Thursday, June 6, 2002 | 6:43 PM

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September 11: Impact Study

Small Business Website

Of Interest

NEW YORK CITY'S CEO'S CALL ON THE FEDERALGOVERNMENT TO PROVIDE WORKERS COMPENSATION RELIEF IN THE EVENT OF FUTURE TERRORIST ATTACKS

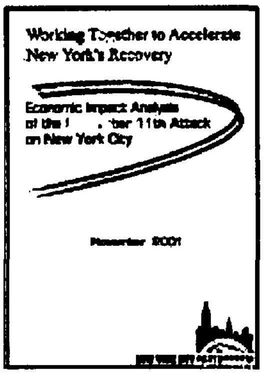
New York, May 22 - The CEO's of 14 major New York City-based corporations urged President George W. Bush and members of Congress to enact legislation authorizing full workers compensation relief against losses that would be incurred as a result of a possible future war or biological, nuclear or chemical attack. The appeal was made in a letter sent today.

Full Press Release

previous page

September 11: Impact & Response

Executive Summary and Overview | **Full Report** | **Press Release** | **Consultant Information**



Working Together to Accelerate New York's Recovery

Economic Impact Analysis of the September 11th Attack on New York City

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New York City Partnership and Chamber of Commerce
One Battery Park Plaza, New York, NY 10004-1479 | phone: 212.493.7400 | fax: 212.344.3344 | web: www.nycp.org

Economic Impact Analysis of the September 11th Attack on New York

EXECUTIVE SUMMARY

The September 11th attack caused massive damage to New York's economy. This damage can be managed if we act quickly. The New York business community stands ready to work with government at all levels, as well as with other stakeholders, to rebuild the New York economy and restore Lower Manhattan.

Following the terrorist attack, New York has struggled to understand the specific economic effects and what can be done to cope with them. Now, a team of leading consultants and economists organized by the New York City Partnership has evaluated how much the attack stands to affect the main sectors of the New York economy, and has recommended specific steps that the private sector and government can take to achieve a full recovery. After examining and quantifying the impact of the attack on each industry sector, the team found:

- The economic impact of the attack is likely to total $83 billion in damage to New York City's economy. Even after payment of insurance claims and federal reimbursement for rescue, cleanup and infrastructure repair costs, the net damage to the economy is likely to be at least $16 billion. If third-party reimbursement is delayed or inadequate, or if New York lags behind the nation in recovery from the national recession, the loss could be far greater.

- An estimated 125,000 jobs will be lost in the fourth quarter of 2001 as a direct result of the attack. While many of these jobs will return, New York City will still have a net loss of approximately 57,000 jobs attributable to the attack at the end of 2003.

- The financial services, tourism and retail sectors felt the greatest impact; small businesses in all sectors were and will continue to be the hardest hit.

- Damage is concentrated in Lower Manhattan, which lost 100,000 jobs and almost 30% of its office space in the wake of the attack.

This puts at risk many of the 270,000 jobs that are still located in the area south of Chambers Street.

Based on these findings and on interviews with industry leaders, the team and the Partnership identified the following priorities that must be addressed promptly by the public and private sectors:

- Produce a plan by mid-2002 (before the World Trade Center cleanup is completed) to redevelop Lower Manhattan.
- Fast track rebuilding of the downtown infrastructure (power grid, transportation and telecommunications) to 21st Century standards.
- Secure federal economic aid aimed at protecting the city's status as a world capital of commerce and finance.
- Restore confidence by investing in comprehensive, innovative security measures.
- Execute a five-borough strategy to retain and expand the financial services industry.
- Quickly restore Lower Manhattan as a functioning community for workers, small business and residents.
- Take immediate steps to promote New York for business and tourism.

September 11th tested New York City and, for the most part, we held up well. At the same time, senior management of every business has had to reevaluate the geographic concentration of their talent and facilities, security, space needs and data and phone systems. Business decisions are being made now. To protect the interests of the city and of the national economy, government must provide decisive leadership for the many stakeholders in the private sector who are committed to ensuring that New York comes back – stronger than ever.

