



CITIZENS BUDGET COMMISSION

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TESTIMONY BEFORE THE CITY PLANNING COMMISSION Charles Brecher, Research Director, Citizens Budget Commission March 28, 2007

Good morning. I am Charles Brecher, Research Director at the Citizens Budget Commission. The Citizens Budget Commission, founded in 1932, is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State government.

I am here this morning to share with you the views of the CBC on two aspects of the City's latest Ten-Year Capital Strategy – the nature of the planning process, and the content of the latest biennial proposal released in January by Mayor Michael Bloomberg.

With respect to the process, I will argue that the process through which the Strategy is developed suffers from three serious weaknesses that compromise its effectiveness as a capital planning and budgeting tool. The City Planning Commission and other City officials ought to address these weaknesses in the current and future cycles of planning.

With respect to the content, I will suggest that the plan inadequately addresses needs for the maintenance and improvement of existing assets while allocating substantial resources to expand facilities that are less vital and may not even be necessary. The content of the plan should be altered to reflect adjusted priorities.

Ways to Improve the Planning Process

New York City's infrastructure and facilities have come a long way since the City first regained access to capital markets after its fiscal crisis. The prosperous city we see today, with tens of billions of dollars of capital investments underway, was hard to imagine in 1982 when the City prepared its first ten-year capital plan and began to think about how to finance and implement the rebuilding of its then-dilapidated assets. That first ten-year plan anticipated spending about \$21 billion on City assets; the current plan is up to over \$77 billion. The last quarter-century of multi-billion dollar capital investments have made a big difference, but the way the City plans and allocates its investments has not improved as dramatically.

In its review of the first plan, the CBC noted that “a long-range process of capital planning requires both good information on underlying physical conditions and clear policy objectives. The City's ten-year plan lacks these requirements in several crucial places.” The CBC's report pointed to the street network and to the water and sewer systems as major areas that lacked systematic assessments of current conditions, and to parks and corrections as areas that had no clear policy goals for the scale and condition of their facilities.

In recognition of the need to plan more rationally, the City Charter reforms of 1989 mandated some changes in the capital planning process. The ten-year time frame was retained, but the previous plan

was converted into a broader “Ten-Year Capital Strategy.” It was to include “a narrative describing the strategy for the development of the city’s capital facilities for the ensuing ten fiscal years; the factors underlying such strategy including goals, policy constraints and assumptions and the criteria for assessment of capital needs; the anticipated sources for financing such strategy; and the implications of the strategy, including possible economic, social and environmental effects.”

In order to promote the concept of planning based on sound data relating to the condition of the city’s assets, the new charter also mandated that each agency maintain an inventory of its major assets. The inventory was intended to identify needed repairs to infrastructure elements and maintenance requirements in forthcoming years. In response to this requirement, the City has established the Asset Information Management System (AIMS) and published annual data based on these agency reports.

Additional requirements relating to the reporting of asset conditions arose from new standards issued by the Governmental Accounting Standards Board (GASB) in 1999 and effective in 2001. In order to comply with Generally Accepted Accounting Principles, cities were required to report the value of their infrastructure assets and the annual depreciation of those assets. This had not been the case before the new standards, and most cities did not report depreciation or historical cost of their major physical assets. (Instead they reported capital investments as a special type of expense.)

The framework established by the Charter and GASB have led to some improvements in New York City’s capital planning, but the gains still leave New Yorkers with an inadequate process. Improvements are needed to address three important shortcomings.

1. *Capital planning is not well integrated with other more strategic planning activities.*

Despite the Charter mandate, the Ten-Year Strategy does not establish broad goals and explain their logic. Instead, the City is engaging in an ambitious planning process, PLANYC, entirely parallel to planning for the Strategy, with no indication of how – if at all – the two will be integrated. And, there is no indication of how the Strategy relates to the Strategic Plan, facilities citing or zoning plans of the Department of City Planning. There should be one seamless capital planning process in the City that is rooted in a long-term vision and with actionable goals to realize that vision.

The City’s planning should also extend beyond assets directly under its control and for which it is financially responsible. Strategic planning requires thinking about the actions of other parties vital to the city’s future. The City owns \$56.8 billion in capital assets directly or through its component units, but these assets do not represent the totality of public infrastructure within the city. As Table 1 illustrates, the infrastructure landscape of the City is fragmented among several owners, including the private sector, the federal government, the State and State authorities, such as the MTA and the Port Authority. The extensive asset holdings of others suggest that a capital planning document like the Strategy focused solely on the City’s capital assets is inadequate. A better document and process would speak to the full universe of capital assets. There is implicit recognition of the importance of such inter-jurisdictional planning in the goals set forth by PLANYC, which includes a state of good repair goal for the transit system controlled by the MTA.

