. FEMA provided funds for

the interior cleaning program, which was led by the New York City Department of Environmental Protection and EPA—the first program of its kind. Overall, environmental cleaning and testing efforts cost \$53 million.

In a December 2002 report, FEMA’s Inspector General (IG) found that the division of responsibilities between FEMA and EPA were not specific enough so that either agency could determine when to deliver services, noting that the program to test and clean residences began months after the disaster.⁶ Specifically, after a disaster occurs, FEMA relies on the expertise of EPA to provide air quality evaluations, and EPA must confirm that a problem exists before FEMA can provide funds to respond. Although EPA made announcements concerning possible contaminants in the air, it did not identify any specific danger; therefore, FEMA did not request EPA to perform any extensive studies. The FEMA IG report recommended that in future disasters, FEMA enlist the expertise of EPA earlier in the recovery effort so that it can conduct necessary testing to determine if a threat exists so that cleaning efforts can begin sooner.

Other Initial Response Services Totalled \$232 Million

FEMA committed an additional \$232 million for initial response assistance through the use of mission assignments and interagency agreements. As part of its role in responding to disasters, FEMA may assign work to or enter into agreements with other federal agencies to handle aspects of the relief effort within their area of expertise. These agreements are called mission assignments and interagency agreements. Mission assignments were widely used in the first few months after the World Trade Center disaster to provide assistance for short-term projects. Typically, mission assignments are used for three purposes: (1) to fund support of FEMA’s response and recovery efforts, such as funding for the General Services Administration, to provide supplies and office equipment; (2) to fund provision of technical assistance to a jurisdiction, such as funding for the U.S. Army Corps of Engineers to provide assistance in maintaining water supply; or (3) to fund a response activity that the state or locality cannot perform, such as funding for the Department of Health and Human Services to provide medical teams to the affected area. In this disaster, FEMA also used interagency agreements for long-term projects, which are similar to mission assignments in that they are funding agreements among

⁶FEMA, Office of Inspector General Inspections Division, *FEMA’s Delivery of Individual Assistance Programs: New York – September 11, 2001*, (Washington, D.C.: Dec. 2002).

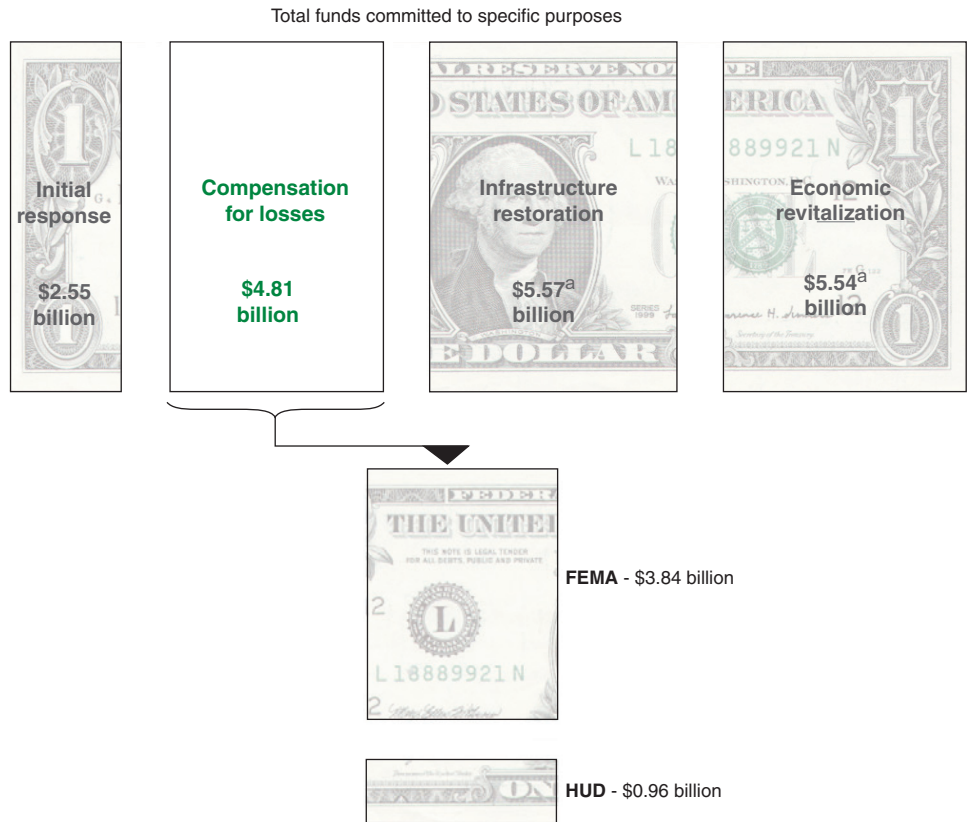
agencies to provide goods and services on a reimbursable basis. For example, as authorized by the Congress, FEMA entered into an interagency agreement with the Department of Health and Human Services to conduct a \$90 million project to screen and monitor emergency services personnel for long-term health effects of work at the World Trade Center site.⁷

⁷P.L. 108-7.

Chapter 3: Compensation for Disaster-Related Costs and Losses Totaled \$4.81 Billion

Approximately \$4.81 billion in federal assistance has been committed to compensate state and local organizations, individuals, and businesses for disaster-related costs and losses. During the months following the disaster, the city and state of New York incurred significant costs to replace damaged equipment, rebuild damaged facilities, and provide increased security. In addition, thousands of businesses and individuals were disrupted by the emergency response, debris removal, and rebuilding efforts surrounding the World Trade Center site. Residential occupancy rates dropped significantly in the area, and about 18,000 businesses in New York City, representing approximately 563,000 employees, were disrupted or forced to relocate as a result of the terrorist attacks. To address the costs and losses of those affected by the disaster, the Federal Emergency Management Agency (FEMA) and the Department of Housing and Urban Development (HUD) committed funds to (1) reimburse state and local organizations for disaster-related costs; (2) assist individuals and families, including funds for rental assistance, crisis counseling, and family grants for lower Manhattan residents; and (3) compensate businesses and nonprofits for economic losses and recovery efforts as shown in figure 13 and table 7.

Figure 13: Amount of Assistance Committed to Compensate Disaster-Related Costs and Losses, by Agency



Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

Note: Numbers may not add due to rounding. In this section, HUD funds include business assistance programs and funds for the Residential Grant Program, most of which were for retention and attraction.

Table 7: Compensation for Disaster-Related Costs and Losses, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Assistance for state, city, and other organizations	FEMA	\$3,319	\$1,857	\$1,593
Assistance for individuals and families	FEMA/HUD	807	729	546
Assistance for businesses	HUD	683	574	510
Total		\$4,809	\$3,160	\$2,649

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

Compensation of the City, State, and Other Organizations Totaled \$3.32 Billion

From the initial days of the disaster recovery effort, FEMA officials worked closely with officials from the New York City Office of Management and Budget and the New York State Emergency Management Office to reimburse the city and state through its public assistance program.¹ This program is designed to reimburse state and local organizations for disaster-related costs of repairing, replacing, or restoring disaster-damaged facilities as authorized by the Stafford Act. In addition, at the direction of the Congress, FEMA committed funds to compensate the city and state for expenses that were associated with the disaster, but not reimbursable within the provisions of the Stafford Act—the first time that FEMA has been granted such broad authority. Finally, FEMA committed funds for hazard mitigation grants to help lessen the effects of future disasters. Table 8 reflects the amount of assistance FEMA has committed, obligated, and disbursed to compensate the city, state, and other organizations for disaster-related costs and losses.

¹ For more details on FEMA's public assistance program, consult U.S. General Accounting Office, *Disaster Assistance: Information on FEMA's Post 9/11 Public Assistance to the New York City Area*, GAO-03-926 (Washington, D.C.: Aug. 31, 2003).

Chapter 3: Compensation for Disaster-Related Costs and Losses Totaled \$4.81 Billion

Table 8: Assistance for the City, State, and Other Organizations, as of July 31, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Assistance for the city, state, and other organizations ^a	FEMA	\$1,486	\$1,486	\$1,486
Reimbursement of associated costs authorized by the Congress ^a	FEMA	1,241	68	0
Hazard mitigation grants	FEMA	377	169	2
Other administrative costs ^b	FEMA	215	133	105
Total		\$3,319	\$1,857	\$1,593

Source: GAO analysis of agency-provided data.

Note: Numbers may not add due to rounding.

^aAs our report was being finalized, FEMA obligated and disbursed an additional \$56 million to the city, state, and other organizations through the public assistance program and \$1.24 billion in September 2003 to the city and state for congressionally authorized activities not reflected in this table. These funds are in addition to FEMA assistance for initial response activities discussed in ch. 1 of this report.

^bAdministrative costs include grantee costs, contractor costs associated with FEMA's public assistance program, and costs associated with on-going programs.

Assistance for New York City, State, and Other Organizations Totaled \$1.49 Billion

FEMA disbursed \$1.49 billion to reimburse New York City, state, and other organizations through its public assistance program to compensate for disaster-related costs and losses. Of this funding, \$643 million was provided to the New York City Police and Fire Departments to pay benefits and wages to emergency workers during response and recovery efforts and to replace vehicles and other equipment. As first responders, these departments suffered heavy casualties and damages and received compensation for overtime costs, death benefits, and funeral costs. FEMA also reimbursed costs to the city to relocate several agencies' offices; establish a Family Assistance Center; reschedule elections that were being held on September 11; and replace damaged voting equipment.²

FEMA also reimbursed other entities, including the Port Authority, counties, and private nonprofit organizations; it also provided funds to the state of New Jersey. Among the applicants receiving some of the largest amounts was the Port Authority, which sustained substantial losses of lives and property as a result of the terrorist attacks. The Port Authority was reimbursed for costs to replace equipment it lost when its World

² House Report 107-593.

Trade Center facilities were destroyed and to reimburse for office relocation costs. Additional funds were provided to all New York counties for cancelled election costs and to private nonprofits, such as Pace University for temporary relocation costs. FEMA also provided \$88 million to New Jersey for emergency protective measures.

**Reimbursements of
Associated Costs to the
City and State Total \$1.24
Billion**

In addition to the traditional public assistance FEMA provided to city and state agencies, the Congress authorized FEMA to provide funding to the city and state of New York for expenses associated with the disaster that were unreimbursable within the provisions of the Stafford Act. The Consolidated Appropriations Resolution enabled FEMA to depart from the Stafford Act criteria. The legislation ensured that FEMA would be authorized to spend the entirety of the appropriated assistance for the New York City area recovery efforts—\$8.80 billion—by allowing the city and state to be provided reimbursement for associated costs that FEMA otherwise could not have funded.

As a result of the Consolidated Appropriations Resolution, FEMA implemented an expedited close-out process to determine how much of the \$8.80 billion appropriated to FEMA remained available to reimburse the city and state for disaster-related expenses. To do this, FEMA reviewed each on-going public assistance project with appropriate New York officials to deobligate any funds not expended as of April 30, 2003, and set aside these funds to provide to the city and state as reimbursement for associated costs authorized by Congress under the Consolidated Appropriations Resolution. In addition, FEMA officials reconciled how much they expected to disburse in its other programs—including individual assistance and hazard mitigation—with the amount of obligated funds and identified additional funds that could be deobligated. FEMA reimbursed the city and state for associated costs with the funds that were deobligated from unfinished projects and remaining funds from other programs—approximately \$1.24 billion. To receive reimbursement for these associated costs, FEMA officials required the city and State prepare grant applications for incurred costs. Since FEMA provided the funds for projects already completed and paid for, city and state officials will ultimately have discretion to redirect as they deem suitable.

As of July 31, 2003, FEMA approved several proposals to reimburse associated costs that were otherwise ineligible for reimbursement under

the Stafford Act and is discussing other proposals with city and state officials. For example, FEMA provided funds to reimburse the state-funded “I Love New York” campaign³ and costs incurred to provide heightened security across the area. Other costs that are under consideration include reimbursing the state for cost of living allowances that the state has to pay on pensions of deceased police and fire staff and New York State’s cost share of the Individual and Family Grant Program.⁴

Hazard Mitigation Grants Totaled \$377 Million

FEMA has also committed \$377 million in hazard mitigation grants to New York State. Created in 1988 by the Stafford Act, the Hazard Mitigation Grant Program provides funds to states affected by major disasters to undertake mitigation measures.⁵ At the time of the disaster, FEMA could provide mitigation grants to New York State in an amount up to 15 percent above the total amount of other assistance provided.⁶ However, in the New York City area recovery effort, the President limited mitigation funds to 5 percent of the funds appropriated within the total amount of funds. According to FEMA officials, the agency recommended reducing the percentage of hazard mitigation grant funds available to New York initially because it was unclear how much the disaster would cost. FEMA officials told us that New York officials requested less funds for the Hazard Mitigation Grant Program than they were eligible so that they could use funds to reimburse other associated costs.

³ The “I Love New York” public awareness campaign was designed to attract visitors back to the city after the terrorist attacks.

⁴ As this report was being finalized, applications for these associated costs were approved and funds were obligated and disbursed to the city and state.

⁵ Mitigation actions include activities such as elevating buildings in flood-prone areas or creating tornado-resistant structures.

⁶ The Disaster Mitigation Act of 2000 increases this amount to 20 percent of total estimated federal assistance for states that meet enhanced planning criteria. For states without an approved enhanced plan, the Consolidated Appropriations Resolution of 2003 reduces the amount available for mitigation grants to 7.5 percent of the other assistance provided. However, neither of these provisions were applicable on September 11, 2001.

Assistance to Individuals and Families Totaled \$807 Million

Not only were thousands of people unable to return to work or their homes due to the damage and debris, the economic effect of the disaster resulted in further job losses and increased vacancy rates. About \$807 million in federal assistance was provided to individuals and families through residential grants, mortgage and rental assistance, crisis counseling, individual and family grants, and other assistance. Table 9 shows the amount of assistance committed, obligated, and disbursed by FEMA and HUD to compensate individuals and families for disaster-related costs and losses.