New York City Partnership and Chamber of Commerce
One Battery Park Plaza, New York, NY 10004-1479 | phone: 212.493.7400 | fax: 212.344.3344 | web: www.nycp.org

Economic Impact Analysis of the September 11th Attack on New York

The New York City Economy Will Sustain A Net Loss of at Least $16 Billion

OVERVIEW

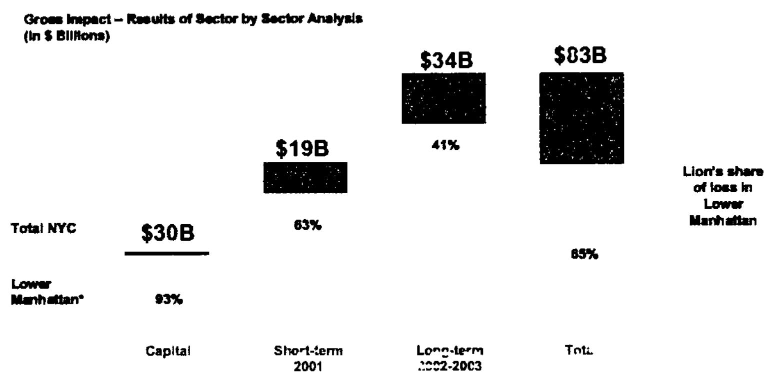
September 11th has had a profound impact on individual businesses and on New York City's economy. Within a week of the terrorist attack, the New York City Partnership, representing the leadership of New York's business community, launched this study to assess quickly the extent of the economic damage and to identify priorities to speed recovery. In an unprecedented collaboration, the Partnership assembled a team from seven leading management consulting firms -- A.T. Kearney, Bain & Company, Booz-Allen & Hamilton Inc., the Boston Consulting Group, KPMG LLP, McKinsey & Company, and PwC Consulting. Within six weeks, they completed the first "bottom up," industry-by-industry analysis of the lost economic output and jobs attributable to the attack, over and above the effects of the economic slowdown in the national economy.

For each sector of the economy, the team developed an assessment of the impact of the attack and identified a set of priorities and policy recommendations that should be valuable to the industry as well as other policy makers. The team reviewed the analysis and vetted recommendations with business leaders in each sector to build consensus for the recommendations.

The team then combined the individual sector findings to form a complete view of the attack's impact on the New York economy and to develop a set of priorities that the private sector and the public sector can use to accelerate recovery.

The research and analysis by the team of management consulting firms found that the city's economy will sustain a gross loss of approximately $83 billion due to the attack, including $30 billion in capital losses, $14 billion in cleanup and related costs and $39 billion in loss of economic output to the economy. Moreover, the attack will cost the city an estimated 125,000 jobs during the fourth quarter of 2001. Some of these jobs will return, but the city will still have a loss of 57,000 jobs at the end of 2003, over and beyond what it would have lost in the recession.

Tragedy Results in Gross Loss of $83 Billion for NYC



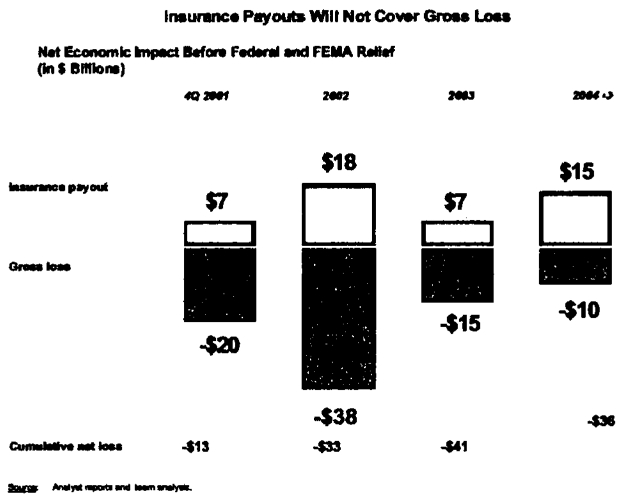
Short- and long-term costs include clean-up costs of $14B

Source: Sector interviews; BLS; NYC Comptroller; team analysis.

Notes: Excludes impact of reduction in city and state tax revenue
* South of Chambers Street.

