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Mr. Chairman, Senator Baucus and members of the Committee, thank you for this opportunity to come before you on behalf of Mayor Bloomberg to support a proposal contained in the President's budget. This proposal would restructure some of the tax benefits that were provided to help in the rebuilding of Lower Manhattan after the terrorist attacks of September 11, 2001. The Mayor very much wanted to testify in person this morning, but at the President's request he is now in Israel to attend the dedication of the new Holocaust History Museum in Jerusalem. In his absence, the Mayor asked me to communicate, in the strongest possible terms, his belief that enabling the restructuring of previously-promised tax benefits for transportation infrastructure is an essential part of the long-term redevelopment of Lower Manhattan, and will have substantial benefits for the national economy. I urge you to enact that restructuring at the first opportunity.

On September 11, 2001, two thousand seven hundred and forty-nine people were killed at the World Trade Center. Seven buildings were destroyed and 30 million square feet of commercial space was lost or damaged, leaving 1.6 million tons of debris on the Trade Center site alone. Sixty thousand jobs were lost. The PATH rail station below the Trade Center was destroyed, as were portions of five subway lines and 12 subway stations. There was widespread damage to the communications and utility infrastructure of Lower Manhattan – the nerve center of the nation's and the world's financial markets. Estimates of the damage range from $80 billion to over $100 billion.

We have made tremendous progress since that dark day, under the leadership of Mayor Bloomberg and Governor Pataki, and with the tireless efforts of the Lower Manhattan Development Corporation. The Trade Center site was cleared ahead of schedule and under budget, thanks in large part to New York's construction firms and unions. Residential life has returned to Lower Manhattan. Rail and subway service has been restored, and we will begin construction this summer of the first of two new stations for local and regional transportation. Perhaps most importantly, plans are moving forward for rebuilding on the Trade Center Site itself. We have already laid the cornerstone for the Freedom Tower and selected a design for the memorial to the victims. We have selected tenants for the cultural buildings, including a new International Freedom Center. And as a symbol of our progress a new 750-foot building – Number 7 World Trade Center – rises over the Lower Manhattan skyline.

Our success to date is in large part the result of the assistance we received from the Federal government, thanks to the commitment of President Bush and the help of those of you in Congress, including this Committee. I especially want to thank the New York delegation, Senator Clinton, and of course Senator Schumer, who has joined you on the Finance Committee.

In the months following the attacks, the President and the Congress committed to providing $20.577 billion to help with the rebuilding of Lower Manhattan. About $15 billion of that assistance was provided through various appropriations and about $5 billion was provided through several tax provisions that were enacted in the spring of 2002.

There were a total of seven tax provisions that fell into two broad categories. One category involved tax-exempt financing and the other involved a variety of business-related provisions. All of the provisions had sunset dates. However, the estimate that they would contribute $5 billion to the rebuilding of Lower Manhattan was based on projected levels of usage that have not materialized, due to the design of the provisions and lower-than-expected economic activity.

Last year, this Committee extended the two tax-exempt financing provisions that would have expired at the end of 2004 and which have proved very helpful in assisting in the rebuilding of Lower Manhattan: tax-exempt Liberty Bonds and the ability of the City and State of New York to take advantage of lower interest rates in their bond financings. I want to take this opportunity to thank you for those critically needed extensions.

However, there remains the question of the other, business-related provisions – including accelerated depreciation and employment credits. In total, they were estimated to provide about $3 billion toward the rebuilding of Lower Manhattan. We heard from the business community, however, that those provisions were not being used as expected – largely because the level of economic activity had not rebounded as fast as Congress had projected. For example, a recent report by New York State Assembly Speaker Sheldon Silver notes that three years after the attacks, private sector employment in Lower Manhattan was 14% below its pre-9/11 level. Speaker Silver's report provides a thoughtful and sobering reminder that despite our collective efforts and the passage of more than three years, the Lower Manhattan economy continues to suffer from the events of September 11th.

This has significant implications for the actual value of the tax incentives promised. For example, consider the incentive that provides accelerated depreciation for leasehold improvements in Lower Manhattan. Congress estimated the value of this benefit at $595 million, based on their projections of leasing activity. The New York City Economic Development Corporation tracks new leases signed, as well as typical leasehold improvement costs per square foot. Based on that data, we were able to estimate with a high degree of confidence that just $218 million of these benefits had actually been realized, leaving an unused benefit of $377 million. This illustrates why we – and the Administration – believe that the initial commitment will not be realized.

Moreover, as the rebuilding plans have moved forward, it has become apparent that the mix of benefits originally enacted is not what is really needed to rebuild Lower Manhattan and solidify its place as the world's financial center. The City, the State and the Downtown business community all agree that what is needed is better transportation links, specifically to the pool of workers who live on Long Island and to the visitors arriving at John F. Kennedy Airport.

The proposed Long Island and JFK rail service would materially address this deficiency and help re-attract lost jobs, by dramatically cutting travel times to the area. Indeed, the new rail link will help to create as many as 80,000 new permanent jobs – jobs that will be accessible to the metropolitan area and will contribute mightily to the nation's economy. An estimated $9 to 12 billion worth of economic output will be generated by the rail link annually – an amount, each year, more than the project's total construction cost.

This transit investment will make Lower Manhattan a more attractive financial center, particularly for international businesses heavily dependent on air travel that would locate Downtown and create jobs. In so doing, the rail link will help preserve New York's place as a global financial capital in the face of competition from cities such as London, Frankfurt, Hong Kong, and Tokyo. It will also provide efficient access for the millions of people from around the globe who are expected to visit the World Trade Center memorial each year.

In surveys of major Downtown employers, this rail link is consistently rated as the most important unrealized transportation infrastructure project. We are grateful for the strong support of New York's business and civic communities, including especially the Downtown Alliance, the Association for a Better New York, the Real Estate Board of New York, and the New York City Partnership.

After extensive discussions, the Administration agreed that the tax benefits were not being used as expected and the full amount of assistance promised would not materialize. The White House estimated that $2 billion of the original amount would not be realized. They also recognized that the best way to secure Lower Manhattan's pre-eminence in global finance and to ensure that the Federal government gets the best return on the funds already invested in rebuilding Lower Manhattan would be to restructure the tax package.

That restructuring takes the form of repealing some of the tax benefits, with appropriate protections for those few who have made investments in reliance on them. In their place would be an expiring tax credit for the expenses of building the rail link to Long Island and Kennedy Airport. The credit would be limited to $200 million a year for 10 years, split evenly between the City and State of New York, for a total of $2 billion.

I want to emphasize that we are not asking for a new commitment of assistance over and above the initial federal commitment of $20 billion. Rather, we are asking for the fulfillment of that commitment through a restructuring of benefits that were expected to stimulate economic recovery, but that have not proved successful. It is our judgment that a restructuring of these incentives will complete the promised benefits package, and play a major role in fulfilling the initial purpose of the assistance: rebuilding Lower Manhattan.

This is an important project and one that will provide national benefits by securing Lower Manhattan's, and through it the United States' place in the world's financial markets. New York City is an economic engine that benefits the entire country. As one small example of that, in a typical year New York City sends to the Federal government $64 billion dollars and only gets back $51 billion. The difference, $13 billion, is what New Yorkers send every year to Washington to help finance what the Federal government does elsewhere in the country and around the world. A good deal of that $13 billion comes from the Lower Manhattan business community. This community generates critically needed economic activity, tax revenues, and employment for the City, the State, the region, and the nation. We would all benefit by not only protecting, but also growing the economic engine that is Lower Manhattan.