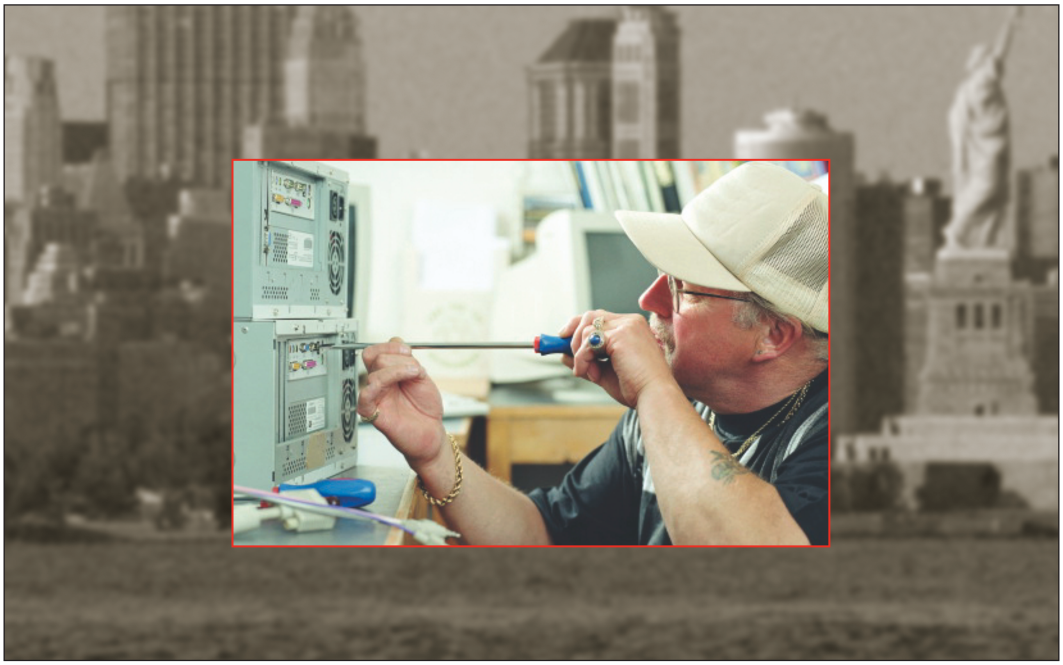

Lessons Learned

An Analysis of the New York City Investment Fund's Financial Recovery Fund for Small Businesses Affected by 9/11

September 2003

New York City Investment Fund
A Partnership for New York City Organization

Introduction

The New York City Investment Fund, through its charitable affiliate Civic Capital Corporation, launched the Financial Recovery Fund ("FRF" or the "Fund") in November of 2001 to aid small businesses in Lower Manhattan affected by the World Trade Center attack. Recoverable grants totaling $11.4 million were distributed to 88 small businesses and to 34 individual seat holders of the New York Board of Trade by early 2003. All funds were raised from the corporate and philanthropic sectors. Civic Capital Corporation contributed $1 million of its own capital as well.

This report provides an analysis of the impact of the WTC attack on these FRF grantees. The information is based on the initial grant applications and a follow-on survey conducted in July 2003. Given that the FRF grantees represent a broad cross section of the Lower Manhattan services sector, we believe that this analysis can be extrapolated to reflect the experience of the broader services sector in and around Ground Zero. Based on this analysis, the report also draws some conclusions and makes some recommendations on ways to optimize assistance to a service-based small business community that has suffered severe damage and dislocation.

