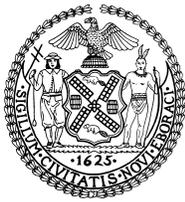


FEDERAL ECONOMIC RECOVERY BILL: PRIORITIES FOR THE CITY OF NEW YORK



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President-elect Obama has proposed an ambitious economic recovery plan that would stimulate the economy and create more than 3 million jobs by investing in infrastructure projects, making public buildings, homes and schools more energy-efficient; protecting and enhancing the environment; expanding social safety net programs such as Medicaid and unemployment benefits; providing fiscal relief to cities and states; and funding middle-class tax cuts and tax credits to small businesses. As the Administration and Congress shape these proposals, it is critical that they focus on policies and investments that have maximum stimulating effect in the short term, and that strengthen America's future competitiveness over the long term. Getting the program done in a way to achieve these twin goals is as important as getting it done quickly.

As the largest metropolitan area in the United States, New York City faces a particularly pronounced downturn. National job losses are expected to be disproportionately concentrated in New York City, not only due to the City's reliance on the financial services industry and real estate sector, but also as tourism, construction, and hospitality jobs are lost. One measure of the difficulties facing New Yorkers is the effect the economic downturn has had on the City budget. In November, the City projected a \$1.3 billion budget gap for FY 2010 and a \$5 billion gap in FY 2011. After a continued decline in tax revenues and a proposed state budget that reduces local state aid and shifts more expenses to localities, these gaps are expected to increase in the coming months. The FY2010 budget gap is expected to grow as high as \$4 billion.

Several months ago, the City developed a series of initiatives to help New Yorkers face the current economic challenges. This plan was designed to create jobs; support New York City's workforce, small business and homeowners; and provide targeted relief. It included deep investments in capital infrastructure, the creation of green jobs through building upgrades and incentives, an expansion of small business loan guarantees; and new workforce training efforts. The City also targeted relief to the most vulnerable New Yorkers by providing food assistance and cash flow relief to property owners. A similarly focused, multi-pronged approach at the federal level would do much to speed and strengthen the nation's recovery from this recession.

New York City recommends a series of federal investments, outlined below and discussed in greater detail in the following pages, to successfully stimulate the economy in the short-term and ensure the long-term economic health of the City and the country. This document is not a list of New York City projects; instead, it proposes specific policy recommendations for the most effective use of federal funds as a catalyst for economic recovery. The City will prepare the appropriate documentation and priority distinction once a recovery package is signed into law.

1. Invest in ready-to-go public infrastructure

Allocating federal funding to infrastructure will create millions of new jobs in the short term and enable local governments to build a new generation of infrastructure and repair and upgrade vital assets that are essential to our future national competitiveness. Investments in infrastructure should be prioritized to "fix it first" so that we can get shovels in the ground quickly and create immediate jobs. New infrastructure should seek to make us more sustainable, including a focus on mass transit and passenger rail improvements, water and sewer infrastructure, environmental stewardship and energy efficiency initiatives.

To maximize the effectiveness of the federal recovery package, we recommend that Congress and the Administration provide funds directly to local governments, modify federal funding programs to speed project delivery and increase flexibility, provide funding through allocation formulas that recognize the unique needs of cities, and expand the number of federal programs through which funding is available.

2. Provide city fiscal assistance

Municipal budgets have been particularly hard hit by the economic downturn. To address its shortfalls, the City has enacted numerous budget cuts over the past year and a half, and recently directed agencies to reduce spending by another 7 percent, or \$1.4 billion, for FY 2010. In the past, core services in urban areas have been dramatically cut during prolonged economic recessions. This contributed to increases in crime, which caused residents and jobs to leave urban areas, further eroding municipal tax bases. To ensure that cities continue to function as economic engines, core services such as police and fire protection and education must remain funded, taxes in urban areas must be held to a reasonable level, and municipalities need to continue to operate under balanced budgets. The federal government can assist cities by paying a larger share of Medicaid costs through a temporary increase in the FMAP, providing resources directly to cities, and provide an offset to localities for unpaid taxes from federal tax refunds.

3. Strengthen municipal credit markets

The credit crisis has severely impaired the ability of state and local governments to finance new construction and investments. In addition, it has resulted in high borrowing rates for states and localities and a loss of liquidity for investors, especially for products like auction rate securities. To address these problems, Congress and the administration can take several low-cost steps to lower state and local borrowing costs and allow new construction projects awaiting financing to move forward and help stimulate the economy.

4. Target workforce development

Human capital development and job placement in growing and emerging sectors is one of the key ways to stimulate the economy and keep urban areas thriving. This can include efforts to train, educate, and place workers into jobs that build a stronger, greener economy. New York City already has a strong foundation for job training and can use its current infrastructure to both leverage existing job-training possibilities and explore partnerships to expand beyond traditional training methods. The federal government can support these efforts by directing funding through a new urban innovation fund and by supporting small businesses that drive the local economy.

5. Enhance social service programs

A federal recovery package that focuses on maintaining and creating jobs, as well as shoring up social safety net programs like unemployment and food stamp benefits, will have the greatest impact on restoring workforce confidence and increasing consumer spending. Low-income workers and families will face higher unemployment rates in general during the downturn and may not have the savings levels to get them through tough economic times. These families are among the most vulnerable during a recession and specific programs should provide targeted relief. In addition, expansion of the Earned Income Tax Credit can provide valuable refundable credits to low-income families and workers, all the while encouraging deeper workforce engagement.

