May 23, 2002

Brad Gair
Federal Emergency Management Agency
26 Federal Plaza, Room 31-100
New York, NY 10278

Dear Brad:

As per your request, this letter outlines the City's priorities for the use of FEMA funds. The City – as a direct result of September 11th – has already incurred severe financial losses, and anticipates mounting future needs required to meet new obligations and new responsibilities. Our priority is to meet our immediate needs, while allowing ample resources for the long-term rebuilding needs of Lower Manhattan.

Background

When New York City was attacked on September 11th, the physical damage was devastating and the human toll was immeasurable. The attack leveled sixteen acres of Lower Manhattan – the third-largest business district in the country, and a city unto itself – and destroyed miles of electrical, communications and transportation infrastructure.

New York City's economy suffered a direct and immediate effect, which will not subside for several years. City tax revenues declined precipitously as a direct result of September 11th, placing the provision of essential services, like police protection, in jeopardy, at the very time when concern about the future is still very great.

As we move from response to rebuilding, New York faces even greater challenges. It is not possible for New York to simply rebuild Lower Manhattan. The citizens of New York, America and the world rightly demand that we build a suitable memorial to the people who gave their lives and to the values that were attacked on September 11th. As a result, Lower Manhattan will one day have to accommodate millions more visitors than it has ever welcomed before. It will also serve a new role: as a symbol of America's resilience. Therefore, to meet the obligations imposed by September 11th, we must make Lower Manhattan greater than it was before.

Summary of Needs

Given the available funding and designated uses of FEMA funds, we thought it made sense to outline our estimated uses of FEMA-appropriated funds. Our estimates are based on a total FEMA appropriation of $8.85 billion, which includes the $6.1 billion appropriated plus the $2.75 billion proposed supplemental appropriation. Attached to this document are schedules that provide further detail to the line items included in the chart found below.

Table 1: Uses of FEMA Appropriations

$ in millions	
Total FEMA Appropriation	$8,850
NYC costs	
Total Personal Services – Schedule 1	475
Total Other Than Personal Services – Schedule 1	1,050
NYC Revenue Loss – Table 2	650
Capital, incl DEP/DOT/OEM Replacement Infrastructure	425
Hazard Mitigation*	450
Insurance Costs	900
Increased Pension Liability	60
Total	4,010

* Estimated costs to NYC of hazard mitigation measures

Analysis of Needs

Immediate Needs

We estimate that September 11th imposed approximately $4.0 billion in costs on New York City (see Table 1 above). Of that, $1.5 billion is attributable to Personal Services and OTPS (Other Than Personal Services) costs (see attached Appendix A). Of the remainder, New York City's most immediate need is $650 million to compensate for lost revenues (see Table 2 below).

This $650 million is but a fraction of the total tax revenue losses that the City experienced in the wake of September 11th. The forecast for total tax revenues, as estimated by the City's Office of Management and Budget, fell by more than $3.1 billion from August 2001 to April 2002 (detailed in Appendix B). The August 2001 forecast assumed a slow economy, but September 11th exacerbated the downturn in New York City. Of course, in many cases it is difficult to separate the specific causes of the revenue decline, but OMB has isolated three specific causes totaling $650 million that were clearly caused by the events of September 11th. Coincidentally, the $650 million happens to be the same amount as the WTC non-reimbursable costs incurred by New York City that have contributed to the City's budget imbalance. The three specific causes of revenue loss are:

Table 2: Revenue Losses Caused by 9/11

Revenue Losses ($ in millions)	FY02	FY03	Total
Destruction of Property	$76	$144	$220
Closure of Lower Manhattan	281		281
Effect on Travel and Tourism	94	55	149
Total	$451	$199	$650

Rebuilding Needs

We recognize that several other entities will require funding from FEMA. We estimate that after subtracting all of the estimated uses of FEMA funds (both those included on Schedule 1 and those of other parties), the amount remaining from the total appropriation of $8.85 billion will be approximately $4 billion. The City would like to use the vast majority of that amount to enhance the transportation infrastructure in Lower Manhattan and for security upgrades.