Even after the effect of insurance payments and the federal emergency funds to defray the costs of rescue and cleanup, the New York City economy faces a net impact of at least $16 billion in lost economic output. This assessment is based on the assumption that New York's recovery from recession will match the pace of nation's (usually the city lags the nation) and that insurance and federal emergency and recovery aid will be paid in a timely fashion and reflect real costs incurred.

Both insurance payments and federal reimbursement for the costs of cleanup will offset some of the gross costs of the attack. The team estimated that insurance payments should amount to $37 billion. As a result of various multiplier effects, however, the insurance payments should have a positive impact of $47 billion on the city economy; the benefit of all of these payments will not be immediately available because at least $15 billion is likely to be paid in 2004 or later.



Similarly, the federal government should fully reimburse the city for the cost of rescue and cleanup, which is currently estimated to be $14 billion. The impact of this aid, after the multiplier effect, would be about $20 billion. Combined, these two sources should have a positive impact of $67 billion on economic output. Under this set of assumptions, the total net impact of September 11th on New York City's economy would be at least $16 billion.

If these assumptions pan out, the impact of the attack on New York City's economy will be large, but manageable. The gross city product, a measure of total economic output, is approximately $440 billion a year.

Obviously, the effects of the attack and the national economic slowdown will result in significant losses in New York City and New York State tax revenues, which are not addressed in this report.

THE LOWER MANHATTAN ECONOMY SUSTAINED THE GREATEST DAMAGE

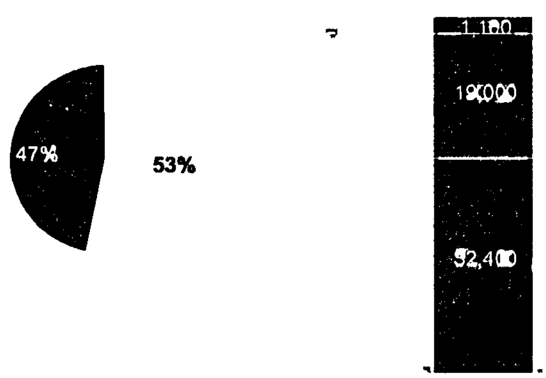
The destruction of the World Trade Center had the greatest impact on Lower Manhattan, generally defined as the area south of Chambers Street, which for decades has been the nation's third largest business district, after Midtown New York and Chicago. The area, full of landmarks and the history of colonial America, has long provided businesses in New York with highly competitive rents, attracting the nation's leading financial services companies, small business and emerging industries, such as enterprise software. Prior to September 11th, approximately 50% of those who lived in Battery Park City's apartment buildings walked to work. During the past five years, the high-tech start-ups and young professionals drawn to this neighborhood offered proof of Lower Manhattan's potential to become a model 21st Century neighborhood with a vibrant live-work environment.

The attack on Lower Manhattan killed several thousand people. It displaced 100,000 jobs temporarily, damaged valuable commercial real estate and destroyed essential public and private infrastructure. The downtown area lost nearly 29 million square feet of office space (30% of its total). This includes 15.2 million square feet lost in the destruction of the World Trade Center complex, 3.5 million square feet that is heavily damaged and will take more than a year to repair and 10.1 million square feet of less damaged property that can be restored within a year. Also destroyed was half a million square feet of retail space, mainly in the underground mall of the World Trade Center. Large amounts of commercial space were also destroyed on September 11th.

The damage to infrastructure has made reaching Lower Manhattan even more difficult. It has also rendered communications and utilities less reliable in and around the area. This region of New York City lost commuter service on both the PATH and the 1/9 subway lines. Tens of thousands of workers used those trains to get to work prior to September 11th. Verizon, the local telecommunications provider, sustained $1.9 billion in damage, including the loss of a switching station and major network equipment. Con Edison lost two substations, and its local distribution system was badly damaged. Much of Lower Manhattan now relies on a combination of emergency generators and other temporary solutions. To avoid power shortages in 2002, Con Edison needs to rebuild one substation before next summer.

The combination of real estate and infrastructure damage forced more than 100,000 workers to relocate to different offices or to work from home. Seven major financial services firms have temporarily relocated. Approximately 19,000 workers, who previously worked in Manhattan, are now working outside of New York City. Many of them may not return, even after transport and communications services are restored in Lower Manhattan.