INVEST IN READY-TO-GO PUBLIC INFRASTRUCTURE

Allocating federal funding to infrastructure will create millions of new jobs and enable local governments to build a new generation of infrastructure as well as repair and upgrade essential assets.¹ Over the past seven years, the City has made it a priority to maintain and expand its infrastructure—investing billions of dollars in infrastructure projects through its capital plan. But more needs to be done. The current level of investment is not sufficient to reach all of the infrastructure in need of repair and even maintaining the current level of investment will be difficult as credit markets remain contracted and budget cuts are enacted. The City has already taken several steps to reduce its costs in response to the economic crisis and credit crunch, including stretching out our four-year capital program to cover five years and deferring critical capital projects to out-years. Further deferments may be needed if the economy continues to decline or credit markets freeze. The economic recovery package presents an opportunity to restore these “shovel-ready” projects to the FY 2009 capital program and accelerate other crucial projects—some of which were already in the City’s capital plan but were cut to reduce costs and others of which the City did not have the resources to include in its capital program at the time it was developed. These projects would help the City meet its critical needs while creating thousands of construction jobs.

To maximize the effectiveness of the federal recovery package, the City recommends that the stimulus plan:

1. **Provide funds directly to local governments.** This would increase the pace at which these projects could be initiated;
2. **Provide flexibility to local governments** by disbursing funds through the Community Development Block Grant (CDBG) with appropriate waivers. This will enable cities to finance projects for which there is no other funding stream (i.e., police precincts, parks, cultural institutions, libraries, and courts);
3. **Apportion funding through formulas that account for the unique needs of urban areas** and prevent earmarking of funds to specific projects or regions. The CDBG and the Education Title I programs are examples of programs with successful funding formulas;
4. **Place an emphasis on “green infrastructure”** (i.e., mass transit, parks and other green spaces, smart electrical grids, energy efficiency retrofits, and other assets that help cities become more sustainable). These projects provide cities with the opportunity to promote energy independence, reduce carbon emissions, and enhance quality of life for our residents, issues that are crucial to the country’s economic future.
5. **Ensure accountability.** This would ensure that cities and states around the country are spending federal money appropriately. This recovery package is aimed to maintain and create new jobs as quickly as possible; and is not geared to be used to just supplant local funding resources without job growth. Frequent reporting and transparent audits could be required to ensure accountability.

New York City has identified more than \$5.3 billion in projects currently in its five-year capital plan that are either already designed or close to completion where construction contracts could be awarded within 90 days if additional resources were made available and eligibility requirements were made more flexible

¹ Infrastructure spending is a tremendous job engine. The U.S. Department of Energy recently found that for every \$1 billion invested in infrastructure, 34,779 new jobs are created and that each \$1 billion invested in energy efficiency supports 52,000 jobs. In addition, the 21st Century Schools Fund estimates that \$1 billion spent on both school maintenance and on school modernization and new construction respectively would support 25,000 jobs. In addition, every dollar spent on energy efficiency also avoids \$1.50 - \$3.00 spent on imported fuels.

(see Table 1). An additional \$4.5 billion in projects could be awarded within 180 days.² This menu of projects includes some that the City planned to do over the next five years but could be accelerated with additional resources from the federal government. Absent new resources, some of these projects may be deferred indefinitely from the City's capital plan as future cuts are deemed necessary.

In addition, the City has identified approximately \$2 billion worth of projects that are not in the City's current capital plan that could be awarded within 90 days and \$2.4 billion in projects that could be awarded in 180 days (see Table 2). This includes projects that were deferred from the current capital plan until 2015 and beyond; projects that were not in the current capital plan because the City did not have the resources available to commit to doing the project within the next five years; and projects for the New York City Housing Authority (NYCHA) and Health and Hospitals Corporation (HHC), which are typically outside of the City's capital plan.³ The economic recovery package presents an opportunity to begin these projects, which meet the City's critical needs and will spur economic growth now rather than waiting for the next five-year capital plan. An additional \$4 billion worth of projects outside of the City's capital plan could be awarded by December 31, 2009.

The City has identified several federal programs that could be used to direct funding to these "shovel-ready" infrastructure projects, some of which were included in the proposed economic recovery bills passed by Congress in 2008 (i.e., Highway Trust Fund, Army Corps of Engineers, Public Housing Capital Fund). Other programs that were not included in past proposals should be included in the final legislation, including the Clean Water State Revolving Fund, mass transit, school modernization, energy efficiency programs, and Community Development Block Grant program. In addition, as detailed below, the regulations governing these programs should be modified to provide local governments with greater flexibility and to increase the number of projects that could be eligible for federal funding.

Examples of projects that could be eligible for funding under the 90 day and 180 day timeframes include:

- The Department of Environmental Protection could build a boiler plant at the wastewater treatment plant at Port Richmond, to increase the efficiency of the plant and reduce annual carbon dioxide emissions by nearly 30,000 metric tons. The project cost is estimated at \$26 million.
- The Police Department could build several new facilities, including its 120th Precinct, at an estimated cost of \$80 million, and its 121st Precinct, with a project cost of \$50 million. The contract for the 120th Precinct was bid out in the fall, but was not awarded due to funding constraints.
- The Department of Transportation could accelerate needed repairs to maintain the Brooklyn Bridge in a state of good repair, at an estimated cost of \$246 million, and spend \$25 million to accelerate construction of the City's bike network.
- The Department of Education could replace old and inefficient boilers burning #4 or #6 fuel oil and related climate control equipment in schools, which would reduce emissions and improve efficiency. This project would cost approximately \$570 million.

² To determine which projects could be eligible for federal funding, the City reviewed its FY09-FY13 Capital Plan and identified projects that had been moved to out-years or stretched out as part of the recent capital budget cuts enacted by the City. City agencies were asked to identify those projects currently in the capital plan for which the City could award a contract by May 1, 2009 (90 days from the expected passage of a stimulus bill); August 1, 2009 (180 days); and December 31, 2009. For each project for which a contract could be awarded within the timeframes above, agencies listed the amount of funding that could be awarded and the federal program through which funding could be allocated.