Table 9: Assistance to Individuals and Families, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Residential grants	HUD	\$281	\$281	\$106
Mortgage and rental assistance	FEMA	200	195	194
Crisis counseling	FEMA	166	99	99
Individual and family grants	FEMA	110	104	97
Other individual assistance	FEMA	51	50	49
Total		\$807	\$729	\$546

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

Residential Grants Made Available \$281 Million

Access to residential communities in lower Manhattan was restricted for months after September 11 due to continued recovery efforts. The Lower Manhattan Development Corporation (LMDC) reported that occupancy rates in neighborhoods near the World Trade Center site fell to approximately 60 percent after September 11. To provide compensation to those affected by the disaster who remained in the area, address the vacancy rate increases, and maintain a stable residential population, LMDC developed and administered the Residential Grant Program with \$281 million in HUD funds to provide incentives to attract residents to the area.⁷ LMDC's program consisted of three different grants—a 2-year commitment-based grant, a September 11 residents grant, and a family

⁷Although the Residential Grant Program and its incentives helped to revitalize the economy of lower Manhattan, we categorized it as compensation for disaster-related losses because of its short-term nature and intended effect on the city in terms of restoring pre-disaster occupancy rates.

grant. Applicants could apply for all three types of grants; each grants' value depended on the applicant's location and housing/rental costs, as shown in figure 14.

Figure 14: Map of LMDC Residential Grant Program Zones in Lower Manhattan



Source: LMDC and GAO.

- **The 2-Year Commitment-Based Grant.** LMDC provided grants of up to \$12,000 over 2 years to attract and retain renters and homeowners to lower Manhattan. Renters who signed at least a 2-year lease on or before May 31, 2003, were eligible for up to 30 percent of monthly rent, and homeowners who purchased a home on or before the same date and agreed to remain in the area for at least 2 years were eligible for 30 percent of monthly housing costs—although the grant amount varied depending on zone. Corporations, universities, and other institutions that purchased or rented residential housing in lower Manhattan were also eligible for the grant.
- **September 11 Residents Grant and Family Grant.** LMDC provided a one-time September 11 Residents Grant of \$1,000 per household for those individuals residing in lower Manhattan on September 11 that remained in

the area through the date of award to compensate for the expenses they may have incurred as a result of the disaster. LMDC officials expected that these grants may also provide an incentive for residents to stay in the area. In addition, LMDC provided a one-time Family Grant between \$750 and \$1,500 per household with children under 18 that make a 1-year commitment to live in lower Manhattan.

LMDC officials said that, in administering the Residential Grant Program, they attempted to be flexible in determining eligibility and advertising the program given the multiplicity of housing arrangements and diverse populations in lower Manhattan. There are many types of buildings where individuals reside in New York City, and before approving a grant, LMDC officials had to determine if an applicant's reported home was a residential property and met all appropriate housing standards. LMDC officials reported that to determine eligibility for this program they had to verify the habitability of all buildings in lower Manhattan. Their effort resulted in a collection of current property information, such as the classification of buildings that met current housing code that the city had not previously recorded. Another useful side benefit of the program was the large number of housing units repaired and brought up to housing code by landlords seeking to get their properties eligible for the grants. In addition, LMDC developed alternative applications to address the needs of the applicants who lived in eligible areas but did not have traditional lease agreements. To spread the word about the program, LMDC organized "It Pays to Live Downtown" day where over 100 volunteers visited every residential building in lower Manhattan to encourage participation in the program. LMDC also conducted a publicity campaign across New York City advertising the program in multiple languages with posters like those in figure 15.

Figure 15: LMDC Published Its “It Pays to Live Downtown” in Multiple Languages



Source: LMDC.

LMDC officials report that the occupancy rate of Battery Park City, a lower Manhattan neighborhood, has risen from 60 percent to 95 percent and that 50 percent of residents in “zone 1” are new to the area since September 11. The Residential Grant Program closed May 31, 2003, but LMDC extended the program deadline to June 14, 2003, for applicants providing alternative lease documentation. As of June 30, 2003, LMDC had approved over 31,000 applications totaling \$177 million and had disbursed \$106 million in grants. According to LMDC officials, applications surged in the last 2 weeks of the program; many applications were still under review as of June 30, 2003.⁸

Mortgage and Rental Assistance Totaled \$200 Million

Individuals suffering financial hardships as a result of September 11 could obtain mortgage and rental assistance from FEMA. Prior to September 11, FEMA had provided a total of \$18 million in mortgage and rental assistance grants in all previous disasters, which provided rent or

⁸ As this report was finalized, LMDC announced that it planned to redirect \$50 million originally committed to the Residential Grant Program for a program to develop affordable housing.

mortgage payments to individuals in danger of losing their homes through foreclosure or eviction as a result of a major disaster. After September 11, FEMA committed \$200 million through this program. Eligible applicants received up to 18 months of assistance as part of this program.⁹ Initially, applicants were eligible if they resided in certain zones around the World Trade Center site and lost 29 percent or more of their income as a result of the disaster. FEMA, as directed by the Congress, extended assistance to those who lost 25 percent of their income working anywhere in Manhattan, to those whose employers were not located in Manhattan but were economically dependent on a Manhattan firm; and to anyone living in Manhattan who commuted off the island and who suffered financially because of post-September 11 travel restrictions.

In a December 2002 report that examined this program, FEMA's Office of Inspector General (IG) noted that the unique nature of the disaster and its economic impact required FEMA officials to expand eligibility guidelines more broadly than ever before.¹⁰ This resulted in FEMA having to re-evaluate applications, reverse previous determinations to deny benefits, and attempt to contact applicants initially denied but now eligible under the expanded guidelines. Additionally, the report stated that FEMA was challenged to provide outreach to the large, diverse population of Manhattan. To accomplish this, FEMA translated all program information into seven languages, promoted the program in 26 non-English papers, and set up a toll free number where individuals could ask questions in 157 different languages. FEMA's IG recommended that FEMA implement a broader, more flexible program in order to respond to any future disasters that have a widespread effect on the economy and result in large-scale individual needs.¹¹

In a December 2002 report on charitable organizations' contributions after September 11, we noted, among other things, that coordination among

⁹ In all disasters, self-employed or business-owner applicants are advised to apply first to the Small Business Administration (SBA) for an Economic Injury Disaster Loan before FEMA assistance can be provided. Assistance provided by SBA is part of the more than \$20 billion designated to New York, but is not a primary source and, therefore, not specifically discussed in this report.

¹⁰ FEMA, Office of Inspector General Inspections Division, *FEMA's Delivery of Individual Assistance Programs: New York – September 11, 2001* (Washington, D.C.: Dec. 2002).

¹¹ Because FEMA's Mortgage and Rental Assistance Program had been rarely used in past disasters, it was eliminated with the passage of the Disaster Mitigation Act of 2000, which made the nationwide program unavailable for disasters declared after May 1, 2002.

charities—of which some provided rental assistance—and FEMA could be enhanced.¹² We reported that both charities and individuals who were indirectly affected by the disaster (e.g., by job loss) were confused about what aid might be available. We recommended that FEMA convene a working group with involved parties to take steps to implement strategies for future disasters that build on the lessons learned in the aftermath of September 11. FEMA agreed with this recommendation, noting that such a working group would foster enhanced coordination and potentially lead to improvements in service to those affected by disasters.

The deadline to apply for the Mortgage and Rental Assistance Program in the New York City area was January 31, 2003, and as of July 31, 2003, \$194 million had been disbursed of the \$200 million available. Even though the period to apply for the program has passed, FEMA officials expect all funds to be disbursed as applicants continue to receive monthly assistance.¹³

**Crisis Counseling
Assistance Totaled \$166
Million**

The Crisis Counseling Assistance and Training Program, funded by FEMA, led to the creation of “Project Liberty.” Project Liberty is administered by the New York State Office of Mental Health and provides short-term outreach, education, and referrals to mental health services, and other programs for long-term care. In the past, only individuals from a declared disaster area were eligible to receive counseling services; however, because of the broad impact of the disaster, grants for this program were also provided to eligible individuals in New Jersey, Connecticut, Massachusetts, and Pennsylvania.

In addition to Project Liberty, the Department of Justice’s Office for Victims of Crime and various charities, such as the American Red Cross, offered counseling services after September 11.¹⁴ In its December 2002 report, FEMA’s IG found that the availability of counseling services from multiple agencies was confusing for victims. In the event of a disaster that is also a criminal activity, FEMA and the Department of Justice cooperate

¹² [GAO-03-259](#).

¹³ Eligible applicants can receive up to 18 months of assistance.

¹⁴ The Department of Justice’s Office for Victims of Crime provided counseling assistance in this disaster since the attacks were criminal acts. Counseling assistance provided by the Department of Justice is part of the more than \$20 billion designated to New York, but is not a primary source and, therefore, not specifically discussed in this report.

to provide services. However, the IG recommended that more detailed and comprehensive guidance be developed to minimize duplication and ensure victims obtain appropriate services. Specifically, the IG recommended that a memorandum of understanding officially detail the relationship and responsibilities of FEMA and the Department of Justice and time frames in administering crisis counseling assistance.¹⁵

FEMA committed more than \$166 million in grants to Project Liberty; this sum is more than all previous counseling grants since 1974 combined. Of these funds, \$99 million has been obligated and disbursed. As of July 31, 2003, the program was still available and remaining funds will continue to be disbursed until the program deadline, March 31, 2004.¹⁶

Individual and Family Grants Totaled \$110 Million

FEMA is authorized by the Stafford Act to provide individual and family grants for necessary expenses related to disasters that were not covered through insurance, other federal assistance, or voluntary programs. For the September 11 disaster, FEMA's Individual and Family Grant Program provided eligible residents of New York City assistance for home repairs, replacement of personal property, reimbursement for air quality products, and repair or replacement of air conditioners. The New York State Department of Labor was tasked with implementing and administering the program.

In its December 2002 report on Individual Assistance, FEMA's IG reported that the state program officials faced few challenges in providing individual and family grants until a jump in applications resulted in delays and required the New York State Department of Labor and FEMA to dedicate additional staff to manage the program.¹⁷ The New York State Department of Labor officials experienced a surge in grant applications in June 2002, particularly for air quality product assistance. Applications do not typically increase at this point in the recovery phase. FEMA officials reported that the increase in applications occurred around the same time that EPA released reports on air quality in lower Manhattan. The IG

¹⁵ FEMA, Office of Inspector General Inspections Division, *FEMA's Delivery of Individual Assistance Programs: New York – September 11, 2001* (Washington, D.C.: Dec. 2002).

¹⁶ FEMA officials told us that, although details have not been finalized, limited extensions for parts of the program may be granted.

¹⁷ FEMA, Office of Inspector General Inspections Division, *FEMA's Delivery of Individual Assistance Programs: New York – September 11, 2001* (Washington, D.C.: Dec. 2002).

reported that although FEMA officials could not have anticipated this surge of applications, they could use lessons learned in this disaster and work with states to develop contingency plans that can be implemented quickly to avert a similar situation in future disasters.

The report also noted that the lack of inspections to verify property damage, and the relaxed requirements to document whether an applicant was eligible for advance payment of grant, may have increased the likelihood of fraud in the Individual and Family Grant Program. The IG reported that FEMA officials did not perform the typical inspections to verify property damage because they determined it would not be cost-effective for inspectors to examine damage to a single property item. Instead, state officials established a self-certification process requiring applicants to document damage and provide receipts for purchases, or if an applicant self-certified that they were unable to pay for equipment up front, FEMA provided advanced payment and requested that receipts be provided after the purchase. These issues, combined with the large number of applications, may have increased the likelihood of fraud and abuse.

The application deadline for the Individual and Family Grant Program was November 30, 2002. As of July 31, 2003, \$97 million had been disbursed of the \$110 million available through this program.

**Other Individual
Assistance Totaled \$51
Million**

In addition to Mortgage and Rental Assistance and Individual and Family Grants, FEMA also committed other funds for temporary housing assistance, including \$34 million for programs that address short-term needs such as lodging expenses and temporary housing repairs. In addition, the Stafford Act authorizes FEMA to provide unemployment assistance to individuals, as a result of the disaster, who are not eligible for regular state Unemployment Insurance. For the New York City area, FEMA provided \$17 million for disaster unemployment insurance administered by the state of New York.

**Assistance to
Businesses Totaled
\$683 Million**

Almost 18,000 businesses in New York City, representing approximately 563,000 employees, were disrupted or forced to relocate as a result of the terrorist attacks. Approximately 30 million square feet of commercial space was damaged or destroyed. Businesses near the World Trade Center site suffered physical damage, but businesses all across the city experienced the economic impact of the disaster. The Empire State Development Corporation (ESDC), as a grantee of HUD funds,

administered a variety of assistance programs in cooperation with New York City to compensate businesses for economic losses and to assist in their recovery. Businesses could apply for multiple programs. Table 10 shows the amount of assistance committed, obligated, and disbursed by HUD for businesses assistance.

Table 10: Assistance to Businesses, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Business recovery grants ^a	HUD	\$578	\$503	\$488
Business recovery loans	HUD	41	41	12
Compensation to businesses for disproportionate loss of workforce	HUD	33	0	0
Bridge loans	HUD	7	7	^b
Technical assistance grants	HUD	5	5	2
Other administrative costs	HUD	19	19	9
Total		\$683	\$574	\$510

Source: GAO analysis of agency-provided data.

Note: Numbers may not add due to rounding.

^aBusiness recovery grants include funds to small and large businesses. HUD approved obligation and disbursement of all remaining business recovery grants August 6, 2003.

^bAlthough no funds have been disbursed for this program, \$7 million in other city and state funds have been provided in loan loss reserves to private banks and nonprofit lenders. ESDC plans to reimburse these funds in the future.

Business Recovery Grants Totaled \$578 Million

The Congress required that at least \$500 million of the HUD funds to compensate small businesses, not-for-profits, and individuals in New York for their economic losses—the first time HUD funds have been used for this purpose.¹⁸ ESDC estimates that businesses with fewer than 200 employees account for 99 percent of all businesses affected by September 11 and about 50 percent of all affected employees. Accordingly, ESDC developed the Business Recovery Grant Program, which offers grants to small businesses and nonprofits to compensate for economic losses. As part of this program, businesses with fewer than 500 employees in lower Manhattan, south of 14th Street, were eligible for reimbursement of a number of days of lost revenue depending on their proximity to the World Trade Center site. In addition to small businesses, ESDC provided

¹⁸ P.L. 107-117.

recovery grants to businesses that have more than 500 employees outside of lower Manhattan, but have facilities with fewer than 200 in lower Manhattan. Firms receiving these grants include McDonalds, XEROX, and Starbucks. The areas of lower Manhattan eligible for business recovery grants are shown in figure 16.

Figure 16: Areas of Lower Manhattan Assisted by ESDC Business Recovery Grant Program



Source: ESDC and GAO.