~100,000 Jobs Displaced From Lower Manhattan



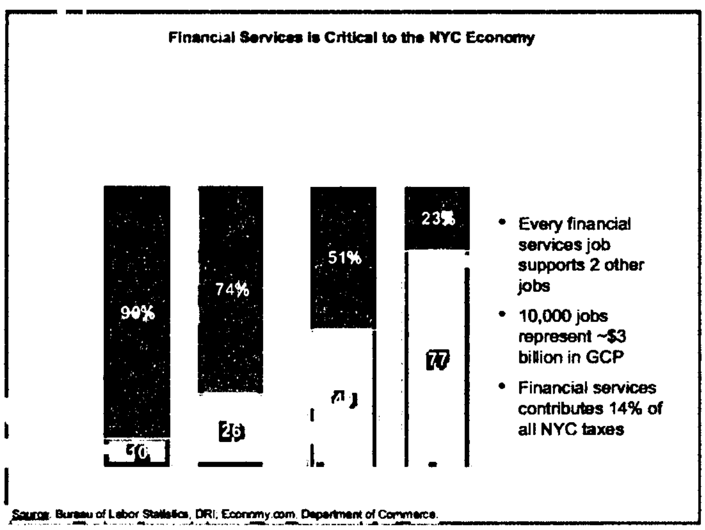
Source: Insignia; Costar; Tenantwise; team analysis.

Clearly, the immediate and short-term needs of the 270,000 people who continue to work in Lower Manhattan and the more than 20,000 residents who call Lower Manhattan home must be a matter of great urgency for the nation. Some companies, including those that remain, are rethinking their commitment to Lower Manhattan. Workers and residents alike have expressed ongoing concerns about air quality. This is an issue that must be closely and continuously monitored; and in dealing with it, it will also be important to separate fact from perception. Prior to September 11th, the area's amenities, its access to transportation and its communications infrastructure were not competitive with those of Midtown, or New York City's global competitors. The damage from the attack has clearly aggravated these problems. As a result, the area's 270,000 remaining jobs are potentially at risk.

FINANCIAL SERVICES, TOURISM, RETAILING AND SMALL BUSINESSES WERE PARTICULARLY HARD HIT

Across New York, the attack was especially damaging to four sectors – financial services, tourism, retailing and small business:

- ***Financial Services:*** The financial services industry is the largest contributor to the New York economy. Financial services generates 24% of New York City's $440 billion economic output (defined as the value-added of goods and services produced) and at least14% of all the city's tax revenue. This sector also creates jobs in many other sectors, including professional services and small business. Indeed, every financial service job supports two other jobs. Financial services and insurance create over 75% of Lower Manhattan's $73 billion in economic output.



From September 11th through the end of the year, financial services in New York will account for $4.2 billion in losses of economic output in the New York economy, over and above capital losses and the impact of the economic slowdown. That amounts to more than a third of New York City's estimated short-term losses. Over half of the sector's output loss in New York during this period will be the result of job dislocation. Financial firms have, at least temporarily, moved about 32,400 jobs out of Lower Manhattan to other New York City locations, mostly in Midtown. In addition, 19,000 jobs have been moved to sites outside of New York City, at least temporarily. Some businesses may be reluctant to return their workforces to New York due to continued challenges posed by the transport and communications infrastructure in Lower Manhattan.

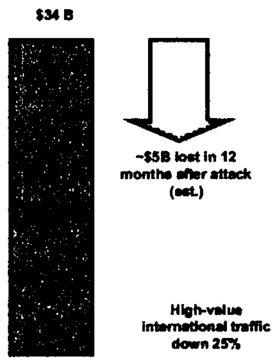
Interviews with industry leaders demonstrate that managers are focused on obtaining improved security, operating out of multiple locations and ensuring that their core business services have alternative telecommunications and energy systems to fall back on in the event of a natural or manmade disaster.

- ***Tourism:*** September 11th has generated widespread fear of air travel and persuaded many people here and abroad to stay home.

The Harris Interactive survey of consumers in Britain and Canada suggested that travel to New York from those countries would decline approximately 40% in the fourth quarter, a significant blow, when compared to the levels anticipated before the attack. International visitors strengthen the New York economy because they spend three times as much per person as visitors from other locations.