Key Statistics on FRF Grant Recipients

- The aggregate employee count of FRF grant recipients has declined 25% from September 11, 2001 through June 30, 2003.
- Thirty-seven percent of grant recipients were forced to permanently relocate their office space after the attack while 11% required temporary office space. Twenty-percent of FRF grantees had relocated outside of Lower Manhattan by June 2003.
- Companies temporarily displaced from their offices were out of their places of business for an average of 26 business days.
- Approximately 85% of grantees faced some level of interruption to their telecommunications systems after September 11th due to the destruction of the Verizon switching center in the attack.
- Ninety-nine percent of grantees received funds from the City and State grant programs, which averaged approximately $112,000 per business and $5,800 per employee.
- Forty-nine percent of grant recipients received Small Business Administration (SBA) loans. Of those that did not apply, 65% would have applied for an SBA loan had they been able to put up a portion of their business as collateral as opposed to their homes or other personal assets.
- FRF grant proceeds were used to fund operating and working capital requirements (43%), to replace lost equipment and for relocation (32%), and to fund new revenue generating initiatives, such as marketing, equipment for new services, and hiring of new employees (25%).
- Over 27% of grantees relied on business from the financial services industry for a majority of their revenue.

Key Conclusions

- The extent of the physical devastation and the amount of time required to restore basic services and infrastructure following September 11th created a set of circumstances for the small business community that were fundamentally different than those created by a temporary disruption, such as a blackout, flood, etc.
    - Customers and projects were not just delayed--they were permanently lost.
    - Financial reserves, which tend to be more limited among the small business community than at larger companies, were stretched to their breaking point.

- Using lost revenues as a measure of economic damage does not fully reflect the extent of damage done to a business during a prolonged economic dislocation, particularly if customers are permanently lost. In addition, this metric does not adequately measure the amount of funding required to rebuild that business.
    - Many small businesses did not just lose revenue following September 11th--they lost customers.
    - Given that an established customer will typically generate revenue over several years, the value of that customer or cost to replace it is significantly higher than the amount of revenue associated with that customer for a defined period.
    - Generating new customers requires an upfront investment in personnel, marketing materials, etc., that typically takes several months to translate into revenue.
    - Therefore, flexible dollars that can be used to fund this investment in rebuilding a customer base are an important part of restoring a community that has been dislocated for a prolonged period of time. This funding is similar to venture capital funding without a high return requirement.

- Delivering funds to businesses as quickly as possible following a disaster is crucial to their recovery. It allows management to shift their focus from crisis management to rebuilding their business.

- Recovery loan programs should consider limiting their collateral requirements to the assets of the borrowing business, particularly when there is tremendous uncertainty in the economic environment. Requiring owners to pledge their personal assets prevented many businesses from taking advantage of disaster recovery loans.

- Replacing physical assets is only part of the rebuilding equation. The prolonged economic damage of the WTC attack resulted in destruction and damage to intangible assets of the small business community. Placing a value on these intangible assets is crucial to determining the level of resources needed to rebuild the business.

- Since businesses had multiple priorities after the attack and their needs evolved over time, relief funding should be fungible and not limited to specific activities.

- The government can provide additional assistance to a damaged small business community by making an effort to pay on time any outstanding bills that are owed to their small business suppliers, and expediting payments when possible.

Background to Formation of the FRF

The FRF was established and structured to address a gap in relief funding for the services sector in Lower Manhattan. By November 2001, there were a number of small business assistance programs in place[1]. However, for the services sector (which was a large part of the Lower Manhattan business community), there was limited assistance in amounts that could make a meaningful difference in a company's ability to survive.

To be eligible for an FRF grant (which ranged from $25,000 to $250,000), a business had to be located on or south of Canal Street and have between 4 and 100 employees on September 10th. To avoid overlap with another grant program, retailers and manufacturers were eligible if they had between 50 and 100 employees. In addition, viability was a key factor in the decision process since one of the FRF's objectives was to assist businesses that would sustain job development and contribute to the rebuilding of the Lower Manhattan economy. As such, the FRF also focused on those businesses that were committed to remaining in Lower Manhattan. Outreach efforts included advertisements in local newspapers, flyers and referrals from other relief organizations. Over 1,200 companies were contacted by the FRF and 338 applications were submitted.

Grant amounts were determined through an examination of a business' total need and its proceeds from other sources, including grant and loan programs as well as insurance. The Financial Recovery Fund's Capital Committee, which reviewed and approved grant proposals, included New York City executives from the venture capital, banking, and philanthropy sectors.