Prior to September 11, ESDC had never administered such a large HUD-funded endeavor. ESDC officials worked closely with HUD officials to efficiently provide services to businesses in the weeks following the disaster and meet HUD's requirements for the Community Development Block Grant (CDBG) program. HUD officials and its IG conducted several reviews of ESDC's programs and issued various letters and reports.¹⁹

¹⁹ HUD staff have conducted a series of HUD Management Review Reports: May 2002, January 2003, and July 2003. HUD's IG has also released two audit reports: an interim report in May 2002 and a final report in March 2003.

Although the reviews generally concluded ESDC was handling funds appropriately, HUD's IG and ESDC officials reported challenges in providing assistance to affected businesses while avoiding duplication of benefits from other federal programs, such as the Small Business Administration (SBA) Disaster Assistance Loans.²⁰ HUD officials and its IG determined that ESDC did not have adequate controls in place to avoid duplication of benefits and HUD worked with ESDC officials to implement these procedures. ESDC had to reevaluate previously approved applications to account for this requirement. Another challenge ESDC officials encountered was that the amount of eligible grant funds applied for in business recovery grants exceeded the amount of committed funds due to a surge in applications in the last 2 days of the program. Businesses could apply for the program from January 25, 2002, through December 31, 2002. Over 19 percent of all applications were received in the last 2 days of the program. As of June 30, 2003, ESDC reported that 2,166 businesses had not yet received their approved grants.

To address this shortfall, ESDC redirected funds from other programs and LMDC requested that HUD approve transfer of additional funds for LMDC to transfer to ESDC in order to meet program commitments. Once the transfer of funds is approved, \$578 million will have been disbursed to compensate businesses in lower Manhattan with \$558 million provided through business recovery grants for small and large businesses. As of June 30, 2003, ESDC reported \$475 million disbursed in recovery grants to small businesses and \$13 million for large firms—a total of \$488 million. According to LMDC, the Business Recovery Grant Program will have directly impacted more than 141,000 jobs when all grants have been disbursed.

Business Recovery Loans Available Up to \$41 Million

The Business Recovery Loan Program provides funding to community-based lending organizations, which in turn provide low-cost working capital loans to businesses that were adversely affected by the terrorist attacks and to businesses that have subsequently located or will locate

²⁰As part of the about \$20 billion in federal assistance designated to New York, the Congress made special appropriations to SBA for disaster assistance; however, since it was not a primary source of funds, we did not include specific information about the program in our review. For more information on SBA disaster assistance and other business assistance, see U.S. General Accounting Office, *September 11: Small Business Assistance Provided in Lower Manhattan in Response to the Terrorist Attacks*, [GAO-03-88](#) (Washington, D.C.: Nov. 1, 2002).

new operations in lower Manhattan. Funds may be used for payroll, rent, utilities, inventory, and, in certain circumstances, refinancing existing debt. Loans are available to businesses based on their location in lower Manhattan or economic relationship with a business in that area.²¹ The program enhanced access to capital for businesses, particularly to those that do not meet SBA credit or eligibility criteria for disaster loans. The \$41 million committed to this program provided funds to eight community-based lenders. As of June 30, 2003, ESDC had disbursed \$12 million in program funds to participating lenders, and the lenders have closed 201 loans.

**Up to \$33 Million
Committed for Businesses
with Disproportionate
Loss of Workforce**

As part of the federal assistance to the New York City area, the Congress appropriated funds to HUD to compensate businesses that suffered a disproportionate loss of employees due to the disaster.²² LMDC provided \$33 million for the program, which will be developed and administered by ESDC.²³ The program targets firms in the World Trade Center or in the immediate surrounding area that lost (1) at least 6 permanent employees, representing at least 20 percent of the firm's workforce or 50 percent of its New York City employees or (2) at least 50 percent of its New York City workforce. To be eligible, firms must maintain 50 percent of an agreed upon level of employment in New York City for 3 years. All funds will be divided among eligible firms, and the amount for each business will be based on the magnitude and proportionality of employee loss. As of June 30, 2003, no funds have been requested, obligated, or disbursed for this program.

²¹ Eligible businesses could be (1) located on or south of 14th Street in Manhattan as of September 11, 2001; (2) located in the five boroughs of New York City, but outside of lower Manhattan, that were adversely affected because at least 10 percent of their revenues were derived from sales or services to other businesses located on or south of 14th Street in Manhattan; or (3) newly located on or south of 14th Street in Manhattan since September 11, 2001.

²² P.L. 107-206.

²³ Although these funds will provide businesses with incentives to remain in the area, such as programs discussed in chapter 5, the primary objective of this program is to compensate businesses for losses.

About \$7 Million Available
for Lenders to Make
Bridge Loans to
Businesses

Through the Bridge Loan Program, ESDC provided loan loss reserve subsidies to lenders that made bridge loans to businesses awaiting SBA loan approvals.²⁴ Eligible businesses are New York City-based, commercial, industrial, retail, and not-for-profit organizations that were affected by September 11 and applied for SBA loans. Participating banks and community-based lenders offered bridge loans to provide interim capital to businesses until the SBA loan was approved. Upon approval of a SBA loan, the business paid off the bridge loan with the SBA loan proceeds and if the loan was not approved, the lender had the option to restructure the bridge loans as term loans.²⁵ The program closed January 31, 2003, as the SBA loan stopped accepting applications for disaster loans. As of June 30, 2003, the loan loss reserve fund totaled \$7 million to support the \$33 million in loans provided by the lenders.

Technical Assistance
Grants Totaled \$5 Million

The Technical Assistance Program provided grants to community-based organizations and other technical service providers to allow them to provide additional assistance to businesses affected by the disaster. ESDC committed \$5 million to this program and allowed for a maximum grant of \$250,000 per organization. Services may include help with strategic planning, finance, insurance, and legal issues; and basic business management such as marketing, member development, and attraction efforts. Businesses took part in a variety of services, including direct assistance, on-line activities, and workshops or training seminars on various business recovery and marketing topics. To apply for technical assistance, businesses must have fewer than 200 employees, have been

²⁴ A bridge loan is a short-term loan that is intended to provide financing until a more permanent arrangement is made.

²⁵ In the original Bridge Loan Program, New York City and state shared equally in providing participating lenders with a 20 percent loan loss reserve subsidy for approved bridge loans. ESDC will use HUD funds to reimburse the city and state for their loss reserve expenditures at a later date.

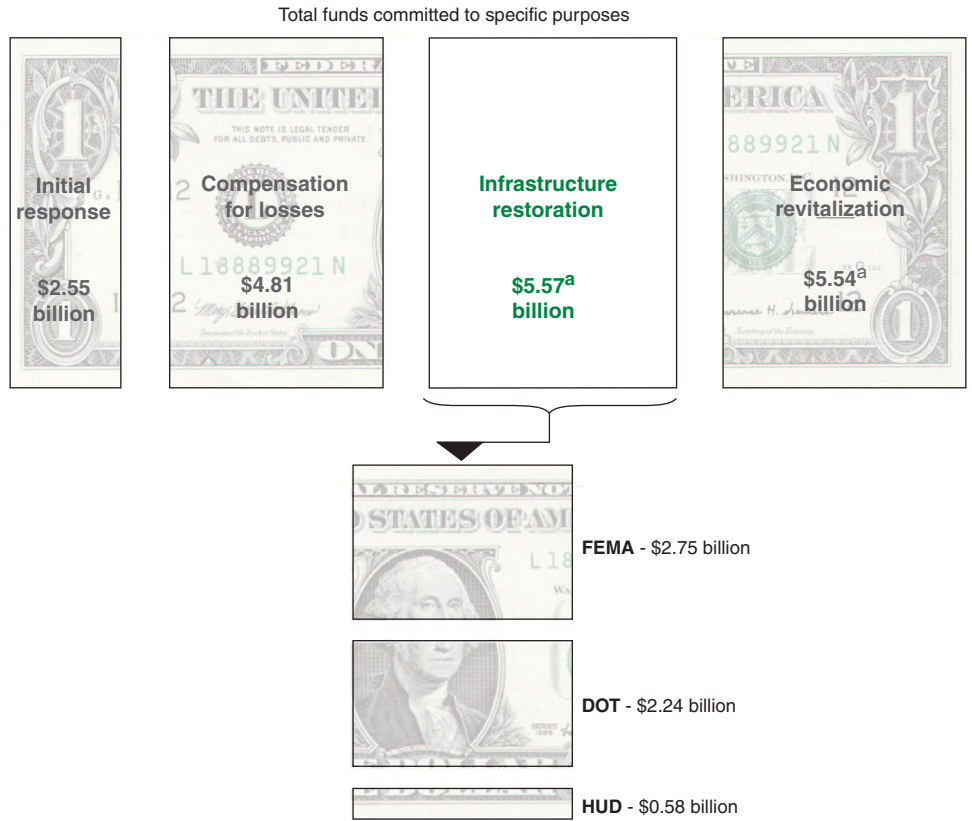
affected by the disaster, and currently be located in lower Manhattan. As of June 30, 2003, ESDC had 23 technical service providers under contract that have assisted over 3,000 small businesses, representing over 30,633 employees, and a total of \$2 million has been disbursed through this program.

Chapter 4: Almost \$5.57 Billion Committed for Projects to Restore and Enhance Infrastructure

The terrorist attacks at the World Trade Center severely damaged the public transportation system that was used by more than 85 percent of commuters to lower Manhattan—the highest percentage of people commuting to work by public transit of any commercial district in the nation. About \$5.57 billion has been committed for projects to restore as well as enhance transportation and other infrastructure in lower Manhattan. The majority of this financial assistance, \$5.01 billion, is a combination of FEMA, DOT, and HUD funds to restore and enhance elements of the transportation system supporting lower Manhattan. The attacks and subsequent recovery efforts also heavily damaged utility infrastructure in lower Manhattan, and \$568 million in HUD funds have been committed to rebuild utility infrastructure and to fund other short-term capital projects for infrastructure improvements to the areas around the World Trade Center. The amount of assistance each agency has committed is shown in figure 17. Since the infrastructure restoration and improvement projects are in planning stages, most funds remain to be obligated and disbursed as shown in table 11.

Chapter 4: Almost \$5.57 Billion Committed for Projects to Restore and Enhance Infrastructure

Figure 17: Amount of Assistance Committed for Infrastructure Restoration and Improvement, by Agency



Source: GAO analysis of agency-provided data.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

**Chapter 4: Almost \$5.57 Billion Committed
for Projects to Restore and Enhance
Infrastructure**

Table 11: Infrastructure Restoration and Improvement, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed	Total obligated	Total disbursed
Restoring and enhancing the lower Manhattan transportation system	FEMA/DOT/HUD	\$5,006	\$238	\$54
Permanent utility infrastructure repairs	HUD	500	0	0
Short-term capital projects	HUD	68	0	0
Total		\$5,574	\$238	\$54

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

**Projects Planned to
Restore and Enhance
the Lower Manhattan
Transportation
System Total \$5.01
Billion**

A wide variety of transportation restoration and enhancement projects for lower Manhattan have begun or are in the planning process. DOT is the lead agency in administering funds to restore improve the transportation system in lower Manhattan, but agencies at all levels of government are involved in the decision making process. The various types of projects and their funding information can be seen in table 12.

**Chapter 4: Almost \$5.57 Billion Committed
for Projects to Restore and Enhance
Infrastructure**

Table 12: Lower Manhattan Transportation System Restoration and Enhancement, as of June 30, 2003

Dollars in millions				
Activity	Agency	Total committed	Total obligated	Total disbursed
Transit projects	DOT/FEMA	\$4,550	\$50	\$0
Long-term transportation planning	HUD	14	0	0
Street resurfacing and reconstruction	DOT	242	100	9
Ferry projects ^a	DOT	100	11	11
Rail safety projects	DOT	100	77	34
Total		\$5,006	\$238	\$54

Source: GAO analysis of agency-provided data.

Notes: Numbers may not add due to rounding. Due to the expedited close-out, FEMA data are reflected as of July 31, 2003.

^aAfter June 30, 2003, Federal Transit Administration awarded grants totaling \$36 million for the Hoboken Ferry Terminal and \$5 million for a New York State Energy Research and Development Authority grant for a study of environmental mitigation of ferry emissions. These data are not reflected in the table.

**Planning for \$4.55 Billion
Committed for Lower
Manhattan Transit Projects
Continues**

Of the total amount the Congress appropriated to this disaster, \$4.55 billion has been committed for transit projects in lower Manhattan. Of this amount, the Congress appropriated \$1.80 billion to Federal Transit Administration (FTA) to replace, rebuild, or enhance the public transportation systems serving Manhattan.¹ In addition, FEMA committed \$2.75 billion for lower Manhattan transit projects for a total federal commitment of \$4.55 billion. In an August 2002 memorandum of agreement between FEMA and FTA, FTA was identified as the lead federal agency responsible for administration and management of the combined \$4.55 billion in federal funds. In February 2003, the Governor of New York identified nine potential projects to be funded out of the \$4.55 billion in federal aid, noting that projects are in different stages of development. The Governor specifically identified three projects—the Port Authority Trans-Hudson (PATH) Terminal, the Fulton Street Transit Center, and the South Ferry Subway Station—totaling up to \$2.85 billion in federal funds. FTA is working with the Port Authority and the Metropolitan Transportation Authority (MTA) on project development issues and implementing an oversight program before disbursement of funds for these projects. FTA has not received any formal correspondence from New York requesting any portion of the remaining federal assistance.

¹ P.L. 107-206.

PATH Terminal

The original PATH terminal located underneath the World Trade Center site was completely destroyed in the terrorist attacks. As part of the initial response, a temporary PATH terminal, funded through insurance payments and FEMA funds, is under construction and is scheduled for completion in November 2003.² The Port Authority is requesting an additional \$1.4 billion to \$1.7 billion to build a permanent PATH terminal that Port Authority officials report will be a substantial improvement over the destroyed World Trade Center terminal. According to plans, this terminal will serve PATH commuter trains and four subway lines with concourses linking the terminal to the Fulton Street Transit Center and the ferry terminal at the World Financial Center. Portions of the temporary PATH terminal will be retained in the construction of this permanent terminal. FTA officials report that the Port Authority estimates the majority of the project to be completed in 2007, while some of the passenger concourses connecting to other developments at the World Trade Center site will be completed in 2009.

Fulton Street Transit Center

The current Fulton Street-Broadway Nassau Subway Station Complex provides access to the most heavily used subway lines in lower Manhattan and lies one block east of the World Trade Center site. The complex is comprised of four separate subway stations serving nine subway lines that serve 250,000 passengers entering, exiting, and transferring at these stations daily. The complex was not damaged on September 11, but according to MTA officials it is difficult to navigate and not easily accessible. According to these officials, the complex has crowded corridors and mezzanines, poor connections between platforms, and entrances with little visibility from the street. In addition, three neighboring subway stations that provide access to different subway lines have no underground connections to the complex.