While discounts and other incentives may persuade some to travel, they will also reduce revenue from travelers who would have come even without those reductions. The New York travel and tourism industry, which has enjoyed annual revenue of $34 billion, is likely to lose $7 billion to $13 billion in revenues by the end of 2003, and will lose approximately 25,000 jobs in 2001.

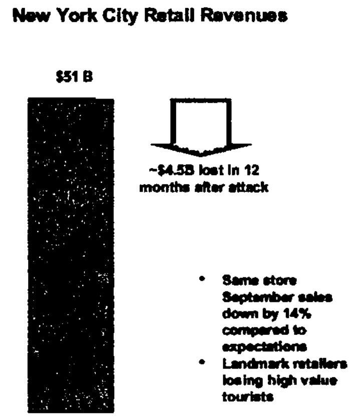
New York City Tourism/Transportation Revenues



Source: Harris Interactive Survey--team analysis.

The reluctance to travel is not unique to New York. All major travel destinations have seen substantial declines. New York will need to work with the tourism industry across the country to ensure the implementation of both the appropriate security steps and the necessary incentives to promote travel. Locally, the public and private sectors will need to work to promote New York, and to support a security plan for landmarks, airports, subway and commuter rail terminals, department stores and other venues in the public and private sectors.

- ***Retail:*** By 2003, revenue from retail business in the city is expected to drop by $7.6 billion from a base of $51 billion a year. In the days following September 11th, sales revenue from department stores, specialty shops and other retail outlets in Manhattan plunged 30% to 40%. The disaster temporarily altered consumer behavior elsewhere too. But while seasonally adjusted retail sales in September dipped 2.6 % from the previous month in the nation, they slid 14% below anticipated levels in New York City.



Source: Harris Interactive Survey--team analysis.

The retail sector will continue to feel the force of September 11th during the 2001 holiday season, especially in high-end department stores and in specialty retail establishments. The decline in the financial services industry and the loss of high-spending international tourists will damage retail businesses. Smaller stores are likely to suffer cash-flow difficulties and may encounter problems with creditors.

- ***Small Business:*** Small business traditionally has played a critical role in Lower Manhattan's economy, often by providing essential services and products to larger enterprises and to the area's residents. Prior to September 11th, thousands of businesses, employing more than 100,000 people, were located in Lower Manhattan, south of Chambers Street. Approximately half of these firms occupied niches in financial and professional services. More than 700 businesses located in the World Trade Center complex were either destroyed or sustained extensive damage. Many other businesses in the vicinity have seen their sales decline by up to 80% because of disruption and damage to the area. Small businesses tend to be cash-based and underinsured, and risk closure if they don't receive financial support to meet payroll, rent, utility bills and other accounts.

NONPROFIT ORGANIZATIONS

While the four sectors mentioned above sustained the greatest damage in the private sector, nonprofit organizations also face serious financial problems, especially those groups that focus almost exclusively on providing social services to New Yorkers. This segment of the nonprofit world in New York accounted for $23 billion in revenue in 2000 and 5,700 organizations. This part of the nonprofit community plays a critical role, both as an advocate and as a major provider of the essential social services citywide and in communities. (The overall nonprofit sector is approximately 27,000 organizations, and it receives $80 billion annually in private and government support.)

While most organizations will experience a short-term drop in direct revenue from public and private sources, those nonprofits focused on youth, family and community development are likely to sustain a sharper, longer falloff in revenue. They rely heavily on government support, and the day-to-day services they provide can be taken for granted, especially when the nation's attention is focused on nonprofits that deliver services that help people deal with the aftermath of September 11th.

SIX PRIORITIES TO ACCELERATE NEW YORK'S RECOVERY

Interviews with more than 200 leaders of the New York business community show that the private sector is committed to working collaboratively to solve these problems. New Yorkers are more united than at any time since the fiscal crisis in the 1970s. To be effective, their energies must be focused. We suggest the following priorities:

(1) Rapidly Develop a Plan for Lower Manhattan

New York City is clearly better off with at least two robust central business districts. By the same token, businesses need a variety of places to base their operations. Businesses have benefited from the attractive and competitive rents Lower Manhattan has provided for decades. In addition to fulfilling its historic role as the headquarters of the financial services industry, Lower Manhattan has attracted many small businesses and entrepreneurs who enhance and expand New York's economy.