September 11th has placed new demands on an already-outdated infrastructure in Lower Manhattan. In the near future, millions of additional visitors will journey to Lower Manhattan each year, and Lower Manhattan will have to serve as a symbol of America's resilience. To accommodate these changes, we must address three infrastructure needs for Lower Manhattan.

As detailed on Appendix 3, a preliminary estimate of needs is approximately $7.1 billion. The sources of those funds would include the remaining FEMA funds, $1.8 billion in DOT appropriations and the remaining $1.1 billion from other sources, including funds that have been appropriated by HUD. Primary infrastructure needs include:

New modes of transportation to Lower Manhattan. There has not been a new subway or commuter rail line added to Lower Manhattan since 1932. Antiquated transportation infrastructure, which already strains under the stress of the everyday commute, must be enhanced with new commuter rail and subway connections.

Connections between Lower Manhattan's isolated neighborhoods. The World Trade Center site must be reintegrated into the rest of downtown, and the street grid in all of Lower Manhattan must be enhanced and rationalized. Pedestrian connections must be made between the financial district, Chinatown and Tribeca, the civic center and the historic South Street Seaport.

Facilities for visitors. There is nowhere near enough parking to accommodate hundreds of additional tour buses and thousands of private vehicles that will come to Lower Manhattan every day. The area also lacks open space for visitors.

We will continue working with you, with the LMDC, with the State, and all other involved entities to present detailed estimates, as they evolve, of the costs of these needed infrastructure investments. If we do not meet these needs, we will fail to achieve a recovery from September 11th in Lower

Declining property taxes due to lost real estate. The attacks on the World Trade Center destroyed or damaged nearly 30 million square feet of office space, or almost 30% of the Class A space available downtown. Over $5 billion of real estate market value was lost as a direct result of the attack, including 13 million square feet of destroyed office space and 6 million damaged square feet still unavailable for occupancy (out of 17 million originally damaged). It will be several years before the 13 million square feet of destroyed space is replaced and reoccupied. In just fiscal years 2002 and 2003, the reduction in property taxes, commercial rent taxes, and reduced PILOTs (payments-in-lieu-of-taxes) from the lost or damaged buildings will be $220 million.

Closure of Lower Manhattan. For four working days after September 11th, every business south of Canal Street was closed. Many never resumed full operations and it took months for many of the remainder to open their doors. While the entire country suffered job losses as a result of a slowing economy, New York's loss since September 11th has been over three times the national average. The Office of Management and Budget estimates that business shutdowns in Lower Manhattan between 9/11 and the end of the year cost the City almost $10 billion in economic output, with $9 billion of that loss in September 2001 alone. This is estimated to have cost the City $281 million in lost taxes for that period.

Declining hotel and sales taxes due to reduced tourism. Tourism is one of New York City's five largest industries, and generated over $25 billion in annual economic impact from 37.4 million visitors in 2000. The estimated number of visitors in 2001 fell by 5.4 million, a decline over three times as severe as the national average. While the national (and global) recession explains some of this decline, September 11th had a direct and clear effect: In the three weeks after September 11th, hotel occupancy fell by almost one-third. For the remainder of the calendar year, hoteliers slashed room rates to stabilize occupancy with only partial success. As a result of the September 11-related decline, we estimate that hotel tax payments fell by $38 million in fiscal year 2002, and that sales tax on these hotel rooms and on other spending by visitors fell by $56 million (for a total loss in 2002 of $94 million). And for 2003, the reduced profitability of hotels has dramatically lowered their property values, resulting in a $55 million loss of property tax revenues.

Manhattan. Transportation infrastructure needs will require substantial funding which can only be provided by public sources. FEMA must be granted the flexibility needed to fund these projects.

Thank you for the opportunity to share with you our estimates of financial losses and future rebuilding needs. We hope we have been able to provide the information necessary for you to move forward with approving and distributing needed FEMA funds. Should you have any questions, please do not hesitate to contact me.

We thank you for all your help to date, and look forward to continuing to work together to ensure that the continuing recovery and rebuilding process is as successful as our efforts to date.

Sincerely,

Daniel L. Doctoroff

cc: Senator Hillary Clinton
Senator Charles Schumer
NYC Congressional Delegation