³ NYCHA and HHC make up approximately \$861 million of the \$4.5 billion in non-capital plan projects that could be awarded by December 31, 2009.

- The Department of Housing and Preservation Development could spend \$150 million to build 14,700 linear feet of new streets, including storm and sanitary sewers and water distribution systems that would leverage private development in southeast Queens.
- The Department of Cultural Affairs could spend \$59 million using standard and creative sustainability measures to renovate and expand the Queens Museum of Art, the largest cultural organization in Queens.

The tables below illustrate the estimated value of capital projects that the City could award by May 1, August 1, and December 31, 2009 if additional resources were made available by potential federal funding sources. **Table 1** includes projects currently in the City’s capital plan for Fiscal Year 2009 and other projects in the plan that could be accelerated with additional funding. **Table 2** includes projects that are not currently in the City’s five-year capital plan, but which meet the City’s critical needs.

Table 1
New York City “Shovel-Ready” Projects Currently in the 5-Year Capital Plan,
by Federal Program
(projects eligible for funding with program modifications)

Eligible Federal Program	May 1, 2009	August 1, 2009	Dec. 31, 2009
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
Highway Trust Fund	\$903,158	\$834,815	\$458,026
Army Corps of Engineers	--	\$1,750	\$6,300
Public Housing Capital Fund	--	--	--
Clean Water State Revolving Fund	\$2,233,493	\$16,700	\$1,425,465
School Modernization	\$497,798	\$1,727,862	\$329,502
Energy Efficiency Block Grants	\$45,776	\$36,244	\$60,288
Health IT	--	--	--
CDBG	\$1,639,857	\$1,869,549	\$3,128,076

Table 2
New York City “Shovel-Ready” Projects Not in the 5-Year Capital Plan,
by Federal Program
(projects eligible for funding with program modifications)

Eligible Federal Program	May 1, 2009	August 1, 2009	Dec. 31, 2009
	(\$ in thousands)	(\$ in thousands)	(\$ in thousands)
Highway Trust Fund	\$79,162	\$377,484	\$232,049
Army Corps of Engineers	\$125,000	\$8,500	\$20,000
Public Housing Capital Fund	\$486,917	\$128,652	\$209,720
Clean Water State Revolving Fund	\$19,383	\$15,000	\$5,000
School Modernization	\$615,647	\$737,857	\$386,878
Energy Efficiency Block Grants	\$100,250	\$98,308	\$934,550
Health IT	\$210,900	--	--
CDBG	\$470,889	\$1,004,048	\$2,135,190

Highway Trust Fund

The Highway Trust Fund (HTF) is an important tool to spur investments in infrastructure. Given the urgency of stimulating the economy, allocating some portion of the HTF funds directly to municipalities would increase the pace that projects can be initiated, avoiding bureaucratic duplication and unnecessary

delays that often occur when funding is passed through state intermediaries. By utilizing existing federal programs that make direct allocations to local governments, the universe of projects that can be awarded in 90 days will increase. In addition, direct aid to cities will create stronger ownership of the federal programs on the local level, strengthen the commitment to federal priorities through closer contact with federal agencies, and increase the speed at which projects turnaround. The Federal Transit Administration's program, in which programming occurs through the metropolitan Transportation Improvement Plan (TIP) but the projects are administered by self-certified agencies with federal oversight, is an example of this structure.⁴ For Federal Highway Administration (FHWA) funds in particular, the economic recovery package should utilize a program structure that sets funds aside proportionately for each metropolitan area, through suballocation using the Surface Transportation Program (STP) formula.

In an effort to increase the speed at which transportation projects can be started, some relief should be granted for administrative reviews, which often cause delays. The City recommends that:

- A temporary waiver or delay of air quality conformity approval should be enacted, allowing contracts to be obligated in the meantime. Conformity in the New York region, for instance, typically takes six months and the analysis is performed twice a year. Transportation projects eligible under the recovery program may not be in current Transportation Improvement Programs (TIP) and will not be certified under conformity models.
- The time FHWA takes to transfer funds to FTA should be limited to 15 days, along with all other review processes for projects funded through the recovery package. Transferring money from FHWA to FTA, which involves an eligibility review, can take up to six months today.
- All federal design reviews conducted on projects funded under the economic recovery bill should be subject to strict timelines to avoid delays. Design and project review time are often the largest source of delay in project delivery.

The City has identified \$903 million in projects currently in its five-year capital plan that could be awarded within 90 days through HTF and an additional \$830 million that could be awarded within 180 days. The City has also identified \$79 million in projects outside of its current capital plan that could be eligible for funding through the HTF and awarded within 90 days and \$377 million worth of projects that could be awarded within 180 days. Examples include:

- The Department of Transportation could spend \$175 million to reconstruct the ramps at St. George's ferry terminal in Staten Island, to maintain the terminal in a state of good repair and continue to provide commuters with a reliable and safe transportation service.
- The Department of Parks and Recreation could spend over \$300 million in the reconstruction and repair of park roads, pathways and boardwalks.
- The Department of Cultural Affairs could spend \$55 million in partnership with the Metropolitan Transportation Authority/Metro North and the New York Botanical Garden, to construct a new multimodal transportation hub.