The MTA is planning a \$750 million project to improve the existing Fulton Street-Broadway Nassau Subway Station Complex to create a Fulton Street Transit Center. According to plans, the project will create a visible street level entrance pavilion to serve as a focal point for the four subway stations. These renovations will include new and expanded platforms and mezzanines, efficient connections between platforms, linkage to the restored PATH terminal and neighboring subway stations, a new underground pedestrian concourse, and upgraded station entrances for

² Details of the temporary PATH terminal—for which FEMA provided \$140 million in public assistance funds—are described in chapter 2.

better access for all users. FTA has issued a \$50 million grant to MTA for environmental review work and preliminary engineering for this project.³ MTA is planning to complete the final environmental impact statement by July 2004 and the final project in December 2007.

South Ferry Subway Station

The South Ferry Subway Station, which is located a half mile from the World Trade Center site, serves the southern tip of lower Manhattan and provides linkage to the Staten Island Ferry terminal and express busses. The station—the final point on the 1 and 9 subway lines that also run through the World Trade Center site—was not damaged on September 11. However, according to MTA officials, the South Ferry Subway Station is outmoded: only five cars of a 10-car subway train can open onto the platform at one time; the tunnel is curved in such a fashion that trains have to slow down substantially to negotiate it; and it has no direct passenger connections to nearby subway stations. MTA has proposed to improve the station so that it would accommodate the length of a standard 10-car subway train and would provide connection to the Whitehall Street Subway Station that serves two other subway lines. According to an FTA official, the project will undergo an environmental assessment in fall 2003 that will determine whether an environmental impact statement is necessary. The estimated cost of the project is \$400 million, and the estimated completion date is 2007 or 2008. Figure 18 shows the current South Ferry Subway Station layout and plans for the renovated station.

³ The National Environmental Policy Act of 1969 directs federal agencies, when planning projects or issuing permits, to conduct environmental reviews to consider the potential impacts on the environment by their proposed actions.

Figure 18: Current and Proposed South Ferry Subway Station Layout



Source: GAO.

Long-Term Transportation Planning for Remaining Funds

The permanent PATH terminal, the Fulton Street Transit Center, and the South Ferry Subway Station would account for \$2.55 billion to \$2.85 billion of the \$4.55 billion designated for lower Manhattan transit projects— projects to be funded with the remaining \$1.7 billion to \$2 billion have yet to be determined. A February 2003 letter from the Governor of New York to FTA identified nine potential projects to be funded out of the \$4.55 billion in federal aid, noting that projects are in different stages of development. The Governor specifically identified the permanent PATH terminal and improvements to the Fulton Street and South Ferry subway stations totaling up to \$2.85 billion in federal funds. In April 2003, various

New York City and state agencies⁴ released a report entitled Lower Manhattan Transportation Strategies that identified priority transportation projects. High-priority projects highlighted in the report include access to JFK Airport and Long Island, enhancement of West Street, construction of a tour bus facility, and construction of World Trade Center underground infrastructure. However, FTA has not received any formal correspondence requesting any portion of the remaining federal assistance for any other projects. LMDC has committed \$14 million in HUD funds to assist in the planning of these projects and has provided funds to study alternatives to improve transportation to airports, West Street planning (as discussed in the next section), and other studies to address rebuilding efforts and their effect on economic revitalization of lower Manhattan. In addition, a portion of the remaining \$1.16 billion in HUD funds may be directed to infrastructure improvement activities depending on the results of on-going studies. To date no decisions have been made on which of these projects will be funded. For more information on the transportation projects highlighted in the Lower Manhattan Transportation Strategies report, see appendix II.

**\$242 Million Committed
for Resurfacing and
Reconstructing of Lower
Manhattan Streets; More
Funding Possible**

The Federal Highway Administration (FHWA) is overseeing New York State DOT and New York City DOT plans for resurfacing and reconstructing lower Manhattan streets through its Emergency Relief Program. These streets were damaged by the direct impact of the collapsed World Trade Center buildings as well as wear and tear from debris removal activities and from emergency telecommunications repairs. Of the \$242 million appropriated for the Emergency Relief Program to New York, \$132 million has been committed for New York City street repair and the remaining \$110 million has been committed for the reconstruction of West Street.⁵

**Street Resurfacing and
Reconstruction**

In addition to FEMA funds for local road repairs as part of initial response efforts, FHWA has committed \$132 million to resurface and reconstruct about 400 city blocks of New York City streets. As of June 2003, over \$100

⁴ LMDC, the Port Authority, MTA, the New York State DOT, and the city of New York.

⁵ Since initial estimates only reflected surface damage and since several additional projects have been planned, FHWA has raised the total estimated cost of street repairs to over \$251 million, exceeding the authorized funds. FHWA officials emphasized that the estimated total costs could shift higher or lower than \$251 million as the projects progress and if costs exceed available funds, other highway funds or New York City or New York State funding could be used.

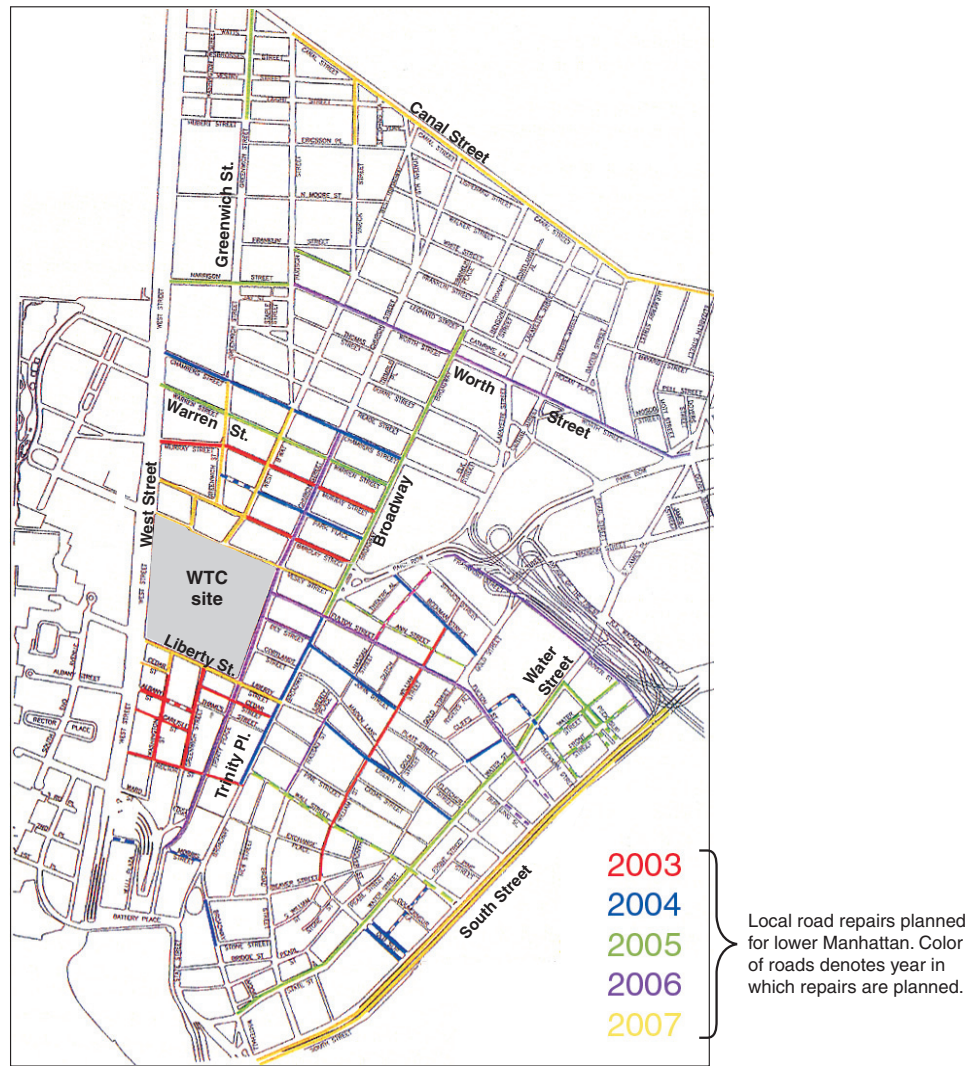
million had been obligated to the Emergency Relief Program, more than \$9 million had been disbursed and 95 blocks had been repaved. FHWA and New York State DOT officials anticipate that repairs will continue through 2007. Figure 19 shows workers conducting street repairs in lower Manhattan, and figure 20 shows a map of planned Emergency Relief Program road repairs for lower Manhattan streets.

Figure 19: Workers Conducting Street Repairs in Lower Manhattan



Source: GAO.

Figure 20: New York City Department of Transportation Map of Planned Emergency Relief Program Road Repairs (excluding West Street)



Source: New York State DOT and GAO.

West Street (Route 9A)

West Street, also known as Route 9A, is a key regional and local transportation corridor for Lower Manhattan and a major utility corridor. Prior to September 11, it served 170,000 people per day walking, biking, and riding in vehicles. Falling debris from the collapse of the World Trade Center buildings destroyed the roadway, including two northbound lanes that crossed part of the World Trade Center site. The street was further damaged from wear and tear from numerous heavy vehicles used in

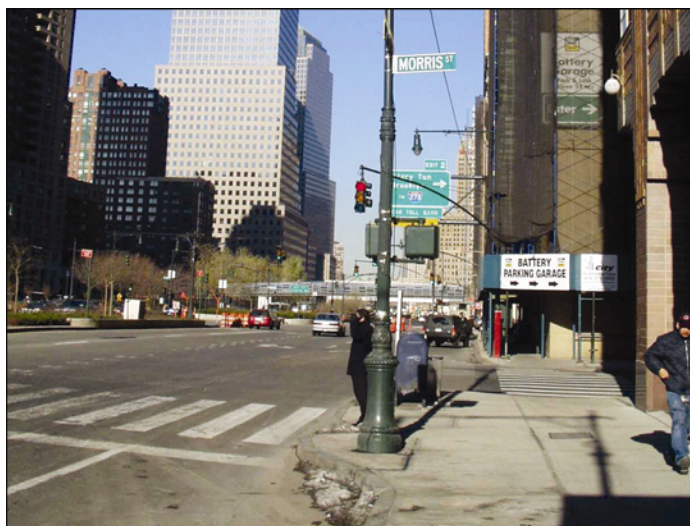
response and recovery efforts as well as from emergency utility repairs to restore power and communications. As discussed in chapter 2, FEMA provided \$6 million for interim repairs to West Street; however, significantly more funds are projected to be needed to permanently repair West Street and to improve pedestrian movement around the roadway.

FHWA estimates the cost to simply replace West Street to pre-disaster conditions to be \$110 million. However, New York State DOT is considering a more extensive renovation and enhancement of West Street. Planners hope to permanently restore the functionality of the roadway while also improving pedestrian movements, enhancing green areas, and supporting economic recovery and development. Four options for enhancing the street are under consideration:

1. An improved at-grade roadway with pedestrian bridges that would cost an estimated \$185 million and would be completed in 2005.
2. A pedestrian deck over the highway crossing to the World Trade Center site that would cost an estimated \$700 million and be completed in 2006.
3. An 1,100-foot short bypass with two lanes in each direction above ground and four lanes below ground that would cost an estimated \$850 million with a completion date of 2007.
4. A long bypass that would cost an estimated \$2.90 billion with a completion date of 2011.

Figure 21 shows the present West Street and the design concept for an improved West Street intersection with belowground lanes.

Figure 21: Present West Street and West Street Design Concept with Belowground Lanes



Source: New York State DOT and GAO.

Left: Present West Street intersection with Morris Street. Right: Design concept of same intersection with landscaped promenade.

In an April 2003 speech, the Governor of New York announced that enhancing West Street was one of his top priorities for the remaining \$1.7 billion to \$2 billion of the \$4.55 billion under FTA control and his support for the \$850 million short bypass alternative. For the environmental review process, all four options will be considered as well as additional options that may arise in the public scoping meeting. As options are planned and considered by New York State DOT and other officials, LMDC will use HUD funds to reimburse some costs associated with planning efforts. Specifically, LMDC has committed funds to assist New York State DOT's technical services related to the repair and restoration of West Street, including planning for future enhancements.

\$100 Million for Ferry Terminals in New York and New Jersey

The ferry system is an integral part of lower Manhattan's transportation system. FHWA was appropriated \$100 million in Miscellaneous Highway funds for ferry and ferry facility construction projects in New York and New Jersey.⁶ FHWA transferred administration of most of this money to FTA, which worked with a task force of representatives from New York

⁶ P.L. 107-117.

and New Jersey to identify ferry projects for funding. As of June 30, 2003, FTA has disbursed \$11 million for the West Midtown (Manhattan) Terminal, and has committed funds for the renovation of the Hoboken (New Jersey) terminal and the Colgate/Sussex Pier (New Jersey). FTA plans disbursement of \$5 million to support efforts by the New York State Energy Research and Development Authority and Rutgers University to research, demonstrate, and implement mitigation of pollution from ferry boats in New York Harbor. FHWA will administer \$22 million for administration of two of the projects—the Weehawken Intermodal Ferry Terminal (New Jersey) and the South Amboy Ferry Terminal (New Jersey).

**Safety Projects for New
York Rail Tunnels Totaled
\$100 Million**

As part of the effort to enhance the New York area transportation system, the Federal Railroad Administration was appropriated \$100 million to enhance the fire and life safety in New York rail tunnels. In June 2002, the Federal Railroad Administration and Amtrak entered into a grant agreement for \$77 million to do this work. The funds will be used to modernize ventilation systems, install communication systems, improve emergency exits from the tunnels, and structurally rehabilitate four East River tunnels, two Hudson River tunnels, and the subterranean section of Penn Station. As of July 2003, almost \$34 million of the grant funds have been disbursed to Amtrak for the safety projects that will be completed in 2006 or 2007. The remaining \$23 million will be obligated and disbursed to Amtrak once it completes the design of anticipated improvements in the New York City rail tunnels.

