

**Testimony**  
**Of**  
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**Before**  
**Select Committee on Lower Manhattan Redevelopment**  
**New York City Council**  
**April 11, 2005**

Good morning, Chairman Gerson and members of the Select Committee on Lower Manhattan Redevelopment. Thank you for hosting this hearing on the rebuilding of downtown. My name is Eduardo Castell, Deputy Comptroller for External Relations. I am pleased to offer testimony on behalf of Comptroller William C. Thompson, Jr. I am joined today by Marcia Van Wagner, Deputy Comptroller for Budget.

While much progress has been made since the terrible events of September 11, 2001 shook the very foundation of the City, the simple fact is that Lower Manhattan has not yet recovered. In addition, President George W. Bush has yet to fulfill the promise of more than 20 billion dollars of aid he made to the City in the immediate aftermath of the attacks.

I will begin by discussing the economic status of Lower Manhattan.

Most of the available data indicates that three and a half years after 9/11, the neighborhood is still struggling. Most significantly, the number of Downtown jobs has yet to return to pre-9/11 levels. Downtown jobs fell from nearly 492,000 in December 2000 to roughly 436,000 in February 2005.

In addition, demand for commercial real estate space in Lower Manhattan continues to lag Midtown.

Since 2000 Downtown office rents have been, on average, nearly 12 dollars per square foot cheaper than midtown. That is nearly double the discount that was placed on Downtown office space in the 1990s. In fact, the current average rent for vacant space Downtown is the same as it was more than a decade ago, while costs to operate buildings have increased considerably over that period.

And once the construction of Seven World Trade Center is completed later this year, an additional 1.7 million square feet of space will be added to a neighborhood already struggling to find tenants for existing space. Indeed, Seven World Trade Center has yet to secure an anchor tenant.

There are some promising signs, however. In the first quarter of this year, the Downtown vacancy rate fell to 12.3 percent--its lowest level in three years.

Perhaps more troubling than Lower Manhattan's ongoing economic difficulties is the fact that the Federal government has yet to come through with the aid it promised the City.

In a report released in August 2004, the Comptroller's office estimated that the City had received 11.3 billion dollars in federal aid to assist with clean-up, recovery and rebuilding efforts. That figure remains virtually unchanged. This represents just over half of the 20.8 billion dollar aid package that President Bush pledged following the disaster.

Most of the aid the City has received to date has been via the Federal Emergency Management Agency, which has released a total of 8.8 billion dollars. Another 2.5 billion dollars has reached the City through the Community Development Block Grant program, administered in part by the Lower Manhattan Development Corporation.

LMDC, however, has yet to fully utilize all of the available CDBG funding. According to the most recent available information, LMDC has not developed action plans for 819 million dollars in this category.

Among the other aid packages created in the wake of 9/11 was the Liberty Zone program. This program consisted of a combination of tax credits designed to aid businesses in Lower Manhattan. Gauging the success of the Liberty Zone package has been problematic.

This is because, despite the recommendations of the Comptroller's office and the urgings of numerous public officials, the Federal Government has not created any mechanism to track the benefits of this program. Available data and anecdotal evidence strongly suggest, however, that the Liberty Zone program has not resulted in the benefits to the City we expected when the program was created in 2002.

Tax law changes affecting depreciation benefits and weak economic conditions in the Downtown area appear to have greatly limited the ability of local businesses to take advantage of the program's tax benefits and accelerated depreciation provisions.

The Liberty Bond program has also fallen well short of expectations. The program encountered delays in bond issuance in its first three years.

The original deadline for developers to issue bonds – December 31, 2004 – posed additional problems. Two years ago, Comptroller Thompson called for the extension of that deadline, and in September Congress did just that. The deadline is now December 31, 2009. This move unlocked 3.42 billion dollars in unused bonding authority for new construction.

Even so, of the original aid pledge by the President, the Comptroller estimates that 5.2 billion dollars is in jeopardy of never reaching the City. An estimated 4 billion dollars may not reach the City due to long-standing programmatic delays and the federal government's failure to monitor the progress of large components of the aid package.

This includes the 819 million dollars in unprogrammed CDBG funding I mentioned earlier, 2.37 billion dollars in tax benefits from the Liberty Zone program, and 797 million dollars in undocumented miscellaneous federal support.

Last July, the President proposed a “swap” of \$2 billion in Liberty Zone tax incentives for a corresponding amount in tax incentives associated with transportation initiatives. The President included the proposed swap in his Fiscal Year 2006 budget. This change, if adopted by Congress and fully utilized, would alleviate a significant portion of the potential shortfall in the Liberty Zone program.

Even if immediate action is taken with regard to that portion of the aid, the City would still be denied 1.2 billion dollars – dollars the City still desperately requires.

The federal aid that has reached the City has been essential in helping New York to recover and rebuild. It is vitally important, therefore, that the Federal Government adhere to its commitment and that all government entities work together to ensure that the entire aid package of 20.8 billion dollars is realized.

Lower Manhattan is a key driver of the City's growth and a crucial cog in the global economy. We must do all we can to ensure its recovery.

Thank you.