In addition to investing in roadways, significant investments in mass transit will create and preserve green jobs in transportation by eliminating planned public transit service cutbacks and increasing frequency of service in the many systems where demand warrants it. Public transportation agencies are operating in very difficult fiscal environments at the same time that record numbers of Americans are trying to save

⁴ The Federal Transit Administration currently allocates funding directly to cities with a population greater than 200,000. ("For urbanized areas with 200,000 population and over, funds are apportioned and flow directly to a designated recipient selected locally to apply for and receive Federal funds. For urbanized areas under 200,000 in population, the funds are apportioned to the Governor of each state for distribution. A few areas under 200,000 in population have been designated as transportation management areas and receive apportionments directly.")

money and reduce foreign oil consumption by taking buses, trains and ferries. Supporting operations will shore up transportation options for low-income workers and preserve or create good jobs in the transit sector. In addition, capital spending to maintain the state of good repair of existing transit service and the expansion of service to underserved areas is critical to support future economic growth. While the Metropolitan Transportation Authority (MTA), a State authority, is responsible for New York City's mass transit system, the City strongly supports investments in mass transit to support this critical urban and suburban need.

Clean Water State Revolving Fund

Water and sewage systems make up a large part of municipal expenditures. For example, New York City spends over \$2.5 billion a year to maintain and expand the City's water and wastewater systems. Because of the credit crunch and pressure to keep water rates (which finance the City's water and wastewater capital program) affordable, spending is constrained.

The Clean Water State Revolving Fund (CWSRF) provides a mechanism to assist states and local governments; however, Congress and the administration can use this program to provide grants rather than loans. Enabling New York and other cities to access these funds in the form of grants is critical as other infrastructure projects are undertaken. Sewer and water systems serve as the backbone of much of the country's infrastructure, often running directly underneath or adjacent to our roadways, rail lines, transit systems, and critical facilities. Many of the repairs and upgrades anticipated to take place under the proposed recovery package would provide local governments with the opportunity to address leaking pipes and outdated systems at the same time that surface infrastructure is repaired, reducing overall costs and ensuring that new projects are not damaged or undermined by subsurface infrastructure. In addition, projects funded through the CWSRF have a tremendous impact on public health and the environment by reducing combined sewer overflows, remediating brownfield contamination, and promoting green infrastructure.

Using the CWSRF to issue grants, rather than loans, would provide the City with new resources to maintain its water infrastructure, in addition to its currently committed capital program. While low-interest loans would reduce the City's debt service compared to traditional financing, future principal payments would still need to be made, which would force the City to merely supplant its existing program to make these payments; or in the alternative raise water rates. However, if the City instead received a \$1 billion grant, it could fund an additional \$1 billion of projects, with no resources needed to cover debt service which reduces the severity of future water rate increases.

The City has identified projects currently in its five-year capital plan valued at \$2.2 billion that could be awarded within 90 days if the CWSRF were provided as grants and \$16.7 million in projects that could be awarded within 180 days. In addition, the City has identified \$19 million in projects outside of its current capital plan that could be eligible for funding through the CWSRF and awarded within 90 days and \$15 million worth of projects that could be awarded within 180 days. Examples include:

- The Department of Environmental Protection could spend \$304 million to upgrade critical elements of the Manhattan water main infrastructure, replacing aging pipes installed over a century ago.
- The Brooklyn Navy Yard Development Corporation could spend \$20 million to replace water and sewer infrastructure within the Navy Yard to conserve water and eliminate leaks, which undermine surface infrastructure. (Not currently in the City's capital plan)
- The Department of Parks and Recreation could spend \$4 million to restore intertidal salt marshes and wetlands in parks to restore tidal flushing, eradicate invasive plants and plant native vegetation. This would not only improve water quality but will help abate flooding.

Army Corps of Engineers

The U.S. Army Corps of Engineers (ACOE) provides critical engineering and design expertise in the planning, building, and operating of water resources and other civil works nationwide. As part of the recovery bill, the Army Corps should be directed to prioritize funding for activities based on the ability to accelerate existing contracts or fully fund projects within the next 2 years. They should also target contracts that provide the most opportunities for job creation.

The City has identified \$1.8 million in projects for the ACOE currently in its five-year capital plan that could be awarded within 180 days. In addition, the City has identified \$125 million in projects outside of its current capital plan that could be eligible for funding through the ACOE and awarded within 90 days and \$8.5 million worth of projects that could be awarded within 180 days. Examples include:

- The Department of Parks and Recreation could spend \$125 million to reconstruct damaged and failing seawalls City-wide to protect inland infrastructure and mitigate the risk of future violent storms and rising sea levels. Because the City has more than 600 miles of coastline close to millions of people, New York's seawalls are a vital component of the city's infrastructure.

Public Housing Capital Fund

The Office of Capital Improvement at HUD administers the Public Housing Capital Fund program, which funds approximately 3,200 public housing agencies across the country to develop, finance, modernize, and manage various public housing improvements. The recovery bill should provide additional funding for this fund, allocated to public housing agencies according to the same funding formula as in prior years.

The New York City Housing Authority (NYCHA), which operates and maintains the largest public housing system in the country, is predominantly funded by the Federal government. The City has identified \$486 million in projects for NYCHA that could be eligible for funding through the Public Housing Capital Fund and awarded within 90 days and \$128 million worth of projects that could be awarded within 180 days. Examples include:

- NYCHA could spend \$20 million to repair the roof at the Woodside Houses in Queens.
- NYCHA could spend \$41 million to upgrade the kitchens and bathrooms at Edenwald Houses, the largest public housing development in the Bronx.

School Modernization

The federal recovery program passed by the House of Representatives in 2008 (H.R. 7100) authorized additional funding for school modernization projects, which create new jobs and make much needed investments in our educational system. As part of a recovery package, grants should be provided to school districts for the modernization, renovation, or repair of public schools to make them safe, healthy, high-performing, and technologically up-to-date. We recommend that funding be distributed in a manner similar to the Title I program, which provides funds directly to local education agencies and targets resources to those districts with the greatest need.