**Permanent Utility
Infrastructure Repairs
and Improvements
Total \$500 Million**

The Congress also appropriated HUD funds to provide assistance to utility firms as they complete permanent repairs and improvements to the damaged infrastructure around the World Trade Center site. These funds will go to LMDC, which will work with ESDC to administer \$250 million for emergency repairs, as previously discussed. In addition, \$500 million has been committed for permanent repairs and rebuilding, including \$15 million for program administration. The goals of the permanent repair program, according to LMDC, are to prevent businesses and residences from bearing the cost of rebuilding and to enhance the redevelopment of lower Manhattan by supporting investment in energy and telecommunication infrastructure. LMDC officials worked with utility firms, businesses, and state and local agencies to develop the program in order to help utility firms while developing an improved system to attract new businesses to the area. Specific categories of reimbursable projects include:

1. \$330 million for costs incurred to permanently replace, restore, and enhance infrastructure to deliver service;
2. \$50 million to construct a carrier neutral lateral conduit to enhance telecommunications diversity and competition;
3. \$20 million for the provision of fully redundant telecommunications services to critical businesses and government facilities to enhance public safety;
4. \$22 million to compensate providers for new regulatory mandates due to increased security measures; and
5. \$60 million for utilities and the city or state to pay for service interference costs as a result of reconstruction of local roads.

Eligible businesses include investor-owned utility service providers with service areas in lower Manhattan that incurred expenditures related to damage from the disaster, excluding any funds from insurance and other federal assistance for reimbursement for lost revenues. Applicants will have until December 31, 2007, to apply for certain programs.⁷

Short-term Capital Projects Total \$68 Million

LMDC worked with community groups, local businesses, and city and state governments to select \$68 million in short-term capital projects for HUD funding as part of their effort to improve accessibility and the appearance of lower Manhattan. In addition, a portion of these funds has been committed by LMDC to conduct an outreach campaign to keep residents informed of rebuilding efforts. These projects are also part of the Governor's priorities for the overall lower Manhattan rebuilding effort, including:

- **Parks and Open Space Enhancements.** LMDC has proposed several projects to improve and expand parks along the Hudson River and East River, as well as other neighborhood parks, as part of a larger effort to attract residents and revitalize the area. LMDC has committed an estimated \$29 million for these projects.
- **West Street Pedestrian Connections.** LMDC plans to fund construction of a temporary pedestrian bridge and enhance an existing pedestrian

⁷ HUD approved the plan September 15, 2003.

bridge in an effort to aid foot traffic flow once the temporary PATH terminal is opened. The original bridge was destroyed during the disaster, and due to increased pedestrian traffic, LMDC has committed an estimated \$21 million to complete the projects.

- **Building and Streetscape Improvements.** LMDC, in cooperation with the Alliance for Downtown New York, a community group, has identified several areas that continue to be affected by recovery efforts and will provide funds to repave sidewalks, improve signs and lighting, and provide new benches. The total cost of the project is estimated to be \$20 million, of which LMDC has committed \$4 million. Other particular areas of focus include the New York Stock Exchange, where LMDC has committed \$10 million to the Downtown Alliance to install security barriers to secure pedestrian and vehicular paths and to beautify the area, and the Liberty Street area, where LMDC has committed \$2 million to building owners to improve the exterior facades of damaged buildings.
- **Millennium High School.** LMDC has committed an estimated \$3 million of HUD funds to renovate space for a new Millennium High School. The school will be the only open-admission public high school for lower Manhattan residents and is intended to attract families to the area.

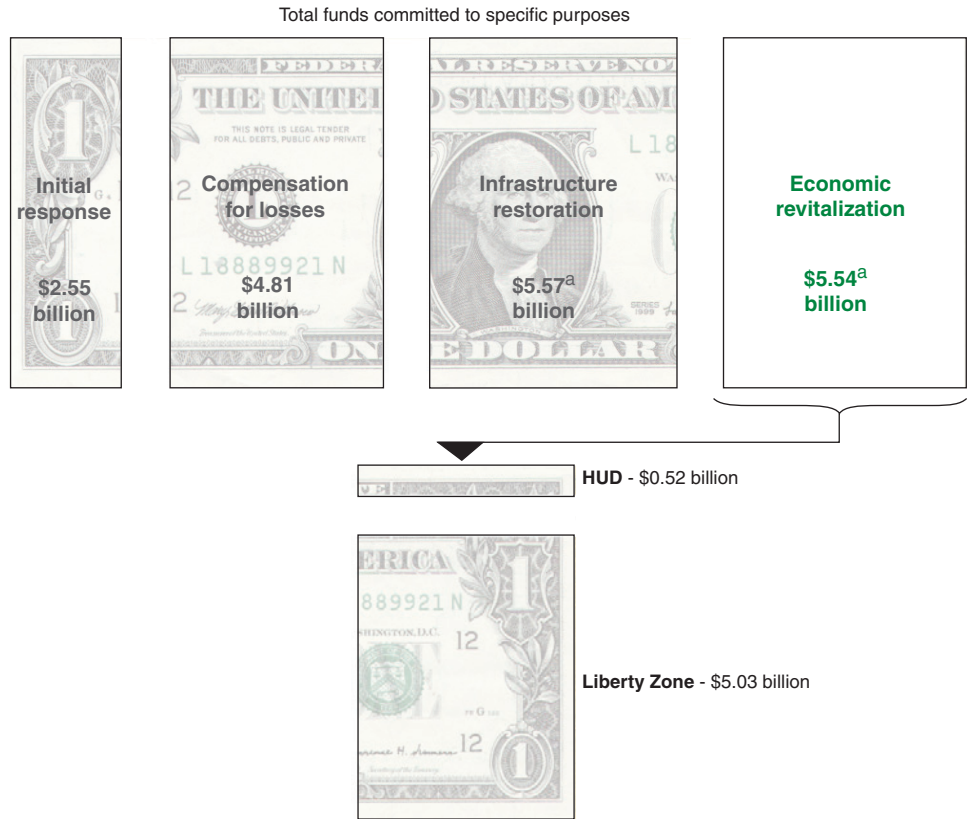
Chapter 5: Efforts to Revitalize the New York Economy Include Tax Benefits and Assistance to Businesses

The terrorist attacks of September 11 disrupted New York City's economy and resulted in billions in lost income and tax revenues. The attacks caused tens of thousands of job losses and severely impacted lower Manhattan's commercial and retail sectors. In response, the Congress enacted the Liberty Zone tax benefits, estimated by the Joint Committee on Taxation to result in \$5.03 billion in lost federal revenue, and appropriated funds to HUD, of which \$515 million will aid in revitalizing the lower Manhattan economy. The tax benefits are generally targeted to a defined area of lower Manhattan—the "Liberty Zone." Estimates vary regarding what the ultimate usage of the Liberty Zone tax benefits will be and the ultimate benefit amount is unlikely to be known. In addition, the Empire State Development Corporation (ESDC) and the Lower Manhattan Development Corporation (LMDC) are coordinating to administer HUD funds for business assistance programs designed to attract and retain thousands of jobs in lower Manhattan.¹ LMDC has also undertaken multiple planning efforts to revitalize lower Manhattan, including the coordination and planning of the rebuilding design and memorial competitions. Figure 22 shows a breakdown of economic revitalization assistance, and table 13 shows the amount of assistance committed for economic revitalization.

¹ In chapter 3, we discussed LMDC's \$281 million Residential Grant Program funded by HUD to retain and attract residents to lower Manhattan. While we have categorized this program as primarily compensation for losses, it is clearly also contributing to lower Manhattan's economic revitalization.

Chapter 5: Efforts to Revitalize the New York Economy Include Tax Benefits and Assistance to Businesses

Figure 22: Estimated Amount of Assistance Committed for Economic Revitalization, by HUD and Liberty Zone Tax Benefits



Source: GAO analysis of agency-provided data.

Note: Numbers do not add due to rounding.

^aThe Lower Manhattan Development Corporation's plans for \$1.16 billion in HUD funds have not been finalized, as of June 30, 2003. These funds are not included in the graphic and, according to HUD, will mostly likely be directed to either infrastructure restoration or economic revitalization.

Chapter 5: Efforts to Revitalize the New York Economy Include Tax Benefits and Assistance to Businesses

Table 13: Economic Revitalization Efforts, as of June 30, 2003

Dollars in millions				
Activity	Funding agency	Total committed/ estimated benefits	Total obligated	Total disbursed
Tax benefits				
Liberty Zone tax benefits	IRS	\$5,029 ^a	N/A ^b	N/A ^b
Other revitalization efforts				
Job creation and retention grants	HUD	320	320	130
Small firm attraction and retention grants	HUD	155	155	31
Other planning efforts	HUD	40	39	12
Subtotal		\$515	\$514	\$173
Estimated total		\$5,544	\$514^b	\$173^b

Source: GAO analysis of agency-provided data.

^aRevenue estimate by the Joint Committee on Taxation.

^bTax benefits are neither obligated nor disbursed.

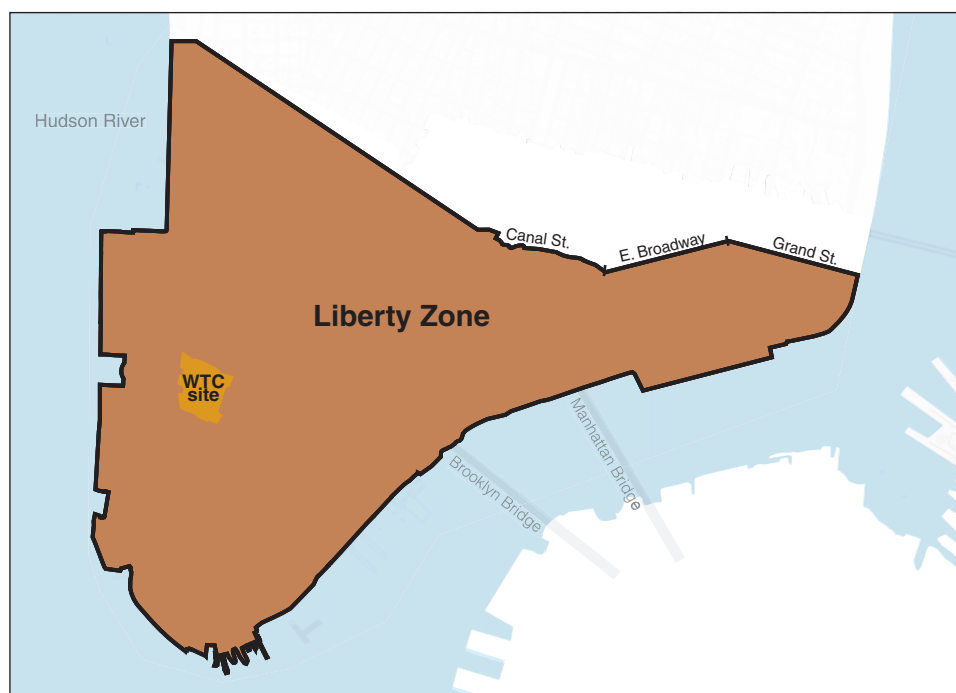
Further, additional funds may be made available for revitalization efforts. There is \$1.16 billion in HUD funds not yet committed to specific activities, and LMDC is undertaking several studies and working groups to identify and prioritize transportation and economic revitalization efforts for these remaining funds.

Liberty Zone Tax Benefits Focus on Economic Revitalization

In Title III of the Job Creation and Worker Assistance Act of 2002,² the Congress instituted tax benefits primarily targeted to the Liberty Zone, the area of New York City severely impacted by the terrorist attacks defined as the area south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in lower Manhattan. Figure 23 shows a map of the Liberty Zone boundaries.

² Job Creation and Worker Assistance Act of 2002 (P.L. 107-147).

Figure 23: New York Liberty Zone



Source: GAO.

The act contained seven provisions that provide specific federal tax benefits designed to assist New York. A detailed description of these seven provisions is contained in appendix IV; the general parameters of each tax provision are discussed below.

- **Business Employee Credit.** Businesses in the Liberty Zone—or relocated from that area to elsewhere in New York City due to physical damage to their workplace—that employ 200 or fewer workers can receive federal tax credits of up to \$2,400 per qualified employee during calendar years 2002 and 2003.
- **Special depreciation allowance.** In the Liberty Zone, qualified property is allowed an additional first-year depreciation deduction of 30 percent of the adjusted basis of the property, thereby permitting taxpayers to more quickly deduct the cost of the property. This benefit extends through 2006 for personal property and through 2009 for real property.
- **Tax-exempt private activity bonds** (termed Liberty Bonds.) Up to \$8 billion in bonds on which the interest income is exempt from federal taxes

may be issued to finance the acquisition, construction, reconstruction, and renovation of commercial and residential real property as well as utilities primarily inside the Liberty Zone. The Mayor of New York City is responsible for approving bonds totaling up to \$4 billion, and the Governor of New York is responsible for approving the same amount. As much as one-fourth of the bonds can be used for commercial projects in New York City but in areas outside the Liberty Zone. The bonds must be issued by December 31, 2004. As of May 2003, \$876 million in Liberty Bonds had been issued. For details on Liberty Bonds that have been issued, see appendix V.

- **One additional refunding for certain bonds that were previously refunded.** Until December 31, 2004, the Mayor of New York City and the Governor of New York State may designate issuance of federal tax-exempt bonds to pay principal, interest, or redemption price on municipal bonds previously issued and refunded for facilities in New York City. For advanced refunding bonds, the Mayor and the Governor are responsible for designating \$4.5 billion each for a total of \$9 billion through December 31. As of June 2003, New York State had released \$3.68 billion and New York City had issued \$1.64 billion of these bonds. For details on refunding that have occurred, see appendix V.
- **Increased expensing.** Taxpayers may expense an increased amount of qualifying property used in the New York Liberty Zone. This benefit is available through December 31, 2006.
- **Extension of replacement period for certain property involuntarily converted in New York Liberty Zone.** Taxpayers have an extended period in which they do not have to recognize gain on involuntarily converted Liberty Zone property, such as gain resulting from insurance reimbursements for property damaged or destroyed in the terrorist attacks that exceed the property's replacement value to 5 years instead of the standard 2 years.
- **Five-year life for leasehold improvements in the Liberty Zone.** Qualified improvements to leased nonresidential property in Liberty Zone can be depreciated over a 5-year period instead of the standard 39-year period through December 31, 2006.

Amount of Liberty Zone Benefits Unclear and Likely to Remain Unknown

The amount of benefits to New York that will result from the Liberty Zone tax provisions is unclear and likely to remain unknown. Before the Job Creation and Worker Assistance Act was passed, the Joint Committee on Taxation estimated the amount of revenue projected to be lost to the U.S.