[1] Within several weeks of September 11th, the commercial banking sector had put in place low interest, emergency loan programs. New York-area businesses were eligible for the disaster loan program administered by the Small Business Administration (SBA). In November 2001, the City launched a program offering small businesses grants of up to $10,000. The State grant program that offered grants of up to $300,000 based on revenues was launched in January 2002. In addition, several New York-based non-profits had established a grant/loan/wage subsidy program for small retailers and manufacturers by October 2001.

Profile of Grant Recipients

The grant recipients cover a wide range of industries that reflect the services sector in Lower Manhattan. The average grantee had been in business in Lower Manhattan for 13 years prior to the World Trade Center attack.

	As a % of	
Industry	Number of Grantees	Total Funds
Technology and Telecom	18%	22%
Financial Services	10	12
Food, Leisure and Recreation	10	11
Printing Services	10	11
Branding Design and Media	10	10
Employment Services	10	8
Architecture and Engineering	8	8
Medical Services	7	7
Professional Services	7	5
Wholesale and Consumer Products	4	4
Accounting and Legal Services	6	3
	100%	100%

Over half of the grantees were located within the Restricted Zone and thirty-nine percent of the grantees are minority and / or women-owned businesses.

	As % of	
Pre-9/11 Location of Grantees	Number of Grantees	Total Funds
World Trade Center	26%	27%
Other Destroyed / Severely Damaged Buildings	12%	12%
Elsewhere in Restricted Zone	18%	15%
Total in Restricted Zone[2]	56%	54%

[2] The Restricted Zone, as defined by the Empire State Development Corporation, encompassed the World Trade Center complex and its immediate vicinity, bordered by Chambers Street, Broadway, Rector Street and the Hudson River.

Nearly 80% of grantees employed between 4 and 25 employees on September 11th.

# of Employees	# of Companies	Avg. # of Full-time Employee Equivalents[3]	Total # of Full-time Employee Equivalents[3]
4-10	42	6	261
11-25	27	16	442
25-50	9	35	315
50+	10	67	668
Total	88	N / A	1,686

Impact of World Trade Center Attack - Physical Damage

Destroyed physical assets included office equipment and furniture, as well as more difficult to value items, such as billing records, proprietary technology, marketing documents, original work and original client documentation. Without proper records, grantees were unable to serve their clients for many months and were forced to expend significant resources to reconstruct lost items. The grantees in accounting and legal services, which housed original client documentation and records, all cited the destruction of their records (which are difficult to value) as the most damaging effect of September 11th on their business.

Type of Physical Damage	
Some form of physical damage to office space and equipment	68%
Severe damage and destruction	46%
Minor damage from dust and debris	22%
Severe loss from destruction of company records and intellectual property	22%
Damage to off-site equipment[4]	6%

Many small businesses were forced to find new permanent office space. Others were temporarily displaced as a result of not being able to reenter their offices for several weeks due to large cleanup and repair projects, road closures and restrictions, and building closures.

Relocation	
Companies that permanently relocated	37%
Companies that temporarily relocated	11%
Companies relocating outside Lower Manhattan	20%

[3] Two part-time employees equal one full-time employee equivalent.
[4] Damage to assets ranging from telecommunications infrastructure and transportation vehicles to charter yachts.

Impact of World Trade Center Attack - Economic Damage

Nearly all grantees incurred some economic loss from the disruption to their business activities. One of the most difficult things for small businesses was the destruction of the Verizon switching center just north of the World Trade Center, which interrupted their telecommunications systems—often the major link with customers.

Type of Economic Damage	As a % of Number of Grantees[5]
Interruption to telecommunications systems (phone, fax, email)	85%
Displacement from office space	75%
Loss of clients / projects in the WTC and destroyed buildings	38%
General dependence on the downtown economy	36%
Cancellation of contracts	26%
Slowdown in the collection of accounts receivable	18%
Loss of key employees	11%
Dependence on government contracts	7%
Cancellation of selling events	7%
Delayed launch of new products	6%

Telecom Interruption

Loss of communications services was most detrimental to businesses like networking and telecommunications companies that relied on these services to serve their clients, as well as those companies that relied on their communications networks to receive and process client orders.