The City has identified \$500 million in projects currently in its five-year capital plan that could be awarded within 90 days if school modernization projects were included in the economic recovery program and an additional \$1.7 billion that could be awarded within 180 days. The City has also identified \$615 million in projects outside of its current capital plan that could be eligible for funding through school modernization and awarded within 90 days and \$733 million in projects that could be awarded within 180 days. Examples include:

- The Department of Education could spend \$1 billion to build 20 new schools throughout the city, to address overcrowding in several local districts and meet projected demand;

- The Department of Education could spend \$236 million to retrofit 2,000 classrooms with broadband wiring and other equipment to ensure that students have access to up-to-date educational technology. (Not currently in the City’s capital plan)
- The Department of Education could spend \$72 million to remove and replace floor tiles that contain asbestos.

Capital Investments in Energy Efficiency

Municipal Buildings

Currently, the City has committed to spend approximately \$100 million a year on projects that improve the energy efficiency of over 5,000 municipal buildings as well as wastewater treatment plants and vehicle fleets. This commitment covers close to 40 percent of the estimated \$2.3 billion necessary to achieve the City’s goal to reduce greenhouse gas emissions by 30 percent by 2017. This \$2.3 billion investment into energy efficiency programs has an average payback of 7.6 years, equaling a return on investment of approximately 13 percent per year.

Federal funding to support this effort would allow immediate capital investments into firehouses, police precincts, garages, libraries, schools, cultural institutions, offices, courthouses, and waste water treatment plants.

The City has identified \$46 million in projects currently in its five-year capital plan that could be awarded within 90 days for energy efficiency projects and an additional \$36 million in projects that could be awarded within 180 days. In addition, the City has identified \$100 million in projects outside of its current capital plan that could be eligible for funding for energy efficiency and awarded within 90 days and \$98 million worth of projects that could be awarded within 180 days. Examples include:

- The Department of Citywide Administrative Services could spend \$22 million on 55 energy efficiency projects to upgrade lighting at various municipal buildings and lower future utility bills;
- The New York City Economic Development Corporation could spend \$2.9 million to replace the windows at the Brooklyn Army Terminal, two landmarked 8-story warehouses that are subleased to private sector tenants for light industrial and commercial use. (Not currently in the City’s capital plan)

Private Investment

In addition to providing grants to local governments to upgrade municipal buildings, the economic recovery program can provide resources to spur energy efficiency upgrades in privately-owned buildings. The Department of Energy’s (DOE) Weatherization Assistance Program is an existing program that funds building retrofits for low income dwellings to reduce heating expenses. Nationwide, weatherization supports 8,000 technical jobs in low-income communities, which represents about 52 jobs for every \$1 million of DOE investment. Providing additional funds for this program and including it in the economic recovery package would support new jobs in communities in need of jobs and investments and provide both immediate and long-term cost savings for low-income residents.

The recovery program can also leverage state and local governments’ spending on energy efficiency programs to increase the coverage of these programs. An example is New York State’s System Benefit Charge (SBC), a fee collected on utility electricity bills that goes towards energy efficiency upgrades statewide. To meet City and State goals to reduce energy consumption and greenhouse gas emissions, improve air quality, and create new jobs, the federal government can provide additional funding through a match, especially for multi-family residential buildings, audits and retrofits of existing commercial buildings, and industrial process improvements.

Health Information Technology

The City can achieve long-term cost savings by upgrading and digitizing medical records. Currently, public and private health clinics waste precious staff time and space to search and store paper records. Digitizing these files presents an opportunity to better serve patients, free up clinical staff's time, and save money.

The City has identified \$210 million in projects outside of its current capital plan that could be eligible for funding for health IT infrastructure and awarded within 90 days. Examples include:

- The Department of Education could spend \$26 million to retrieve Medicaid documents from 1,450 schools to ensure data integrity and targeted case management.
- The Department of Health and Mental Hygiene could spend \$185 million on its Primary Care Information Project, which would digitize the City's health records.

Community Development Block Grants (CDBG) for Infrastructure

With slight modifications, the CDBG program can be used to fund projects for which there is no other funding stream – e.g., police precincts, courts, economic development projects, parks, nonprofits, cultural institutions, and libraries, and grants to public or nonprofit hospitals. Under the current formula, 70 percent of CDBG monies go directly to cities with populations over 50,000, with the remainder going to states to use in smaller localities. CDBG also provides an opportunity to assist the City's cultural institutions, which are vital components of the City's neighborhoods, provide important social services, and are anchors for economic development.

CDBG requirements have been waived in the past to help state and local governments respond to crises, including September 11, Hurricane Katrina, and the civil unrest in Los Angeles. This was accomplished by giving HUD the authority to waive requirements except those related to fair housing, nondiscrimination, labor standards, and the environment. In the present circumstances, the following requirements can be waived to allow CDBG to be as flexible as possible.

1. **Targeting:** Under current law, 70 percent of the CDBG funds expended must benefit people at or below 80% of the area median income (AMI). This will seriously limit the programs and areas in which CDBG may fund projects.
2. **Public Service Cap:** Under current law, no more than 15 percent of a CDBG grant plus prior years' program income can be used for public services. This 15 percent cap should be waived.
3. **Citizen Participation Process:** In order to get the funds out quickly, this process would have to be streamlined as was done after 9/11.
4. **Program Income:** Under the current CDBG program any income generated by a CDBG activity must be returned to the CD program. Income generated by infrastructure projects should instead be used for operation and maintenance of those projects.