Treasury from the Liberty Zone provisions. However, an estimate of lost revenue is not necessarily the same as an estimate of the benefits received by taxpayers. Furthermore, uncertainties exist with any estimate. For example, the actual usage of the benefits before authority expires, such as in the case of the New York Liberty Bonds, is uncertain. Also the Internal Revenue Service (IRS) is not tracking actual use of the Liberty Zone benefits and, consequently, little data will be available on the value of the tax benefits to the Liberty Zone. Further, even if IRS were to collect data, it would at best only be able to make an estimate, not a verifiable measure of the tax benefits.

Estimates of the revenue impact and the benefits to taxpayers of the New York Liberty Zone tax provisions differ. The Joint Committee on Taxation estimates the revenue effects of all tax legislation considered by the Congress. Following its standard estimating conventions, the Joint Committee estimated that all seven of the Liberty Zone benefits, combined, would reduce federal revenues by almost \$5.03 billion over the 2002-2012-time period. A study commissioned by the New York City Economic Development Corporation to estimate the benefit to taxpayers of the Liberty Zone Provisions determined that the size of the benefit would be considerably less than the Joint Committee's estimate of the revenue cost. However, this tax benefits study analyzed only four of the benefits (the special depreciation allowance, the increase in expensing treatment for business property, the extension of the replacement period for involuntarily converted property, and special treatment of qualified leasehold improvements) and used assumptions and analyses that differed from those of the Joint Committee. For example, the study discounted the value of revenue effects in future years and extended the timeframe for assessing the financial impact by over 40 years.³

As with many tax benefits, usage of the Liberty Zone tax benefits will depend on a variety of difficult to predict economic factors. For example, an economic downturn could slow rebuilding efforts in the New York City area, reducing the use of benefits such as depreciation allowances. Conversely, an economic upturn could increase benefit usage above existing estimates. For one component of the Liberty Zone tax benefits, the Liberty Bonds, it is unclear whether all of the bonds will be used

³ The Joint Committee compares the revenue projected to be collected if a particular legislative change is enacted to the revenue projected to be collected under present law. The Committee's standard practice is not to discount the value of future revenue effects, nor to consider any effects of the legislation after a 10-year time period.

before the December 31, 2004, sunset date for the bond authority. The New York City Economic Development Corporation and ESDC reported that commercial bond issuers do not expect to be able to fully utilize the \$6.4 billion nonresidential portion of the Liberty Bonds by the sunset date. These officials said that the bonds might not be fully utilized due to continued weakness in the New York commercial real estate market, major insurance litigation affecting resources to rebuild, and uncertainty regarding development plans for the World Trade Center site. Further, the officials cited zoning changes and environmental reviews as reasons for delays. The New York State Department of Taxation and Finance reports that the state is still assessing potential projects and expects to seek a congressional extension to the December 31, 2004, sunset to ensure its ability to issue future Liberty Bonds. In contrast, officials from both the New York Housing Finance Authority and the New York Housing Development Corporation report that they expect to issue all residential Liberty Bonds before the sunset date.

Most Liberty Zone tax benefit usage is not being monitored by federal, state, or local agencies, and the total amount of the benefits accruing to New York is likely to remain unknown. We recently reported that IRS plans to collect little information related to the number of taxpayers using the Liberty Zone benefits.⁴ Typically, IRS would only collect these data if it would help the service administer the tax laws or if it was legislatively mandated to do so, neither of which is the case with most of the Liberty Zone benefits. IRS is nevertheless collecting some data on the Business Employee Credit and the two bond benefits, but to collect more information on the use of the benefits, IRS would need to change forms, processing procedures, and computer programming, all of which would add to taxpayer burden and IRS's workload. Further, the earliest IRS could make these changes would be for tax year 2004 returns. As a result, IRS would not have information for 2 of the years that the benefits were in effect, which is significant because most of the benefits expire by the end of 2006. Finally, if IRS were to collect data on the use of the Liberty Zone benefits, it could not produce a verifiable measure of the revenue loss due to the benefits, but only be able to make an estimate. This is because the IRS would have to make assumptions about how taxpayers would have behaved in the absence of the benefits. Because the Liberty Zone benefits

⁴ U.S. General Accounting Office, *Tax Administration: Information not Available to Determine Whether \$5 Billion in Liberty Zone Tax Benefits will be Realized*, GAO-03-1102 (Washington, D.C.: Sept. 2003).

are federal benefits, New York City and New York State are not tracking them, though they do collect and record data regarding the bonds issued under the Liberty Zone provisions.

\$515 Million of HUD Funds Committed for Business Assistance and Other Projects to Revitalize Lower Manhattan

In addition to the Liberty Zone tax benefits, the Congress appropriated funds to HUD to revitalize lower Manhattan. ESDC and LMDC are administering \$515 million to provide programs to attract and retain businesses to the area and for other projects to revitalize lower Manhattan. Damage around the World Trade Center site displaced an estimated 1,025 firms employing more than 75,000 workers, and many more were displaced by subsequent recovery efforts. Of the \$515 million committed for a variety of economic revitalization efforts, ESDC is administering \$475 million to provide incentives for existing small and large businesses to remain in the area and to attract new businesses to lower Manhattan. LMDC has also committed \$40 million to help plan and coordinate rebuilding and revitalization efforts and to determine how to prioritize remaining funds for future projects. In addition, LMDC may provide a portion of the \$1.16 billion remaining HUD funds for other economic revitalization efforts.

Job Creation and Retention Grants Total \$320 Million

ESDC designed the \$320 million Job Creation and Retention Grant Program to target businesses with at least 200 employees that need assistance to maintain or establish a business in lower Manhattan. ESDC's goal is to help retain or create 80,000 jobs with the program. In addition to grants, eligible businesses can receive loan guarantees and low cost loans, and all applications are evaluated as part of a multistage review and approval process.⁵ To determine whether to provide assistance and how much to offer, ESDC considers criteria such as the risk of the company leaving lower Manhattan, location, and economic impact for the New York City area. Companies granted funds must maintain a workforce in New York City for a minimum of 7 years and penalties for not meeting the terms of agreement are stiff to maximize impact.

⁵ A review committee comprised of ESDC and New York City Economic Development Corporation staff considers proposals and authorizes a level of financial assistance to offer an eligible company, based on a number of criteria. Once a company accepts the offer, they complete an application and the project is submitted to the ESDC Board of Directors for approval. If approved, then a Grant Disbursement Agreement is executed, and, after a payment requisition with supporting documents is submitted, the grant is disbursed to the company.

As of June 30, 2003, 72 businesses accepted retention grant offers from ESDC for a total value of \$251 million and, of this, \$130 million had been disbursed to 34 businesses. ESDC reports that if all accepted grant offers are approved, the program will retain or create more than 70,000 jobs in New York City. ESDC anticipates that businesses will continue to apply for the program as they evaluate the commitment requirements. ESDC officials also expect program demand may exceed available funds, and reported that they would request additional allocations from LMDC of noncommitted funds if needed. The program will be available until December 2004.

Small Firm Attraction and Retention Grants Total \$155 Million

ESDC is also administering a similar program that targets attraction and retention of smaller firms. ESDC has committed \$155 million in HUD funds for its Small Firm Attraction and Retention Program. Businesses with fewer than 200 employees can receive up to \$5,000 per employee if they were located in the restricted area around the World Trade Center or \$3,500 in other lower Manhattan locations. Firms are provided assistance in two payments, one upon approval, and the second 18 months after approval date. Through this program, firms must meet certain conditions based on their location and lease. For example, to receive a grant, businesses must renew their lease or enter a new one for at least 5 years beyond their existing commitment. Businesses that have a long-term lease that does not expire by December 31, 2004, are not eligible for this program, and as we reported in November 2002, business advocacy groups have criticized the program for excluding these businesses.⁶ Business advocates argue that those businesses also had a demonstrated commitment to the area, which should make them eligible and not place them at a disadvantage relative to new businesses. ESDC officials replied that the program was designed to provide incentives to businesses at risk of leaving, not for those that already had long-term commitments to the area.

As of June 30, 2003, 951 businesses received \$31 million through the Small Firm Attraction and Retention Grant Program, as part of their first installment of assistance. ESDC officials report that the progress of the program is reflective of the complexity of small businesses' decisions to

⁶ U.S. General Accounting Office, *September 11: Small Business Assistance Provided in Lower Manhattan in Response to the Terrorist Attacks*, GAO-03-88 (Washington, D.C.: Nov. 1, 2002).

commit to the area, and accordingly, they expected the pace of this program to be slower than their other programs. The program will continue to accept applications through December 31, 2004.⁷

\$40 Million Committed for Other Planning Efforts

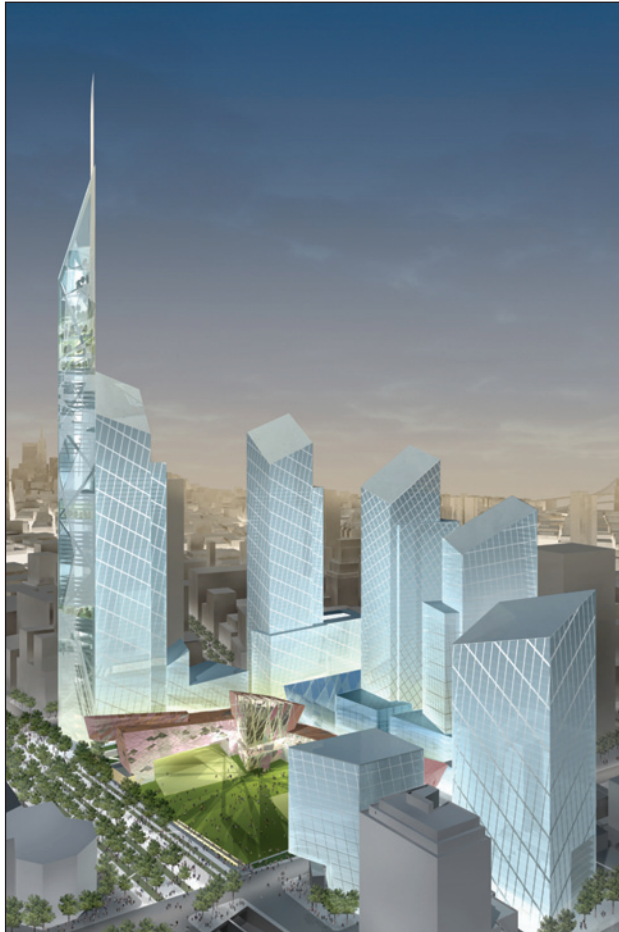
LMDC's primary role is to help plan and coordinate rebuilding and revitalization of lower Manhattan, and as of June 30, 2003, LMDC had committed about \$40 million of HUD funds to planning activities.⁸ LMDC has launched several public awareness campaigns to promote its programs that provide information on the progress of rebuilding and allow public input in rebuilding and revitalization efforts. LMDC has also funded a summer-long festival and a cultural campaign to bring people to the area and has conducted environmental, economic impact, and other planning studies. For example, as part of the \$10 million congressional requirement to promote tourism in the area, LMDC has begun a \$5 million joint initiative with museums located in lower Manhattan to promote the area as a "cultural destination." In addition, LMDC has announced a tourism and marketing campaign to attract visitors to Chinatown, a neighborhood in lower Manhattan. However, the most prominent public awareness and planning initiatives undertaken by LMDC involve the organization of the World Trade Center site rebuilding and memorial selection competitions.

- **Design competition to rebuild the World Trade Center site.** LMDC's main focus throughout several stages of the rebuilding design selection process was to encourage public involvement and comment. In total, LMDC received 406 design submissions and used funds to embark on an outreach campaign, which included exhibits of the seven finalist plans, townhall style meetings, public hearings, and a mailing to all families who lost members in the disaster. The competition culminated with the selection of the Studio Daniel Libeskind's Memory Foundations for design of the new site plan as shown in figure 24.

⁷ Except for those applicants who enter into new leases between September 1, 2004, and December 31, 2004, who will have until April 2005 to submit a completed application.

⁸ A portion of these funds is for administrative purposes.

Figure 24: Studio Daniel Libeskind's Memory Foundations Winning Design for Rebuilding the World Trade Center Site Was Selected as Part of an International Design Competition



Source: archimation for Studio Daniel Libeskind.

- **Memorial selection process.** LMDC has reported that the selection of a permanent memorial and integration of the plan with the World Trade Center rebuilding efforts is its primary mission. The search for a design for the memorial was open to anyone worldwide that wished to apply. LMDC received over 5,000 designs for the memorial, and a jury will evaluate entries. The jury consists of 13 members with a wide range of backgrounds and experience, including a victim's family member, a lower Manhattan business owner/resident, artists and architects, and representatives from the Mayor and the Governor of New York. LMDC coordinated an outreach campaign and a public forum to allow family members and the public to

provide input into the decision making process for selecting a final plan. A decision is scheduled to be announced in the fall of 2003, and a rendering of the proposed location of the permanent memorial is shown in figure 25.

Figure 25: The World Trade Center Rebuilding Plans Include Recognition of the Footprints of the Original Twin Towers



Source: archimation for Studio Daniel Libeskind.

In addition, LMDC may direct a portion of remaining HUD funds, \$1.16 billion, to other economic revitalization programs and is coordinating several efforts to develop plans to prioritize and spend the funds. LMDC officials said that the remaining funds would most likely be directed to cultural activities, transportation improvements, and affordable housing initiatives, although the allocation of funds has not been finalized.⁹ In order to gain public input on how to prioritize plans to spend the remaining funds, LMDC organized a series of community workshops where over a 100 stakeholders from neighborhoods in lower Manhattan will present city representatives and LMDC officials with proposals for

⁹ LMDC may use a portion of remaining funds for infrastructure projects, including proposals from on-going transportation planning studies, as discussed in chapter 4.

future projects. In addition, LMDC told us that it will analyze the results of several on-going studies, including an affordable housing study, and could possibly fund proposed initiatives. Finally, in June 2003, LMDC published a request for proposals from cultural institutions around the world to gauge their interest on locating at the World Trade Center site as part of the new facilities. As part of this effort, LMDC also solicited their input for creating an interpretive museum of the events of September 11 and the 1993 World Trade Center bombing. With the information obtained through this request, LMDC will determine if it will provide a portion of remaining funds to support the proposals.