Physical Displacement

Those businesses that were temporarily displaced were out of their offices for an average of 26 business days. Grantees that were unable to serve their clients for a prolonged period of time following the attack often found that their clients had entered into permanent relationships with competing suppliers. Even though grantees attempted to win lost business back, their clients were often unwilling to undertake the switching costs associated with moving their accounts back to their original supplier.

Loss of Clients or Projects in the World Trade Center and other Destroyed Buildings

In most instances companies lost these client relationships permanently, as they were unable to reestablish contact with the company because key contact people were lost in the attack or had left the company. Other clients relocated outside of Lower Manhattan and decided to use vendors in their new location. Projects that grantees were planning to complete in the World Trade Center and in destroyed buildings, such as office renovations and new real-estate projects, did not resume at new locations after the attack.

[5] Many companies suffered multiple forms of economic damage, therefore percentages do not add up to 100%.

Industries that were most heavily affected by the loss of clients and projects in the World Trade Center and other destroyed buildings included employment services companies, technology and telecommunications companies and architecture and engineering firms.

General Dependence on the Downtown Economy
The displacement of companies and residents from Lower Manhattan was devastating to businesses that relied on local customers, in particular medical groups, gyms, and schools, as well professional services firms like printers, catering companies and employment agencies.

In addition, twenty-seven percent of grant recipients, including employment agencies, catering companies, software businesses, and printers, depended on business from the financial services industry for the majority of their revenue. The disruption that September 11th caused the financial markets, coupled with the prolonged economic recession, resulted in large spending cutbacks by financial services companies. These cutbacks had a direct impact on the level of business directed to their small business suppliers.

Cancellation of Contracts
After September 11th, many companies put a freeze on new spending until the economic implications of the attack on their business could be evaluated. As a result, planned spending projects such as IT initiatives, new hiring, office renovations, and new branding initiatives were cancelled, affecting a broad range of small businesses that had contracts to carry out this work. Telecommunications and technology companies reported the largest economic damage due to the cancellation of contracts in the weeks following the attack. Companies in the food, leisure and recreation industries also suffered as most corporations and individuals cancelled all parties and special events after September 11th.

Slowdown in the Collection of Accounts Receivable
A number of the grantees had clients in Lower Manhattan that also suffered losses in the disaster and were unable to pay bills on a timely basis. Companies that were doing work for the City and State government also had a difficult time collecting on these outstanding bills.

Dependence on Government Contracts
The slowness of the City and State in paying their bills was exacerbated by the delay and cancellation of existing government projects. In addition, the number of new government projects declined dramatically. Grantees that relied most heavily on government contracts at the time of September 11th were architecture and engineering firms.

Employees

From September 11, 2001 through June 30, 2003, the aggregate workforce at the FRF grantees declined 25%, from 1,686 to 1,272 full-time equivalents (FTEs). The largest portion of this decline, 22%, occurred between the time of the disaster and the time that companies received their FRF grant. Since the receipt of FRF funds through June 30, 2003, aggregate employee count of grantees has stabilized, declining only 3%. Grantees that received their FRF funds in the first six months following September 11th have experienced a 6% increase in employee count since their grant was issued.

	Full-Time Employee Equivalents			
	# of Months Post 9/11 Grant Received[6]			
	6 Mos.	6-12 Mos.	12-18 Mos.	Total
Full-Time Employee Equivalents				
On September 11	511	489	686	1,686
At Time of Grant	402	358	547	1,307
On 6/30/2003	428	305	539	1,272
% Change				
9/11/01 – 6/30/2003	-16%	-38%	-22%	-25%
9/11/01 - Time of Grant	*-21%*	*-27%*	*-20%*	*-22%*
Time of Grant- 6/30/03	*6%*	*-15%*	*-1%*	*-3%*

Use of Proceeds

	Type of Damage		
	Physical & Economic Damage	Economic Only Damage	Total
Overall Use of Proceeds			
Operating Expenses/Working Capital	25%	57%	43%
Relocation/Equipment Replacement	63%	6%	32%
Hiring New Employees	10%	11%	10%
Marketing Initiatives	0%	17%	9%
Equipment for New Services	3%	9%	6%
Total	100%	100%	100%

[6] Aggregate FTEs for FRF grant recipients are broken down by the time period following September 11 in which they received their FRF grant (e.g. Of the companies receiving grants within 6 months after 9/11, the aggregate number of employees of that subset of grantees declined from 511 on 9/11 to 428 on 6/30/03).