In addition, CDBG recipients are required pursuant to Section 3, to the greatest extent feasible, to provide training, employment, and contracting opportunities for low – or very low income residents for public construction projects over \$100,000. While there are concerns this may hinder the contractor selection process, as contractors may be hesitant to bid if they are required to collect employee information or are restricted in their hiring, this may provide a unique opportunity to train and prepare low-income workers for jobs in the construction trades industry across the country. New York City recently created a Commission on Construction Opportunity to create a pipeline to unionized jobs for people who lack the requisite job skills or a high school diploma. The Commission, with members from construction and development companies, unions, training organizations, advocacy organizations, and city agencies developed a multi-dimensional plan to provide opportunities for those traditionally under-represented in the construction industry – including women, veterans, those with limited education and employment

records, and those otherwise disadvantaged. Key activities include a commitment from the unions as to expanded apprentice slots, the establishment of a pre-apprentice training program, a training program for “white collar” construction industry opportunities, model programs involving major development projects, record keeping and data tracking systems, the establishment of a new high school for the construction trades. Similar apprenticeship programs can create access to jobs for under-represented groups to participate in economic development opportunities and well as a trained workforce for developers and can serve as a model for other localities.

The City has identified \$1.6 billion worth of projects currently in its five-year capital plan that could be awarded within 90 days through CDBGs and an additional \$1.9 billion that could be awarded within 180 days. The City has also identified \$470 million in projects outside of its current capital plan that could be eligible for funding through CDBGs and awarded within 90 days and \$1 billion worth of projects that could be awarded within 180 days. Examples include:

- The Health and Hospitals Corporation could spend \$130 million for a major upgrade and modernization of the Harlem Hospital, to significantly increase the quality of care to the residents of Central Harlem, Washington Heights, West Harlem, and Inwood. Harlem Hospital is the largest hospital in the area, but currently services its patients in antiquated buildings.
- The New York City Fire Department could rebuild a new firehouse and pier to replace a facility that collapsed. The total cost of this project is \$6 million. (Not currently in the City’s capital plan)
- The Department of Health and Mental Hygiene could spend \$30 million to renovate and upgrade 30 community health clinics. (Not currently in the City’s capital plan)
- The Department of Cultural Affairs could spend \$28 million to build a sustainable heritage center in the historically significant Weeksville community which will provide educational, artistic, and cultural programming to a currently under-served neighborhood.

PROVIDE CITY FISCAL ASSISTANCE

Municipal budgets have been particularly hard hit by the economic downturn. In November, the City projected a \$1.3 billion budget gap for FY 2010 and a \$5 billion gap in FY 2011. However, after a continued decline in tax revenues and a proposed state budget that reduces local state aid and shifts more expenses to localities, the FY 2010 gap is expected to increase as high as \$4 billion. To address this shortfall, the City has enacted numerous budget cuts, and recently directed agencies to reduce spending by another 7 percent, or \$1.4 billion, for FY 2010. The City Council also recently passed a 7 percent increase in property taxes. These reductions are affecting resources available to critical services, including education, police, and fire protection.

Maintaining the livability and economic vitality of cities is critical to a national recovery. A report by the U.S. Conference of Mayors found that metropolitan areas in the U.S. are responsible for more than 86 percent of the national GDP. In the past, core services in urban areas have been dramatically cut during prolonged economic recessions. This contributed to increases in crime, which caused residents and jobs to leave urban areas, further eroding municipal tax bases. To ensure that cities continue to function as economic engines, core services such as police and fire protection and education must remain funded, taxes in urban areas must be relatively low, and municipalities need to continue to operate under balanced budgets.

A. Support Federal Medical Assistance Percentage (FMAP) Adjustment

If the federal government were to pay a larger share of Medicaid costs through a temporary increase in the FMAP, this would result in a large cost savings for both the City and State of New York. In states like New York, where local governments share the cost of the Medicaid program with the state, the FMAP adjustment should include a provision ensuring that the local governments receive their proportionate share of the relief. An increase to the Federal rate would reduce the City of New York's Medicaid costs resulting in savings that help balance the budget. The City would save approximately \$100 million for each percentage point raised in the FMAP rate over five quarters.

B. Support Direct Aid to Municipalities

In the past, the federal government has provided financial resources directly to cities through a number of programs, including the CDBG and revenue sharing programs. The administration and Congress can reinstate these programs for budget relief and provide resources directly to cities, which have been disproportionately impacted by the economic crisis and are an engine for national economic growth. In addition to providing funding directly, the requirements of existing funding programs can be modified to provide local governments with greater flexibility. For example, CDBG funds can only be used to pay for new public service programs or a quantifiable increase in an existing service. If that restriction were waived, local governments would be able to support existing services which would otherwise be cut due to insufficient and shrinking city funds.

C. Provide Local Offset for Unpaid Taxes

Under current law, if someone owes a state back taxes and gets a tax refund from the federal government, the IRS will take the back taxes from the federal refund and give it to the state. A new local offset proposal could set up a similar program for local governments. Local governments could report to the states their unpaid taxes and the state would be the point of contact for the IRS so they would not have to deal with thousands of local governments where relationships do not currently exist. Some localities already have information-sharing agreements with the IRS, including New York City. Those cities could deal directly with the IRS since those arrangements are already in place.

STRENGTHEN LOCAL CREDIT MARKETS

In the last few months, a variety of forces have significantly diminished the pool of investors seeking to purchase state and local bonds, which are a critical tool to finance infrastructure in the United States. Limited demand by municipal market investors makes it difficult for New York City, and local governments nationwide, to maintain the volume of borrowing necessary to fund critical job creating capital and infrastructure projects.