Chapter 6: Designation of a Specific Level of Assistance Led to a Distinct Federal Government Response for this Disaster

The most significant difference in the federal government’s response to this disaster was the upfront designation of a specific level of funding for disaster assistance. The designation of \$20 billion to assist the New York City area was the first time in which a target level for the total amount of federal disaster assistance was set early in the response and recovery efforts. FEMA, in response to the designation of a specific level of funding and greater authority from the Congress, changed its approach to administering disaster funds. With the specific level of funding functioning as a floor or minimum level of assistance, FEMA may have been unable to fully disburse the targeted level of assistance through traditionally eligible projects—despite FEMA’s efforts to broaden its traditional eligibility guidelines. With congressional authorization, FEMA reimbursed the City and State of New York for “associated costs” that it could not have otherwise funded within the provisions of the Stafford Act to ensure that the entirety of FEMA’s appropriated funds for the disaster would be spent for the New York City area. At the same time, the target level of funding functioned as a cap, requiring the city and state to establish priorities for newly authorized reimbursement of associated costs, which led FEMA to establish an expedited close-out process. In addition to the flexibilities given FEMA, this specific level of funding for the entire disaster also prompted congressional authorization of numerous forms of nontraditional assistance to be provided by other agencies. For example, the Congress passed legislation authorizing the Liberty Zone tax benefits—the first geographically targeted tax program in response to a disaster. Further, the Congress both authorized and appropriated several billion dollars to be administered by DOT for transportation infrastructure improvements beyond replacement of damaged facilities. In addition, the Congress authorized new forms of compensation with HUD funds to businesses for disaster-related losses.

Designation of a Specific Level of Funding Altered the Traditional FEMA Disaster Assistance Approach

The specific level of funding that was targeted by the President and passed by the Congress changed the traditional approach taken to administer FEMA funds. Ordinarily, FEMA assistance has no dollar limit. When a qualifying disaster event occurs, the President declares that a major disaster or emergency exists. This declaration activates numerous FEMA disaster assistance programs. The funding for responding to a specific disaster is not set; instead, the only factor limiting the amount of assistance for response and recovery efforts is reimbursement eligibility under the Stafford Act. Historically, FEMA approves all applications for grants and other assistance if—and only if—the applications meet the program requirements under the act. For example, compensation to rebuild a public road would be an eligible project, but compensation to

improve a public road would not be. Economic losses to a city from reduced tourism associated with a disaster would not be eligible. Further, as some projects can be long term and are reimbursed upon completion, it traditionally takes many years to fully reconcile how much assistance was provided for certain disasters.¹

In responding to September 11, however, this traditional practice was not followed, as the President pledged at least \$20 billion in federal assistance to the New York City area, and subsequent to that pledge, the Congress, in authorizing this specific level of federal assistance, appropriated over \$8.80 billion to FEMA. This was the first time that a specified amount of funds had been designated to FEMA to respond to a disaster.² FEMA officials administered programs accordingly, within the capped amount of funding, to ensure that all funds were provided to the New York City area.

In order to respond to the new types and the amount of damage resulting from the attacks and to ensure that the entire amount appropriated for this disaster was expended, FEMA expanded eligibility guidelines for many of its programs. FEMA officials said that they broadly interpreted the Stafford Act to provide assistance for several projects. For example, FEMA partnered with EPA to implement a program to clean the interior of private residences—the first of its kind—and determined these costs were eligible for reimbursement under the Stafford Act. In this instance, FEMA determined that the dust associated with the collapse of the World Trade Center towers was a type of debris, and, therefore, costs associated with interior cleaning could be reimbursed.

Further, the Congress reinforced FEMA's flexible approach to eligibility for assistance in two ways. First, the Congress authorized FEMA to expand the eligibility guidelines of certain programs due to the unique circumstances of the disaster.³ For example, nearly a year after September 11, the Congress authorized FEMA to make the Mortgage and Rental Assistance Program more broadly available and directed FEMA to review applications that had been previously denied. With these new eligibility

¹ For example, as of June 2003, the Northridge, California, earthquake was still an open FEMA disaster 9 years after it occurred due to large and long-term reconstruction efforts.

² In the past, direct congressional appropriations are not made for a specific disaster, but rather to supplement funds in FEMA's Disaster Relief Fund.

³ Further discussion and additional examples of public assistance projects that we identified as nontraditional can be seen in [GAO-03-926](#).

requirements, FEMA provided funds to individuals working anywhere in Manhattan and to those whose employers were not located in Manhattan, but who were economically dependent on a Manhattan firm. Further, the Congress authorized FEMA to establish an insurance company to manage a \$1 billion insurance fund and to settle claims filed by, among others, city and contractor workers who suffered ill health effects as a result of working on debris removal operations.⁴ Although FEMA regularly reimburses applicants for insurance costs that are part of a contract for services, FEMA has never reimbursed for insurance to cover a city for suits brought by its own employees.

Second, despite FEMA's broadened eligibility guidelines interpretation and the Congress' authorization of certain activities, it still appeared that there were not enough projects eligible within the authority provided by the Stafford Act for which the New York City area could be reimbursed to reach the \$8.80 billion target level for FEMA assistance. As a result, in February 2003, the Congress passed the Consolidated Appropriations Resolution that ensured that FEMA would spend the entirety of the FEMA-appropriated assistance for New York by authorizing the agency to reimburse associated costs that it otherwise could not have funded, such as reimbursing the city and state for costs to provide increased security and for cost of living adjustments for pension benefits of deceased police and fire staff. This is the first time that FEMA has been given such expansive authority to fund projects outside of provisions of the Stafford Act. New York officials believe this was necessary because the Stafford Act was too restrictive for responding to a major terrorist event, as it does not allow FEMA to reimburse affected communities for many costs related to the disaster.

With the authority granted by the Consolidated Appropriations Resolution, FEMA adapted its programs and conducted an expedited close-out process that allowed for disbursement of remaining funds to New York years sooner than in past disasters. As part of the expedited closeout process, FEMA deobligated funds for eligible Stafford Act projects in order to determine how much was available to reimburse the city and state for incurred costs associated with the disaster. FEMA recently completed the close-out process and disbursed \$1.24 billion to the city and state for associated costs. Since these funds were provided for costs already incurred, the city and state have the discretion to ultimately redirect the

⁴ P.L. 108-7.

funds, including determining whether to fully fund projects that were incomplete at the end of the close-out process. The expedited close-out process, developed to maximize the early availability of funds to New York, resulted in FEMA reconciling the most expensive public assistance disaster in its history years before the process is typically accomplished.

As a result of the different approach taken to respond to this disaster, FEMA recently initiated an effort to develop a concept for redesigning its public assistance program. As we noted in our August 2003 report on FEMA's public assistance program efforts in New York, a working group of the Public Assistance Program Redesign Project was formed at the request of the director of FEMA's Recovery Division and held its first meeting in May 2003.⁵ Members included FEMA public assistance and research and evaluation staff and state program managers. The project was established to suggest proposals to improve the public assistance program and make it more efficient and capable of meeting community needs for all types and sizes of disasters, including those resulting from terrorism. Among other things, the project seeks to transform the program to one that is flexible enough to meet the demands of disasters of all types and sizes and eliminate redundancies in decision-making and processes. The working group will examine potential options for redesigning the program that include an annual block grant program managed by the states, a disaster-based state-managed program and a capped funding amount per disaster. The working group plans to develop a basic design concept for revising the program by September 30, 2003.

Designation of a Specific Level of Assistance Spurred Congressional Appropriation and Authorization of Nontraditional Assistance

The specific level of funding that was targeted by the President and passed by the Congress also spurred congressional authorization of other forms of nontraditional assistance for the New York City area. The Congress passed an estimated \$5.03 billion in Liberty Zone tax benefits—the first geographically targeted tax program in response to a disaster. The Congress also authorized DOT to fund transportation projects to improve the overall transportation system substantially beyond pre-disaster condition, not just to restore infrastructure directly impacted by the disaster. Further, the Congress eliminated the state and local matching requirement for transportation funding for the entire relief effort. The Congress also directed HUD to use Community Development Block Grant

⁵ [GAO-03-926](#).

(CDBG) funds to compensate businesses for economic losses—the first time CDBG funds have been used for this purpose.

Congress Passed First Tax Benefit Package in Response to a Disaster

To address the economic impact of the September 11 attacks on New York, the Congress passed the estimated \$5.03 billion New York Liberty Zone tax benefit package.⁶ This was a unique way for the Congress to provide assistance for the area affected by the disaster. According to IRS officials, never before has the Congress passed a tax benefits package in response to a disaster. Further, this tax package was targeted to a geographic area, which has not generally occurred in the past. IRS officials told us that tax plans typically target individuals or businesses on the basis of classifications such as income level rather than on the basis of the geographic location of the individuals or businesses. (See chapter 5 for a detailed discussion of Liberty Zone tax benefits.)

Congress Authorized DOT to Rebuild Damaged Infrastructure and Improve Transportation Systems

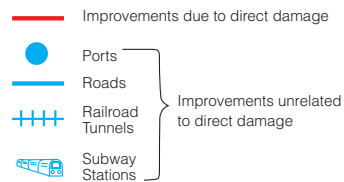
In most disasters, DOT is only authorized to provide funds to rebuild or restore damaged infrastructure back to its pre-disaster condition. For example, if part of a highway were damaged in a disaster, the amount of assistance provided would be restricted to the estimate of the cost to rebuild the highway to its pre-disaster condition, rather than funding improvements to the highway. However, in response to September 11, the Congress authorized DOT to not only restore transportation infrastructure directly damaged in the disaster, but also to enhance the overall lower Manhattan transportation system. As a result, the Congress has appropriated funds that are being used to not only rebuild the directly damaged PATH terminal, but to redesign and renovate two other subway stations that were not damaged by the disaster. Additionally, the Congress appropriated funds that are being used for ferry terminal improvements, including the construction of new stations in New Jersey. Figure 26 shows the sites of three large transit projects: the permanent PATH terminal at the World Trade Center site that is being built to replace the damaged PATH terminal, and the Fulton Street Transit Center and South Ferry Subway Station improvements that are enhancements of parts of the transportation system not directly damaged by the disaster. (See chapter 4 for a detailed discussion of infrastructure restoration and improvement projects.)

⁶ Job Creation and Worker Assistance Act of 2002 (P.L.107-147)

Figure 26: Lower Manhattan Transportation Projects—Restoration and Enhancement



Source: GAO.



Congress Eliminated the State and Local Matching Requirements for DOT Assistance

The Congress eliminated the state and local matching requirement for DOT assistance for the entire disaster relief effort, by passing the 2002 Supplemental Appropriations Act, which stipulated 100 percent federal share for all DOT funded projects with no time limit on federal-aid highway projects related to the New York City terrorist attacks. The DOT assistance included \$242 million of Federal Highway Administration

(FHWA) funds and \$1.80 billion in FTA funds for capital investment grants with no state and local matching requirement.⁷ Historically, DOT funding has required a state and local cost share; for FHWA projects this share has ranged from 80 percent to 90 percent and for FTA projects it has ranged from 50 percent to 80 percent. By the Congress authorizing all DOT funding be provided with no state and local matching requirement, New York achieved significant savings.

Congress Authorized HUD Funds to Compensate Losses and Promote Tourism

In previous disasters, HUD funds were typically provided to address long-term effects of the disaster, including economic, infrastructure, and housing redevelopment efforts. HUD funds have been used in the past to provide funds for some emergency relief efforts, if they are not already provided for by FEMA, such as debris removal, reconstruction of damaged property posing an immediate threat to public safety, and emergency reconstruction of essential utilities.

However, after September 11, the Congress directed HUD to focus on different aspects of relief efforts than in previous disasters. For example, programs to compensate for economic losses, such as the Business Recovery Grant Program and to retain and attract residents, such as the Residential Grant Program, are a unique use of CDBG funds, according to HUD officials. In addition, HUD officials explained that although funds have been used for business incentive programs in the past, attraction and retention efforts have not been attempted on such a large scale. HUD officials said that over 20,000 businesses have been helped through the Business Recovery Grant Program and nearly 40,000 applications have been received for the Residential Grant Program that closed May 31, 2003. Furthermore, the Lower Manhattan Development Corporation is administering additional HUD funds to promote tourism initiatives in lower Manhattan, some aspects of which have previously been ineligible.

⁷ Capital investment grants provide funding for mass transportation and other high-occupancy vehicles.

Appendix I: Objectives, Scope, and Methodology

In a May 2, 2002, letter, the Chairman and Ranking Minority Member of the Senate Committee on Environment and Public Works and Senators Hillary Rodham Clinton and George V. Voinovich requested us to assess the federal government's response and recovery efforts to the New York City area. They requested that we determine how much federal assistance has been delivered to the New York City area, and for what purposes; and how the federal government's response to this disaster differed from previous disasters.

To determine how much federal assistance has been designated to the New York City area, we reviewed relevant legislation. We also obtained and reviewed appropriate budget documents, funding plans, status reports, and other documents including, executive orders, presidential correspondence, and OMB and CBO reports. We also interviewed OMB and CRS officials to get their perspectives on the budgetary data.

To determine for what purposes federal assistance has been and will be used, we interviewed officials from FEMA, HUD, FTA, FHWA, the Federal Railroad Administration, and IRS. We also interviewed New York State and New York City officials, including officials from the Lower Manhattan Development Corporation (LMDC), the Empire State Development Corporation (ESDC), the New York State Department of Transportation, the Metropolitan Transit Administration, and Port Authority of New York and New Jersey. These officials told us for what purposes and through what programs federal assistance is being provided. We also interviewed officials from nonprofit planning and research organizations to gain their perspectives on use of the funding in the New York redevelopment process. We reviewed relevant agency documentation of program plans and execution including budget documents and databases.

Though federal assistance was administered through 18 agencies in total, we focused on the primary sources of federal assistance—the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Liberty Zone tax benefits—that targeted different aspects of the recovery efforts in the New York City area. We collected agency financial data through June 30, 2003, though we do footnote significant items that arose during the report processing period. To illustrate the wide spectrum of federal disaster assistance being delivered to the New York City area, we categorized the recovery efforts into four broad purposes: initial response efforts, compensation for disaster-related costs and losses, infrastructure restoration, and economic revitalization. We also focused on the progress of recovery efforts but did not evaluate the administration

or impact of recovery funds; however, we identified our related reports and other agencies' Inspector General reports and reported on those findings. While we reported on the differences between response to this disaster and previous disasters, we did not evaluate the implications of these differences.

To determine how the federal government's response to this disaster differed from the established process for responding to disasters, we interviewed federal, state, and local officials; and nonprofit planning and research groups. We also compared agency historical data to documentation from the New York response and recovery.