In this context, it is important to note a serious omission –or at least inconsistency –in the current Strategy. The City’s plans have always included investments for local authorities and other entities that accounting rules define as component units of the City. This includes the Health and Hospitals

Corporation, the Housing Authority and the Water Finance Authority. These units are legally separate entities that may issue debt not defined as City general obligation debt, but they are effectively controlled by municipal officials and their activities are widely viewed as directly tied to the City. The same definition and considerations apply to the Hudson Yards Development Corporation and Hudson Yards Infrastructure Corporation, entities controlled by the City that are undertaking massive infrastructure investments. But the current Strategy omits their spending, which will total more than \$3 billion, thereby significantly understating the amount to be committed in the next ten years.

Table 1: Ownership and Control of Capital Assets in New York City by Functional Area

	NYC	New York City Authorities			State	State Authorities			Federal	Private	
	Govt.	Water	Housing	HHC	Others*	Govt.	Port	MTA	Other**	Govt.	Sector
Transportation	✓					✓	✓	✓	✓		✓
Transit	✓						✓	✓			✓
Environmental Protection		✓									
Education	✓					✓			✓		✓
Housing	✓		✓						✓		✓
Public Protection and Justice	✓					✓				✓	
Health	✓			✓		✓				✓	✓
Parks, Libraries and Cultural	✓					✓				✓	✓
Sanitation	✓										✓
General Government	✓				✓						
Energy								✓			✓
Telecommunications	✓										✓

Note: ✓ denotes capital asset holdings by government, authority or private sector in that functional area.

*Capital asset holdings for Housing Development, Economic Development, and Off-Track Betting Corporations and other nonmajor component units of city government, which are not specified in the City's Comprehensive Annual Financial Report.

**Capital assets controlled by "Other Authorities" include assets owned or managed by the New York State Thruway Association (transportation), the Dormitory Authority of the State of New York (education), the Battery Park City Authority (housing), the Roosevelt Island Operating Corporation (housing), and the New York Power Authority (energy).

2. Paradoxically, the Strategy's ten-year time frame is both too short and too long.

The ten-year period is too short for many aspects of strategic planning. Again, the current PLANYC initiative illustrates the point; it is focused on a period of nearly 25 years, looking to establish goals for the year 2030. Such long-run thinking is necessary to establish investment plans for facilities such as the water and sewer system, the net work of parks, and mass transit operations.

At the same time, ten-years is too long for credible financial planning. Unpredictable costs and the varying pace of implementation for capital projects make expenditure projections beyond more than four or five years highly unreliable. The point is illustrated by the data in Table 2. The Strategy prepared in 1995 and spanning the period from fiscal years 1996 through 2005 called for total spending of \$40.6 billion. The plan for the first four years was relatively accurate with actual spending being about \$1.3 billion, or 9 percent, above plan. But in the last six years of the plan, actual spending exceeded the scheduled amount by \$10.4 billion, or 41 percent.

The same pattern is evident in the two more recent Strategies. In the 1998-2007 plan, spending in the last six years was \$16.7 billion, or 62 percent, above plan; for the 2000-2009 plan the actual spending in the last six years likely will exceed the initial plan amount by \$29.8 billion, or 120

percent. For the “out-years,” the ten-year plans have become mechanical projection exercises with unrealistically low estimates rather than realistic investment plans for specific projects.

Dealing effectively with this paradox requires new modes of planning. A multi-tiered approach may be necessary, with more detailed plans spanning a four or five years and more strategic plans covering longer periods that might vary among the major infrastructure components.

**Table 2:
Ten-Year Capital Strategy: Planned vs. Actual Commitments**

<i>(dollars in millions)</i>	Four-Year Total	Six-Year Total	Ten-Year Total
	1996-1999	2000-2005	1996-2005
1996-2005 Capital Strategy	\$15,400	\$25,163	\$40,562
Actual Commitments	\$16,743	\$35,562	\$52,305
Difference	(\$1,343)	(\$10,399)	(\$11,743)
	1998-2001	2002-2007	1998-2007
1998-2007 Capital Strategy	\$19,776	\$26,900	\$46,677
Actual Commitments*	\$18,700	\$43,486	\$62,186
Difference	\$1,076	(\$16,586)	(\$15,509)
	2000-2003	2004-2009	2000-2009
2000-2009 Capital Strategy	\$22,983	\$25,140	\$48,123
Actual Commitments*	\$22,759	\$54,950	\$77,709
Difference	\$224	(\$29,810)	(\$29,586)

*FY1996-2006 represent actual commitments certified by the Comptroller; FY2007-09 commitments as projected by NYC OMB, January 2007 commitment plan. Includes reserve for unattained commitments in fiscal years 2007 to 2009.

Source: NYC Ten-Year Capital Strategy, FY1996-2005; NYC Ten-Year Capital Strategy, FY1998-2007; NYC Ten-Year Capital Strategy, FY2000-2009; NYC Comprehensive Annual Financial Report, FY1996-2006; NYC January 2007 Financial Plan, FY2007-2011.