Not surprisingly, grantees that were in destroyed or damaged buildings typically used the grant proceeds for relocation costs and replacement of lost equipment and furniture, for the reconstruction of lost records, and for security deposits on new office locations.

Companies that did not incur major physical damage but were most immediately affected by various forms of economic damage used the proceeds primarily to cover operating losses and working capital shortages and to support new development efforts to replace lost business.

- Recipients that relied on clients and projects in the World Trade Center and elsewhere in the downtown area used the grant proceeds to cover payroll and other fixed expenses while management focused on repositioning the business to rebuild their client base.
- Grantees that had difficulty collecting on their receivables used their grant money to alleviate working capital shortages until business resumed normal operating levels.
- Companies that suffered losses as a result of cancelled contracts used funds to fill their revenue gap until new business opportunities could be identified.

Over one-third of the companies that incurred significant economic damage used the proceeds to launch new marketing and service initiatives in order to rebuild revenue streams that disappeared after the attack, including:

- Developing marketing materials, advertising, and creating company websites;
- Purchasing the equipment necessary to expand their service offerings; and
- Hiring new employees, either to focus on marketing and selling initiatives, to replace employees that had been laid off in the aftermath of the attack, or to focus on new service and product initiatives.

Use of Proceeds Over Time – Companies with Physical and Economic Damage

The issues that grantees faced in the first six months after the attack were often different from the issues they faced twelve to eighteen months post-September 11th.

	Cos. With Physical and Economic Damage		
	# of Mos. Post 9/11 Grant Received		
	6 Months	6-12 Months	12-18 Months
Use of Proceeds			
Relocation / Equipment Replacement	85%	58%	47%
Operating Expenses / Working Capital	15%	33%	27%
Hiring New Employees	0%	8%	20%
Equipment for New Services	0%	0%	7%
Marketing	0%	0%	0%
Total	100%	100%	100%

In many instances, the FRF grant acted as a bridge until these companies received money from their insurance companies and the SBA. Of the ten companies in damaged or destroyed buildings that received a grant from the FRF in the first six months of the disaster, only one had received money from the SBA, two had received material insurance payments, and no company had received material grant proceeds from any other grant program.

Six to twelve months following the disaster, many applicants in destroyed or damaged buildings had received funds from other sources enabling them to relocate, but were beginning to feel the impacts of the economic damage that their business incurred as well as the impact of the general economic slowdown. In these cases, the FRF grant was mainly used to cover operating expenses.

Twelve to eighteen months post-September 11th, some companies were beginning to rebuild their business and used the proceeds to hire employees and to purchase equipment to offer new services. Although the table above illustrates a shift in the needs of businesses over time, it is interesting to note that one year after the disaster, a number of businesses still required proceeds to relocate to permanent office space.

Use of Proceeds Over Time – Companies with Economic Damage Only

	Cos. With Economic Damage Only		
	# of Months Post 9/11 Grant Received		
	6 Months	6-12 Months	12-18 Months
Use of Proceeds			
Operating Expenses / Working Capital	85%	45%	48%
Marketing Initiatives	8%	18%	22%
Equipment for New Services	0%	9%	13%
Hiring New Employees	8%	9%	13%
Relocation / Equipment Replacement	0%	18%	4%
Total	100%	100%	100%

In the first six months, businesses that incurred primarily economic damage required money to fill the revenue gap caused by business interruption, cancelled contracts and lost clients. Once they were able to stabilize their operations, the proceeds were used to rebuild their businesses and to create new revenue generating opportunities. Although most businesses continued to require funds to cover operating expenses one year after 9/11, many had begun to focus on rebuilding their business through marketing initiatives and by hiring new employees and offering new services.