September 11th underscores the value of having more than one central business district. Many companies want to operate from a variety of locations to avoid concentrating all their employees and operations in the same place. Without the choice of at least two large New York City central business districts, many businesses may choose to place only some of their employees in New York City, moving the rest. (Note that the opportunity and ability to develop additional business districts in Brooklyn, Queens and on the far West Side would be enhanced by a full recovery in Lower Manhattan.)

To truly revitalize Lower Manhattan, business leaders should address, over the long term, the area's long-standing infrastructure and access problems. Some short-term steps could send a strong signal to businesses that New York is committed to revitalization.

Business, labor and civic leaders need to support the efforts of government to:

- ***Develop a Long-Term Plan by mid-2002:*** The private sector needs to work with New York City and the State of New York to set an overall vision to develop a well-defined plan for Lower Manhattan. Urban recovery efforts after several major earthquakes provide an invaluable lesson: those cities that quickly agree on a recovery plan, even though it may take years to implement, maintain their economic strength. A plan helps to create new business and stimulate investor confidence.

  The plan should address Lower Manhattan's long-standing problems of access and infrastructure. Those involved in creating the plan will fail miserably if all they manage to do is recreate the status quo ante in terms of the infrastructure for transportation, telecommunications and energy. The plan that emerges should enable Lower Manhattan to become a world class, high tech community – a 24-hour, mixed use neighborhood. It should be full of high-performance buildings, nodes of housing and retail stores, commercial space for industries such as biotech, enterprise software and international business. Lower Manhattan should be made more attractive than ever, with cultural amenities and, of course, a memorial to those who lost their lives on September 11th. This region of New York should become the envy of its global competitors. By setting a planning process in motion, with a fixed end date, the private sector and other stakeholders will help New York develop the best possible program quickly, avoiding the danger posed by years of debate and paralysis about what to do about downtown.

- ***Work with the Lower Manhattan Redevelopment Corporation:*** In order to maximize the effectiveness of the effort to revitalize downtown and gain the confidence of all key stakeholders, the private sector supports the decision of the Governor and the Mayor to establish a reconstruction authority for Lower Manhattan. It should oversee investment of federal funds, coordinate expedited infrastructure developments and manage the incentives required to attract and retain businesses and residents in the area.

(2) Take Steps to Overcome Infrastructure Challenges

- ***Accelerate efforts to improve access to Lower Manhattan:*** The Partnership supports an expansion of temporary measures to improve transportation. Possible steps include the continuation of single occupancy vehicle restrictions, the addition of high-speed bus lanes and increased land and ferry service to the area. While these steps would not restore access to pre-September 11th levels, the changes would shorten commutes workers find burdensome and signal commitment to downtown.

- ***Work with telecommunications providers and Con Edison to promote and speed up full restoration of service:*** Employees of Verizon and Con Edison performed heroically after the attack. Still, full telecommunication service has not been restored, and the power distribution system must be substantially rebuilt before next summer. The private sector should work with the utilities to ensure that reconstruction activities are coordinated and expedited, allowing businesses to plan, based on a realistic timetable for the resumption of full services. This collaboration with providers of energy and telecommunications must also ensure that in the intermediate term these services reach 21st Century standards in terms of capacity, resilience and access to alternate systems that can be swiftly activated in the event of a natural or manmade disaster. Clearly, large companies and financial services firms will no longer rely solely on one system for voice communications and data.

- **Support the appointment of a transportation coordinator to orchestrate the efforts of the Metropolitan Transportation Authority, the Port Authority of New York and New Jersey and the two Departments of Transportation:** All of these public sector entities will need to work together to speed the improvements required to make Lower Manhattan more competitive. This official should also work with stakeholders to identify key priorities for improvement and the synergies among mass transit services. If restoration and redevelopment of Lower Manhattan is delayed and highly disruptive, the district's vacancy rate could reach 20% by 2006. This worst case scenario could result in the loss of 28,000 additional jobs and $5 billion in economic output the city can ill afford to lose.