Federal attention in response to the economic crisis has focused on the recapitalization of the commercial banks, on markets for corporate debt, and more recently on consumer credit. Municipal markets have been absent from the conversation, putting job-producing local government capital and infrastructure projects at risk. There are a few no-cost or low-cost steps that the federal government can take to deepen investor demand for these bonds, allowing states and localities to invest in job-creating capital projects without raising taxes:

A. Increase Institutional Demand by Restoring Interest Deductibility for Commercial Banks

Before 1986 commercial banks were major buyers of municipal bonds. The 1986 tax reform act imposed tax penalties on bank investment in most municipal bonds, limiting bank investment to bonds sold by communities that issue \$10 million or less annually. Today, banks hold only a small portion of the \$2.7 trillion of municipal bonds outstanding. Legislation currently pending in the House and Senate (H.R. 6333 and S. 3518) would raise the current annual issuance limit for bank purchases of bonds by small municipalities to \$30 million, allow banks to hold up to two percent of their assets in any municipal bonds, and make other changes to encourage bank and securities firm investment in the market. The legislation would substantially increase bank demand for municipal bonds and lower financing costs for states and localities and can be incorporated into the federal recovery bill.

B. Backstop State and Local Variable-Rate Demand Obligations (VRDOs)

Unlike corporations, many state and local governments do not use commercial paper (CP) for their short term financing needs. Instead, many states and localities issue long term, variable rate bonds to access financing at short term rates. The markets for these products—auction rate securities (ARS) and variable rate demand notes (VRDNs)—have been severely affected by the credit crisis. This disruption has raised costs for many communities and cut off access to variable rate financing for many issuers.

The federal government can use its existing authority under the Emergency Economic Stabilization Act (EESA) (PL 110-343) to serve the role of letter of credit (LOC) provider normally played by commercial banks in municipal VRDN transactions. Since banks have largely stopped writing new LOCs to support VRDN transactions, having the Department of the Treasury temporarily serve this role would allow municipalities to access the short term funding market and would allow municipalities with outstanding ARS to convert or refinance those to VRDNs, saving taxpayers money and providing liquidity to investors. The Federal Reserve can also expand its Commercial Paper Funding Facility—the program that supports CP borrowing by corporations—to CP and similar instruments issued by states and localities. This would ensure access to short term financing and lower borrowing costs for strapped governments.

C. Sell Outstanding Auction Rate Securities to the TARP Program

There are an estimated \$50-75 billion of auction rate securities which remain outstanding for general government state and local government issuers (in addition to a similar amount of auction rate securities for student loan issuers).

D. Enable Municipalities to Lower Debt Costs through Refinancing

Municipalities are currently limited to only one advance refunding, precluding them from benefiting from lower rates over time. An additional advance refunding would enable municipalities to lower the debt service cost of currently outstanding municipal debt. New York City received a temporary authorization to do this following 9/11.

E. Enable Federal Entities to Provide Greater Credit Support for Municipal Investments

Current federal tax rules preclude the federal government from using creative solutions to guarantee or otherwise support municipal projects because under the rules, such guarantees would eliminate the tax-exemption on the municipal bonds. These restrictions could be relaxed.

TARGET WORKFORCE DEVELOPMENT

The current recession, particularly in the level and breadth of projected job losses across sectors, could outpace existing federal and local resources. In New York City alone, current forecasts include job losses of more than 50,000 in financial services and total job losses of more than 150,000.

Human capital development and job placement in growing sectors is one of the key ways to stimulate the economy and keep urban areas thriving. This can include efforts to train, educate, and place workers into jobs that build a stronger, greener economy. New York City already has a strong foundation for job training and can use its current infrastructure to both leverage existing job-training possibilities and explore partnerships to expand beyond traditional training methods. The federal government can support these efforts by directing funding towards these programs, by creating a new urban innovation fund and by supporting small businesses which drive the New York City economy.

A. Direct funding towards traditional job training and placement programs

Numerous City agencies like Small Business Services, the Department of Consumer Affairs, the Human Resources Administration and the Department of Youth and Community Development work with a number of nationally recognized job training providers to train and place people into jobs. As part of the current infrastructure, New York City operates one-stop career centers to coordinate training opportunities, job readiness skills, and help customers identify appropriate job opportunities. In 2007, the City helped more than 16,000 New Yorkers find jobs, 32 times the number helped just four years earlier. The City also has programs targeted to help cash welfare recipients. Last year approximately 70,000 welfare recipients were given job placements, many in the high demand fields of home health aide, food service, and retail sales. In addition, some welfare recipients were placed with the New York City Department of Parks and Recreation to help maintain the city's recreational infrastructure.

In order to build and expand this capacity, Congress and the administration can increase funding through the Workforce Investment Act – Adult program. Given the assumption that the majority of individuals seeking services in the current economic environment are going to be dislocated workers, the fastest way to provide employment and training services is to increase funding to the Adult program, which is significantly more flexible than the Dislocated Worker program.

With additional funding, the City could launch three additional sector based career centers that offer specialized skill training and employment support for the City's most important and growing sectors.

- **Training for New York City licensed home improvement contractors to do more energy-efficient work.** These contractors, who are usually independent small business owners, tend not to have easy access to skill training. During these times, this group of contractors is especially vulnerable as fewer construction and renovation projects are moving forward. This would ensure that the City has a trained workforce to meet the anticipated increased demand for energy-efficiency and market demand for green buildings, and ensure that these small businesses are not left out of the growing green economy.
- **Greening NYC's Buildings: training auditors, retrofit specialists, and facilities operations staff.** To provide the skilled workers needed to help buildings citywide reduce its energy consumption, the City would include "green" elements to appropriate Individual Training Grant programs to allow small business owners to train existing staff to green their skills, and develop municipal government trainings for its own workforce and buildings.

- **Urban Forestry/Green Infrastructure.** Expanding training programs around urban forestry/green infrastructure would ensure that the City and private developers are able to implement investments going into brownfields, parks, stormwater management projects, and landscaping elements in green buildings.