Other Relief Funding Received

Individual FRF grant amounts were determined based on total need, less amounts received from other sources. In the initial months, the FRF grant often acted as a company's primary source of outside funding until other funds were received. However, over time the FRF grants began to complement insurance, other grant proceeds and SBA loans.

	# of Mos.Post-9/11 that Co. Received FRF Grant		
	6 Mos.	6-12 Mos.	12-18 Mos.
FRF Grant as a % of Total Funding Received by the Avg. Grant Recipient	79%	58%	45%

% of Grantees that Received Post-September 11th Funding from Various Sources

	Location of Grantees				
	WTC	Other Destroyed / Damaged	Elsewhere in Restricted Zone	Outside Restricted Zone	Overall Average
Sources of Funding					
City & State Grant Programs	95%[7]	100%	100%	100%	99%
Insurance	81	64	69	69	71
SBA	51	18	50	56	49
Other Grant & Loan Programs	33	36	19	41	34

In terms of other relief funding received by FRF grantees, the most widely received source of September 11th-related funding was City and State grant programs, with ninety-nine percent of FRF grantees receiving some level of grant proceeds from the City and State. Although the SBA often provided the largest cash disbursements, only 49% of grantees received SBA loans. Over 14% of grantees were rejected by the SBA, mainly because they did not possess the collateral necessary to secure a loan. Of the companies that did not apply to the SBA, seventy-five percent did not apply primarily because of the onerous collateral requirements, which for most grantees meant pledging their home. Sixty-five percent of those that did not apply said that they would have taken an SBA loan had they been able to pledge a portion of their business as collateral as opposed to their personal assets.

[7] Only one FRF grantee in the World Trade Center did not receive funding from the City and State grant programs due to a change in company ownership after the attack.

Average Size of Disbursement from Each Funding Source[8]

	Location of Grantees				
	WTC	Other Destroyed / Damaged	Elsewhere in Restricted Zone	Outside Restricted Zone	Overall Average
<u>Sources of Funding</u>					
SBA	$ 336,082	$ 68,500	$176,300	$248,289	$248,992
Insurance	436,828	366,744	119,623	89,763	224,717
City & State Grant Programs	132,770	133,199	138,536	72,062	112,283
Other Grant & Loan Programs	72,630	27,000	38,978	43,675	47,738

Those companies located in the World Trade Center received significantly larger disbursements from their insurance companies and from the SBA. However, the City and State grant programs, which were based primarily on revenue, had consistent cash disbursement amounts for all companies located within the Restricted Zone. Those companies located outside of the Restricted Zone received significantly lower payment amounts from the government grant programs.

Average Size of Disbursement per Employee from Each Funding Source[8]

	Location of Grantees				
	WTC	Other Destroyed / Damaged	Elsewhere in Restricted Zone	Outside Restricted Zone	Overall Average
<u>Sources of Funding</u>					
SBA	$13,743	$3,703	$12,055	$12,807	$12,603
Insurance	20,043	17,288	6,251	3,980	10,260
City & State Grant Programs	6,870	7,812	7,336	4,122	5,800
Other Grant & Loan Programs	3,338	2,541	1,519	2,948	2,814

[8] Grantees are only included in averages if they received proceeds from a particular source.

Conclusions

I. The extent of the physical devastation and the amount of time required to restore basic services and infrastructure following September 11th created a set of circumstances for the small business community that were fundamentally different than those created by a temporary disruption, such as a blackout, flood, etc.

Unlike a natural disaster or temporary man-made dislocation (such as a blackout, water main break, etc) which lasts several days, the effects of the WTC attack on the Lower Manhattan small business community lasted for months. Office space that accommodated thousands of businesses and hundreds of thousands of employees was destroyed. A significant number of additional businesses relocated to other parts of the city and surrounding states. Access to roads and buildings was difficult or prohibited. Many businesses also suffered disruption to their phone and Internet service, thus severing an important communications link with customers. As a result, customers and projects were not just delayed--they were permanently lost.