(3) Ensure Improvement in Security

The private sector should take three actions to support efforts to improve security for businesses, employees and customers:

- ***Support national efforts to improve security:*** The private sector should support those government actions and policies that truly improve security at local, state and national levels. Some of the steps government may take will involve some inconvenience and greater investment in technology. Public opinion research by Harris Interactive, however, clearly demonstrates that many Americans would now accept inconvenience in exchange for greater security.

- ***Develop local security protocol in high-traffic private areas to restore consumer confidence:*** Local businesses in many landmark locations and key retail industries are potentially at risk. The private sector should work with the city and state to support efforts that improve security for each industry.
- ***Support emergency preparedness plans— especially those focused on bioterrorism:*** On September 11th, New York City's hospitals and emergency response agencies showed the benefits of their existing emergency plans. New York City's system could be a model for other cities across the nation. Nevertheless, local law enforcement agencies and hospitals will still need to improve their capacity to deal with bioterrorism. The private sector should work with hospitals and public health officials to develop an overall plan to ensure that New York is prepared.

(4) Focus on the Retention of Financial Services Jobs and Income

Because of the importance of financial services to the New York economy, particular attention must be paid to the needs of this sector.

Developing a plan to overcome Lower Manhattan's infrastructure challenges and improve security remains the primary way to maintain its attractiveness to financial services. In addition, members of the industry will need to work together to:

- ***Reaffirm support for building the new home of the New York Stock Exchange in Lower Manhattan.*** The New York Stock Exchange should be encouraged to move forward with plans to build a new headquarters here. The New York Stock Exchange is an anchor of the city's Financial District, which is home to the Federal Reserve Bank of New York and the private sector's clearinghouse operations.

- ***Develop a plan for secure and robust alternatives for key financial services "choke points."*** The financial services industry requires several key services, including the custody of securities and the clearing and the settlement of trades. Many such services are located in Lower Manhattan. The aftermath of the attack demonstrated the need across the industry for alternative systems that can be activated swiftly in the event of an emergency. The industry needs to work collaboratively to improve security for these functions and to ensure that they are resilient.

(5) Support Small Businesses in Lower Manhattan

Efforts to help small business downtown should be intensified. Since September 12th, the Partnership has been working with New York City and the State of New York to identify and support the thousands of small businesses that were damaged by the attack. The network of industry volunteers organized by the New York City Investment Fund is being redeployed and expanded to deliver these services. These ongoing efforts, which should be expanded, include:

- ***Responding to small business sector's needs for flexible capital financing:*** Many of the businesses hardest hit have clear short-term capital needs. They are typically undercapitalized and may not survive for even a few months. The Partnership's program of outreach helps small businesses navigate the maze of private and public loans and other emergency programs.

- ***Using philanthropic funds for small business support:*** Because some businesses would not qualify for traditional private sector loans, the Partnership is raising philanthropic money to deploy five-year recoverable grants. In the immediate aftermath of the attack, the New York City Investment Fund allocated $1 million to this effort, and has already raised additional millions from the September 11th Fund and other sources.

- ***Continuing efforts to support relocation and recovery:*** Many of the businesses that were located in the World Trade Center now do not have enough customers to support a resumption of operations. For those businesses, the Partnership is working to provide private sector advisors to assist in identifying new locations for operations, and to raise capital to restart their businesses.

(6) Promote the New York Economy

Business leaders need to share responsibility with government to spur the recovery of key sectors of the New York economy. They ought to:

- ***Set up a public-private alliance to recruit and retain businesses in New York:*** The Partnership is prepared to create a CEO task force to work with the Governor and the Mayor to encourage fellow business leaders either to move to New York, or to commit to staying here. This group should also work to attract company meetings and conventions to New York. The value of this kind of effort is clearly visible in the decision of the World Economic Forum to move its 2002 meeting to New York.

- ***Communicate that Manhattan is "open for business."*** The Partnership's national public opinion survey found that many Americans think the damage to New York extends over a very wide area of the city. The Partnership will work with its members to ensure that the nation and world know:

    - New York remains the world's business capital.
    - Almost all businesses are back in operation.