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City Proposes Priority Uses Of Federal Aid

Seeks Tax-Exempt Bonds To Rebuild Downtown

By JENNIFER STEINHAUER

The Giuliani administration has set two priorities for the aid it is seeking from the federal government to encourage the redevelopment of Lower Manhattan, concentrating on a small portion of the $54 billion that the state had requested.

Under the city's proposal, businesses that agree to return to or set up shop in Lower Manhattan would receive a $5,000 cash bonus for each employee, and developers would have access to tax-free bonds to help erect buildings in the area destroyed by the terrorist attack last month. The city estimates that the cost of reconstructing downtown at between $8 billion and $15 billion.

Earlier this month, Gov. George E. Pataki and Mayor Rudolph W. Giuliani announced that the state would ask the federal government for a huge package of incentives, tax breaks and other direct federal subsidies to rebuild New York. Federal officials were polite but cool, and some complained that elements of the plan, like billions of dollars for reimbursements for lost tax revenues and money to build a high-speed train from Manhattan to upstate New York were a bit out of line with normal disaster aid.

The White House budget chief has rejected supporting any more new aid this year, aside from the $20 billion in emergency relief provided for New York, Virginia and Pennsylvania.

Senators Hillary Clinton and Charles E. Schumer have been trying to cobble together a more modest proposal, drawing from plans offered by business leaders and New York officials that they believe would have an easier time making it through Congress now that the country's wartime bills are growing, too.

City officials say they while they do not begrudge the state any of its wish list, they would be happy with a plan that costs the federal government more in lost — and ultimately unanticipated — revenue than in pure cash outlays. "The city has a lot of needs," said one official, "but in Lower Manhattan we are looking at specific elements to encourage employers to come in and to encourage developers to build new buildings. The goal is to keep lower Manhattan as the financial hub." Last week, the city's budget director, Adam Barsky, and Deputy Mayor Robert Harding paid calls to legislative leaders in Washington and to officials in the Bush administration to press their case.

The city proposes offering businesses $5,000 per employee the first year, and would decrease that incentive to $2,500 per worker for each of the next two years. The cash benefit could be applied to the company's federal tax bill, or taken as a lump sum. The city offers a modest version of this plan involving city taxes for businesses opening in some neighborhoods outside Manhattan.

The program for returning businesses to lower Manhattan would be capped at $750 million, or the estimated amount needed to

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repopulate what some calculate is the 25 million square feet of space lost to the attack. The cap is designed to signal to the federal government that the city is not trying to tuck general economic development into the package.

Other refinements under consideration by Mr. Schumer and Mrs. Clinton include tax credits for businesses and tax-exempt financing for reconstruction projects, according to people familiar with the plan. Their plan would likely lengthen the time period of the cash credit for employees and might not contain a cap.

However, city officials hinted that since it was unlikely that two huge towers would be built in the World Trade Center's space and that smaller buildings might go there instead, businesses that chose to set up shop in other boroughs might be accommodated by this plan if lower Manhattan became overpopulated.

For some developers, who are loath to build in Manhattan because of high costs and bureaucratic hurdles, the city would like to offer access to tax-exempt bonds that would significantly reduce their costs of building. The city envisions developers going to its Industrial Development Authority to secure bonds on which purchasers would not be obligated to pay city, state or federal taxes, in turn lowering the interest rate for the developers.

City officials argue that the benefit is attractive because although it would represent a loss of about $13 billion in tax revenues for the federal government, it would not require a cash payout to the city. Tax on bond interest was not anticipated revenue anyway, since there were no plans before Sept. 11 to do major rebuilding in lower Manhattan.

Outside of rebuilding and repopulating the area, known as the Liberty Zone, the city would also like to have a federal insurance pool created for businesses that cannot afford insurance, and pay for the rebuilding of a destroyed power substation, subway station and telephone switching station at a cost of roughly $2 billion.

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