Small businesses typically do not have extensive reserves of either human or financial capital. As a result, they have a more limited capacity than a larger company to weather a prolonged reduction in income. In addition, the personnel resources that can be redirected from day-to-day business to deal with an extraordinary event—like replacing the contents of an office—are more limited.

II. Using lost revenues as a measure of economic damage does not fully reflect the extent of damage done to a business during a prolonged economic dislocation, particularly if customers are permanently lost. In addition, this metric does not adequately measure the amount of funding required to rebuild that business.

For most FRF grantees, proceeds from the City and State grant programs and business interruption insurance did not begin to cover the losses needed to replace lost revenues. An established customer base will typically generate revenue over multiple years. A customer, therefore, is similar to a multi-year annuity. By measuring lost revenues for a defined period of time, such as one month, only a segment of that "annuity" is valued. As a result, for a business that has permanently lost customers, the amount of lost revenues for a defined period of time is significantly less than the actual damage. More importantly, it is far less than what is needed to rebuild that business. Replacing lost customers requires upfront investments in marketing, sales personnel, new equipment and product development. A small business typically does not have significant pools of reserve capital to fund this upfront investment.

Therefore, when a small business community suffers prolonged economic damage, it is important to make available funding that is in excess of lost revenues and is patient capital that can be used for rebuilding. In many ways this funding is similar to venture capital funding without the high return requirements.

III. The response time in delivering funds to businesses is a critical element of recovery.

Providing assistance to small businesses quickly is critical and has an impact on the speed with which a business is able to recover from a disaster. Those FRF grantees that received funding within six months of September 11th have demonstrated the most positive signs of recovery, as measured by their ability to hire additional employees, when compared with grantees who received funds at a later date. The longer a business struggles, the more time management is spending on crisis management rather than rebuilding the business. When a business is experiencing cash flow shortages, new business initiatives, marketing outreach efforts, etc. are typically deferred in favor of staving off creditors and managing extra workloads caused by employee reductions. Physical construction compounds the problem as time and effort must be spent on reconstructing lost records and replacing the infrastructure (office, furniture, machines) needed to run a business.

After receiving the FRF and other grants, businesses had a financial cushion that allowed them to focus on rebuilding and growing their businesses rather than crisis management. It also allowed them to bring back employees who had been laid off immediately following September 11th. Those firms that hired employees also helped stabilize and had a multiplier effect on the broader Lower Manhattan economy, in particular with respect to the retailers, restaurants and other businesses that are dependent on the size of the local workforce.

IV. Business owners are more likely to apply for disaster recovery loans if the collateral requirements are limited to the assets of their business.

The SBA disaster recovery loan program was one of the largest sources of outside funding available to businesses affected by the World Trade Center attack. SBA loan amounts to FRF grantees averaged $248,992 per business. However, only 49% percent of FRF grantees received an SBA loan. Fourteen-percent of grantees were rejected by the SBA, mainly because they were unable to meet the collateral requirements. Of the remaining grantees that did not take an SBA loan, 75% said they were deterred by the collateral requirements and were unwilling to pledge their personal assets to secure the loan. Sixty-five percent said they would have been willing to take a loan had the collateral requirements been limited to the assets of or equity in their business.

One of the key reasons cited for not taking SBA loans was the continued difficult and uncertain economic climate. Given that business owners had difficulty predicting the future of their business, they were reluctant to increase the precariousness of their financial situation by risking the loss of their home, which was often their most significant asset outside of their business.

V. Replacing physical assets in only part of the rebuilding equation.

The prolonged economic damage of the WTC attack resulted in destruction and damage to the intangible assets of the small business community, which are more difficult to quantify than physical damage but often critical to the ongoing success of a small business.