We experienced several limitations while attempting to collect financial data for the four primary sources of federal assistance. First, it was difficult to coordinate a final date for our data collection period due to the expedited close-out implemented by FEMA. We decided to reflect FEMA data as of July 31, 2003, in order to provide information on funds made available by the expedited close-out for disaster-related costs as authorized by the Consolidated Appropriations Resolution. In addition, due to the expedited close-out, we were not able to review projects in FEMA's National Emergency Management Information System (NEMIS), FEMA's primary information system that manages disaster grant funding. Instead, we relied on published FEMA reports, which are compiled using information from NEMIS, as well as the knowledge of public assistance program managers of funding for specific projects. Neither of these limitations led to a material weakness in our efforts to conduct this work. We conducted our work from June 1, 2002, through September 30, 2003, in accordance with generally accepted government auditing standards.

Appendix II: Proposed Transportation Infrastructure Improvements for Lower Manhattan

Dollars in millions

Projects under consideration for remaining lower Manhattan transit funds (\$1.7 billion to \$2.0 billion)

New York cost estimate

JFK airport/ Long Island access	\$2,000–\$5,300
West Street	\$400–\$900
Tour bus facility and WTC subgrade infrastructure	\$500
Commuter ferries	\$150–\$200
Street configuration and circulation	\$100
Other lower Manhattan projects which may require additional funds	
Newark Airport access	\$525
Linking metro-north to 4/5 at Grand Central Station	\$50–\$75
LaGuardia Airport ferry	\$3–\$6

Source: Lower Manhattan Transportation Strategies, April 24, 2003, LMDC, the Port Authority, MTA, New York State DOT, NYC.

Appendix III: Joint Committee on Taxation Estimated Revenue Effects of the Liberty Zone Tax Benefits

Dollars in millions		
Liberty Zone benefit	JCT estimate of revenue effect 2002-2012	Termination date
1. Expansion of Work Opportunity Tax Credit to eligible Liberty Zone employees	-\$631	12/31/03
2. 30% bonus depreciation for property placed in service in the Liberty Zone	-1,568	12/31/06 (12/31/09 for nonresidential real property and residential rental property)
3. Authorize issuance of tax-exempt private activity bonds for rebuilding the portion of New York City damaged in the September 11, 2001 terrorist attack	-1,228	12/31/04
4. Allow one additional refunding for certain previously refunded bonds for facilities located in New York City	-937	12/31/04
5. Increase expensing for business property used in the Liberty Zone by \$35,000	-37	12/31/06
6. Extension of replacement period for certain property involuntarily converted in New York Liberty Zone	-318	N/A
7. 5-year life for leasehold improvements in the Liberty Zone and interaction with general business tax provisions	-310	12/31/06 (leasehold improvements)
Total	-\$5,029	

Source: Joint Committee on Taxation (JCX-13-02).

Appendix IV: Description of Liberty Zone Tax Benefits¹

Liberty Zone tax benefit ^a	Benefit summary	Example of the benefit	Effective dates
Business employee credit	<p>The work opportunity tax credit (WOTC) was expanded to include a new targeted group for employees who perform substantially all their services for a business in the Liberty Zone or for a business that relocated from the Liberty Zone elsewhere within New York City due to the physical destruction or damage of their workplaces by the September 11, 2001, terrorist attacks.</p> <p>The New York Liberty Zone business employee credit allows eligible businesses with an average of 200 or fewer employees to take a maximum credit of 40 percent of the first \$6,000 in wages paid or incurred for work performed by each qualified employee during calendar years 2002 and 2003. Unlike the other targeted groups under WOTC, the credit for the new group is available for wages paid to both new hires and existing employees.</p>	<p>An employee works at a small company located in the Liberty Zone from June 1, 2002, to October 31, 2002, and receives \$3,000 in wages a month. The company can claim a credit for 40 percent of the first \$6,000 in wages paid (\$2,400).</p>	<p>Wages paid or incurred for qualified employees during calendar years 2002 and 2003</p>
Special depreciation allowance	<p>The special depreciation allowance provides an additional deduction for eligible properties. Eligible Liberty Zone properties include new tangible property (e.g., new office equipment), used tangible property (e.g., used office equipment), and residential rental property (e.g., an apartment complex) and nonresidential real property (e.g., an office building) if it rehabilitates real property damaged or replaces real property destroyed or condemned as a result of the September 11, 2001, terrorist attacks.</p> <p>For property inside the Liberty Zone, the special depreciation allowance allows taxpayers to deduct 30 percent of the adjusted basis of qualified property acquired by purchase after September 10, 2001, and placed in service on or before December 31, 2006 (December 31, 2009, in the case of nonresidential real property and residential rental property). For property outside the Liberty Zone, a special depreciation allowance is available for taxpayers but only with regard to qualified property—such as new tangible property and non-Liberty Zone leasehold improvement property—that is acquired after September 10, 2001, and before September 11, 2004, and is placed in service on or before December 31, 2004. However, recent legislation (the Jobs and Growth Tax Relief Reconciliation Act of 2003, P.L. 108-27) has increased the deduction to 50 percent for qualified property both within and outside the Liberty Zone that is acquired after May 5, 2003, and placed in service on or before December 31, 2004.</p>	<p>On December 1, 2002, a real estate development firm purchases an office building in the New York Liberty Zone that costs \$10 million and places it in service on June 1, 2003. The building replaces real property damaged as a result of the September 11, 2001, terrorist attacks. Under the provision, the taxpayer is allowed an additional first-year depreciation deduction of 30 percent (\$3 million).</p>	<p>Residential rental property and nonresidential real property: Acquired by purchase after September 10, 2001, and placed in service on or before December 31, 2009</p> <p>New and used tangible property:</p> <p>Acquired by purchase after September 10, 2001, and placed in service on or before December 31, 2006</p>

¹ GAO-03-1102.

Appendix IV: Description of Liberty Zone Tax Benefits

Liberty Zone tax benefit^a	Benefit summary	Example of the benefit	Effective dates
Section 179 expensing	<p>Taxpayers with a sufficiently small investment in qualified section 179 business property in the Liberty Zone can elect to deduct rather than capitalize the amount of their investment and are eligible for an increased amount over other taxpayers. For qualified Liberty Zone property placed in service during 2001 and 2002, under section 179 taxpayers could deduct up to \$59,000 (\$24,000 under the general provision plus an additional \$35,000) of the cost. The investment limit (phase-out range) in the property was \$200,000. For qualified Liberty Zone property placed in service after 2002 and before 2007, taxpayers could deduct \$60,000 (\$25,000 under the general provision plus the additional \$35,000) of the cost.</p> <p>However, recent legislation (P.L. 108-27) has further increased the maximum deduction for qualified Liberty Zone property placed in service after 2002 and before 2006 to \$135,000 and has increased the investment limit to \$400,000. For 2006, the maximum section 179 deduction allowed for qualified Liberty Zone property returns to \$60,000 and the investment limit is \$200,000. To calculate the available expensing treatment deduction amount for qualified Liberty Zone property, every dollar for which 50 percent of the cost of the property exceeds the investment limit is subtracted from the maximum deduction allowed.</p> <p>Taxpayers outside of the Liberty Zone may also expense qualified property under section 179. However, the maximum deduction for non-Liberty Zone property is \$35,000 less than the maximum deduction allowed for Liberty Zone property. The investment limits for Liberty Zone and non-Liberty Zone property are similar. However, in contrast, in calculating the available expensing treatment deduction amount for non-Liberty Zone properties, every dollar invested in the property that exceeds the investment limit is subtracted from the maximum deduction allowed.</p>	<p>In 2002, a taxpayer purchases and places in service in his or her Liberty Zone business several qualified items of equipment costing a total of \$260,000. Because 50 percent of the cost of the property (\$130,000) is less than \$200,000, the investment limit, the section 179 deduction of \$59,000 is not reduced, and the taxpayer can deduct this amount.</p>	<p>Effective for section 179 property placed in service after September 10, 2001, and on or before December 31, 2006</p>

Appendix IV: Description of Liberty Zone Tax Benefits

Liberty Zone tax benefit^a	Benefit summary	Example of the benefit	Effective dates
Leasehold improvement property	<p>Qualified Liberty Zone leasehold improvement property can be depreciated over a 5-year period using the straight-line method of depreciation. The term “qualified Liberty Zone leasehold property” means property as defined in section 168(k)(3) and may include items such as additional walls and plumbing and electrical improvements made to an interior portion of a building that is nonresidential real property. Qualified Liberty Zone leasehold improvements must be placed in service in a nonresidential building that is located in the Liberty Zone after September 10, 2001, and on or before December 31, 2006. The class life for qualified New York Liberty Zone leasehold improvement property is 9 years for purposes of the alternative depreciation system.</p> <p>Taxpayers can also depreciate leasehold improvements outside of the Liberty Zone. These taxpayers can depreciate an addition or improvement to leased nonresidential real property using the straight-line method of depreciation over 39 years. Qualified leasehold improvement properties outside the Liberty Zone can qualify for both the 39-year depreciation deduction and the special depreciation allowance. However, leasehold improvements inside the Liberty Zone do not qualify for the special depreciation allowance.</p>	<p>In 2004, a taxpayer buys and places in service \$100,000 in additional walls for a leased office building in the Liberty Zone. For each tax year from 2004 through 2008, the taxpayer can deduct up to one-fifth of the cost of the property.</p>	<p>Effective for property placed in service after September 10, 2001, and on or before December 31, 2006</p>
Replacement period for involuntarily converted property	<p>A taxpayer may elect not to recognize gain with respect to property that is involuntarily converted if the taxpayer acquires qualified replacement property within an applicable period. The replacement period for property that was involuntarily converted in the Liberty Zone as a result of the September 11, 2001, terrorist attacks is 5 years after the end of the taxable year in which a gain is realized provided that substantially all of the use of the replacement property is in New York City. The involuntarily converted Liberty Zone property can be replaced with any tangible property held for product use in a trade or business because taxpayers in presidentially declared disaster areas such as the Liberty Zone can use any tangible, productive use property to replace property that was involuntarily converted.</p> <p>Outside of the Liberty Zone, the replacement period for involuntarily converted property is 2 years (3 years if the converted property is real property held for the productive use in a trade or business or for investment), and the converted property must be replaced with replacement property that is similar in service or use.</p>	<p>A taxpayer held a truck for productive use in a Liberty Zone business, but it was destroyed in the September 11, 2001, terrorist attacks. Several years ago, the taxpayer paid \$50,000 for the truck and, over time, depreciated the basis in the truck to \$30,000. If the insurance company paid \$35,000 in reimbursement for the truck and the taxpayer used the \$35,000 to purchase replacement property of any type that is held for productive use in a trade or business within 5 years after the close of the tax year of payment by the insurance company, the taxpayer would not recognize a gain.</p>	<p>Effective for involuntary conversions in the Liberty Zone occurring on or after September 11, 2001, as a result of the terrorist attacks on that date</p>

Appendix IV: Description of Liberty Zone Tax Benefits

Liberty Zone tax benefit^a	Benefit summary	Example of the benefit	Effective dates
Private activity bonds	An aggregate of \$8 billion of tax-exempt private activity bonds, called qualified New York Liberty bonds, are authorized to finance the acquisition, construction, reconstruction, and renovation of certain property that is primarily located in the Liberty Zone. Qualified New York Liberty bonds must finance nonresidential real property, residential rental property, or public utility property and must also satisfy certain other requirements. The Mayor of New York City and the Governor of New York State may each designate up to \$4 billion in qualified New York Liberty bonds.	The Mayor of New York City designates \$120 million of qualified New York Liberty bonds to finance the construction of an office building in the Liberty Zone.	Effective for bonds issued after March 9, 2002 (the date of enactment of the Job Creation and Worker Assistance Act of 2002), and on or before December 31, 2004
Advance refunding bonds	An aggregate of \$9 billion of advance refunding bonds may be issued to pay principal, interest, or redemption price on certain prior issues of bonds issued for facilities located in New York City (and certain water facilities located outside of New York City). Under this benefit, certain qualified bonds, which were outstanding on September 11, 2001, and had exhausted existing advance refunding authority before September 12, 2001, are eligible for one additional advance refunding. The Mayor of New York City and the Governor of New York State may each designate up to \$4.5 billion in advance refunding bonds.	The Governor of New York State designates \$70 million of advance refunding bonds to refinance bonds that financed the construction of hospital facilities in New York City.	Effective for advance refunding bonds issued after March 9, 2002, and on or before December 31, 2004

Sources: P.L. 107-147, IRS, and GAO.

Note: GAO-03-1102.

^aThe Liberty Zone tax benefits were enacted as part of the Job Creation and Worker Assistance Act of 2002, P.L. 107-147.

Appendix V: Liberty Zone Tax Benefits Bond Authority

For advanced refunding bonds, the Mayor of New York City and the Governor of New York State are responsible for designating nearly \$4.50 billion each for a total of \$9 billion in advance refunding bonds through December 31, 2004. As of June 2003, New York State had released \$3.55 billion through the Metropolitan Transit Administration and \$138 million through the Dormitory Authority of the state of New York and New York City had issued \$1.64 billion of general obligation bonds with the New York City Water Authority releasing \$190 million and the New York State Environmental Facilities Corporation releasing \$236 million.

For Liberty Bonds, up to \$8 billion may be issued. The Governor is responsible for \$4 billion of these bonds and the Mayor is responsible for \$4 billion. Up to \$2 billion of these bonds can be used for projects in New York City but in areas outside the Liberty Zone. Up to \$800 million may be issued for Liberty Zone retail development and up to \$1.6 billion can be used for residential rental projects in the Liberty Zone. The bonds are available through December 31, 2004. The Joint Committee on Taxation has estimated that the provision will reduce federal receipts by \$1.23 billion, which represents tax revenue lost when tax-exempt bonds are sold instead of taxable bonds. Table 14 shows approved Liberty Bond projects implemented by both the city and state of New York.

Table 14: Approved Liberty Bond Projects

Dollars in millions		
Project	Type	Amount
<i>New York City</i>		
7 World Trade Center	Commercial	\$400
Atlantic Terminal, Brooklyn	Commercial	114
<i>New York State</i>		
Fulton Market	Commercial	10
Front Street Block	Commercial/ Residential	47
Battery Park City Site 19b	Residential	110
20 River Terrace	Residential	100
10 Liberty Street	Residential	95
Total		\$876

Source: May 29, 2003, Liberty Bond Report.

Appendix VI: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Glossary

Committed Funds	Administrative reservation of an allotment of funds in anticipation of their obligation (i.e., a projected budget/spending plan).
Disbursed Funds	Funds are provided to the state/grantee.
Obligated Funds	Funds have been set aside for use as part of a contract/purchase order.

Related GAO Products

Tax Administration: Difficult for IRS to Determine if \$5 Billion in Liberty Zone Tax Benefits will be Realized Using IRS Data. [GAO-03-1102](#). September 30, 2003.

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