In addition, the City can collaborate with other partners like the City University of New York system and the Public Library system to leverage even greater impact. Federal investment to support a concentrated effort for large urban areas to coordinate and administer job training will have a significant impact on the economy and the ability of the unemployed to find new jobs.

B. Create a new Urban Innovation Fund

In recent years, many states and localities have embarked on new anti-poverty initiatives, experimenting with promising job placement and training models and eagerly sharing lessons learned. The NYC Center for Economic Opportunity (CEO) has been a leader in these efforts, piloting and testing innovative anti-poverty programs, rigorously evaluating their impacts, and making funding decisions based on past program performance. CEO sits outside mainstream public agencies, under the direct supervision of City Hall, and based on proven results, determines if funds are continued or withdrawn. The Recovery bill presents a unique opportunity to replicate this model by creating a national Urban Innovation Fund, which would support creative new ideas, improve employment and retention, and re-engage disconnected youth so they will be prepared for the workforce.

The new Urban Innovation Fund should be coordinated directly by the White House and supported by a new financial commitment of five billion dollars invested in large metropolitan areas. This structure will help ensure that the Fund's projects leverage other stimulus efforts. The Fund would distribute grants to areas categorized as large urban centers and support the implementation of innovative anti-poverty programs.

Drawing from CEO's experience designing more than forty new anti-poverty programs, implemented in a matter of months, we have identified five areas that could make an enormous difference in lifting, and keeping, families out of poverty: work opportunities for high-need populations, enhanced youth employment, improved school to work linkages, community and national service initiatives, and incentives to work. Paid public work matched with training and education throughout the program will assist in short term employment at non-profits such as social service agencies, or arts and cultural organizations for individuals not likely to be picked up by infrastructure stimulus spending.

To best respond to the financial crisis, all proposals to the Urban Innovation Fund must include a plan for speedy implementation. Ideally, programs would include those previously tested at the local level, that show some promise, and that are ready for experimentation and replication. The Fund should provide room for new ideas, risk-taking and tolerance for failure in outcomes. As such, the proposals must include a plan for evaluation to feed into a growing literature of best practices. By relying on these "program templates" and encouraging local innovation, the Fund's projects should be able to emerge quickly and powerfully, meeting stimulus goals of quick spending (one to two years), and adding to knowledge of human capital development in the post-welfare reform poverty communities.

In addition to distributing grants, the Fund should manage a national plan to revise the official poverty measure. An accurate measure will allow us to evaluate the impact of the government's new investments.

C. Support Small Businesses

Small businesses drive the New York City economy and will ultimately be a primary source of employment for new and retrained workers. However, these small businesses are also falling victim to constrained lending in the credit markets. In order to support the local economy, the City launched a Capital Access Program that leverages \$5 million to guarantee micro-loans to approximately 300 businesses, but significant additional assistance is needed to help over 200,000 New York City small businesses meet their immediate and medium term needs. Substantial support for the Capital Access Program could be provided through the Department of Treasury's Community Development Financial Institutions Fund. Alternatively, this program could be funded by the SBA 7A program, if it were to be amended to include provisions of grants to Foundations, or the EDA, if it was amended to allow for loan guarantees.

ENHANCE SOCIAL SERVICE PROGRAMS

As economists' predictions on the length and severity of the current recession grow darker, a federal recovery package focused not only on creating new jobs, but also on shoring up social safety net programs is necessary. Low-income workers and families will face higher unemployment rates in general, and often do not have the savings to get them through tough economic times. As such, they are among the most vulnerable during the economic downturn.

At the same time, direct payments to the poor are often the most efficient means of short-term stimulus, as they will go straight into people's pockets to spend on basic services in the next three to six months.⁵ Following are proposals that New York City would recommend be included in the federal recovery package.

A. Extend and Modernize Unemployment Insurance (UI)

An extension of UI benefits is one of the most highly rated economic stimulus measures as, according to the Center for Budget and Policy Priorities, it generates \$1.64 in additional economic activity for every dollar in cost. Unemployed workers are likely to spend any additional funds they receive as they have bills to pay and diminished income with which to pay them. In addition, reforms are needed now in the UI program itself, which reaches only 37 percent of unemployed workers because of its outmoded rules.

In the recovery bill, Congress can *temporarily* fund UI benefits for part-time workers who have lost their jobs, as well as for laid-off workers who would qualify for UI if their most recent quarters of earnings were counted.

B. Expand Food Assistance

Virtually all of an increase in food stamp benefits would be spent, since food stamp households — about 90 percent of whom live below the poverty line — generally spend all their resources to meet their daily needs. Moreover, increased food stamp benefits would be injected into the economy quickly and could be implemented easily. About 80 percent of all food stamp benefits are redeemed within *two weeks* of issuance. Some 97 percent are redeemed by the end of the month. And by one estimate, one dollar of increased food-stamp assistance produces \$1.73 in higher economic growth.⁶

C. Expand Tax Credits for Low-Income Workers

New York City recommends the following tax reforms which will protect low-income workers and provide them with additional cash benefits that can be reinvested into the economy:

- Make tax credits including the Child and Dependent Care Tax Credit, the Savers Credit, and the higher education tax credits refundable, so as to provide increased spending into the economy
- Expand the popular and successful Earned Income Tax Credit through a PILOT program. This would substantially increase the amount of money that low-wage single adults who have no children can receive in tax credits. Nationally, this is becoming an increasingly popular idea, as it is expected that such an expansion of the EITC would increase employment among low-income men since it provides an added incentive to gain employment. A federally-funded pilot should be developed in three cities as part of the recovery program.

⁵ Center for Law and Social Policy

⁶ Wall Street Journal, "Compiling a To-Do List for Obama's New Deal," December 18, 2008.