As a result of this prolonged economic damage, many small businesses experienced damage to a number of their intangible assets. Intangible assets are typically those that have been built over time, such as client relationships, proprietary information and know-how, intellectual property, customer "stickiness", employee relations and reputation. Customer relationships, in particular, are cultivated over several years, and for small businesses, the loss of even one client can have a serious impact on their financial health and ability to meet payroll and cover overhead. Customers will cut a business some slack for a few days, but the customer also needs to continue operating its business and will eventually replace services that it can no longer readily access. Also, if a business relocates to a new geographic area, chances are very high that it will find new local vendors.

Although placing a monetary value on these intangible assets is difficult, it is important that some value or cost be attributed to these assets in determining what level of resources are needed to rebuild. For instance, "need" could be defined to include training dollars to replace lost employees or marketing dollars to rebuild a customer base.

Grant funds should be fungible

Grant funds should be fungible and not limited to specific activities, such as replacing certain assets. Businesses have multiple priorities after a prolonged disaster; and therefore, it is often difficult to predict what outside funding will be used for. In addition, the needs of damaged businesses evolve overtime. While initially businesses may have required funds to replace lost assets and to cover operating expenses, over time many used the proceeds for business development activities in an attempt to repair the economic damage to their business.

VI. The City and State can provide additional assistance to small businesses by making an effort to pay on time outstanding liabilities owed to their small business suppliers, or expediting payments following an economic disaster.

After September 11, several grantees reported that government agencies became increasingly slow to pay their bills. Small businesses dependent on government contracts often experienced working capital shortages due to the delay in collecting these accounts receivables. By making payments to small business suppliers a priority in the aftermath of a disaster, the government can have a direct impact on the cash flow of these businesses. Expediting payment to small businesses when possible, or at a minimum, making payments on time, will have an immediate impact on the financial health of small businesses that depend on government contracts for a large portion of their revenue.

Appendix A

Overview of the Financial Recovery Fund Grant Program

The New York City Investment Fund, through its charitable affiliate the Civic Capital Corporation, launched the Financial Recovery Fund in order to aid small businesses in Lower Manhattan affected by the World Trade Center attack. Recoverable grants, ranging from $25,000 to $250,000, were distributed to qualifying businesses in order to provide interim financing while the business returned to sustainable levels. To fund this activity, the Civic Capital Corporation raised $12.6 million from The September 11th Fund, various corporations and individuals, and a contribution of $1.0 million from its own funds. The Fund began issuing grants in early December 2001 and completed the allocation of its funds in January 2003.

To be eligible for a grant, a business was required to meet the following criteria:

- Located on or south of Canal Street on September 11th
- In operation for more than six months prior to September 11th with demonstrated viability
- Employed between four and 100 people on a full-time basis on September 11th
- Current on State and Federal Taxes
- Incorporated in the United States

Outreach efforts included advertisements in local newspapers, flyers, and referrals from related organizations. Over 1,200 companies were contacted by the FRF, and 338 applications were submitted. Companies reviewed were primarily service businesses. Retailers, including restaurants, were required to employ between 50 and 100 full-time employee equivalents to qualify for consideration, because other grant and loan programs were covering these sectors. Applications were rejected primarily because the applicants did not meet the Fund's criteria, particularly with respect to viability and employment levels. Other applicants were deemed to have sufficient sources of funds to achieve recovery without a grant from the Fund.

The average grant size was slightly over $125,000, averaging $6,590 per full-time employee equivalent. Grant amounts were determined through an examination of each business' total need and its proceeds from other sources, including Small Business Administration loans, World Trade Center Business Recovery grants and New York City Economic Development Corporation grants, as well as insurance. In reviewing grant applications, the Fund attempted to select the most needy businesses, which often skewed selection towards those businesses that had suffered physical damage in the attack. The Fund also tried to allocate funds to those businesses that were committed to remaining in Lower Manhattan. Businesses that were planning to move outside of the downtown area were only approved for a grant if there was an overriding business reason for their relocation.

The terms of the FRF grants provide for repayment of the amount granted at the end of the fifth year to the extent that the company has sufficient funds to make such repayment; no interest is charged, and the grants are unsecured.

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