3. *Despite City Charter and GASB requirements, the available information on the condition of municipal assets falls far short of what is needed for sound planning for many infrastructure components, and for those systems with relevant information available, it is not used to guide investment decisions.*

The shortfall in needed information is due to the limits of the AIMS. First, it does not include any assets with a replacement cost of less than \$10 million and a useful life of less than ten years. Also excluded are assets not easily observable by field engineers, such as underwater element of piers and bulkheads, the four East River Bridges, equipment and vehicles, and other special systems like traffic and street lights. Another critical omission is the assets of local public authorities; thus, the housing managed by the Housing Authority and the water and sewer system financed by the Water Finance Authority are not covered. Although surveys of the condition of some of these assets are completed

by relevant agencies, their absence from the more comprehensive system makes planning more fragmented and complex.

Even for those infrastructure components for which relevant data is available from AIMS and other sources, agencies are not required to use these data to guide investment decisions. In fiscal year 2007, \$5.2 billion in spending for was identified in AIMS as necessary to achieve a state of good repair. By and large, agencies did not address these requirements in their capital and expense budgets, planning to undertake only \$2.5 billion in state of good repair work for the period – only 49 percent of the total need. The \$2.6 billion shortfall produced by this underfunding effectively means that spending necessary to properly maintain capital assets will be deferred.

The Case for New Priorities in the Proposed Strategy

How should one assess the content of the current strategy? The CBC suggests asking three questions.

- ✧ **How well does the Strategy fix old assets?** The City should have a systematic plan for overcoming deferred maintenance and bringing old assets still deemed necessary for government functions to a state of good repair.
- ✧ **How well does the Strategy maintain current assets?** Keeping capital assets in a state of good repair requires keeping up with necessary maintenance and repairs for the span of an asset's useful life and placing assets on a regular replacement cycle based on their useful life. City funding for the regular replacement of its assets should be equal to the replacement cost depreciation of those assets.
- ✧ **On what basis does the Strategy expand current assets?** Priorities for new potential projects should be justified based on a rigorous economic analysis that demonstrates the potential for providing better or more efficient levels of service, or a high rate of return on investment.

The information necessary to answer these questions is not available in the Strategy: Spending in the Strategy is not linked to condition assessments, based on a standard for maintaining the condition of the asset, or connected to a goal for achieving or maintaining state of good repair. To assess maintenance needs, CBC used the AIMS report, which, although extremely limited, provides some quantification of the spending necessary to bring many of the City's capital assets to a state of good repair. In addition, CBC performed its own calculation of replacement needs. Using data from the City's Comprehensive Annual Financial Report, CBC used a historical average of construction costs to estimate replacement cost depreciation for the ten-year period, under the theory that funds should be set aside yearly for the replacement of assets along the lines of replacement cost depreciation. Together, these estimates represent the total need for state of good repair and replacement funding for fiscal years 2008-2017. As shown in Table 3, this need equals \$72.8 billion – almost as large as the entire Strategy.

How much of this need will be funded? The Strategy allocates a total of \$55.3 billion for state of good repair work and replacement of assets. **In sum, this represents 76 percent of total capital maintenance needs for the ten-year period – an \$18 billion shortfall.** For city agencies in

particular, only 67 percent of total capital maintenance needs for the ten-year period will be funded. It should be noted that these estimates are conservative, given the underestimation of need for some city agencies and component units due to a lack of data.

Table 3: Adequacy of Funding Provided in the Preliminary Ten-Year Capital Strategy, FY2008-2017

<i>(dollars in millions)</i>	Total State of Good Repair and Replacement Need	Total Spending for State of Good Repair and Replacement in the Preliminary Strategy	ADEQUACY	
			Percent Funded	Total Shortfall
General government	8,086	2,799	35%	(5,287)
Public safety and judicial	3,646	3,202	88%	(445)
Education	18,905	18,788	99%	(117)
City University	641	131	20%	(510)
Social services	821	0	0%	(821)
Sanitation	3,014	2,282	76%	(733)
Transportation services	15,239	8,679	57%	(6,559)
Parks, recreation and cultural	6,048	1,664	28%	(4,384)
Housing	254	589	231%	334
Health	365	184	51%	(180)
Libraries	512	84	16%	(428)
TOTAL, CITY DIRECT	\$57,530	\$38,401	67%	(\$19,130)
Environmental Protection (WA)	10,556	14,579	138%	4,022
Health and Hospitals Corp.	2,501	694	28%	(1,807)
Housing Authority	2,257	229	NA	(2,028)
TOTAL, COMPONENT UNITS	\$15,314	\$15,501	101%	\$187
Capital Plan, Unallocatable	NA	\$1,442	NA	NA
TOTAL	\$72,845	\$55,344	76%	(\$17,501)

Notes: Need determined by adding AIMS capital and expense recommendations for state of good repair and forecasting replacement cost depreciation for the FY2008-2017 period based on schedules in the Comprehensive Annual Financial Report. Transportation services need and capital plan spending do not include subsidies or payments to the Transit Authority.

Sources: Preliminary Ten-Year Capital Strategy, FY2008-2017; New York City Comprehensive Annual Financial Report, FY2006; Asset Management Information System, FY2007; Municipal Water Finance Authority Annual Report, FY2006; NYC Health and Hospitals Corporation Annual Report, FY2006; NYC Housing Authority Annual Report, FY2005.

Finally, a note on expansion projects. The Strategy allocates \$21 billion to expansion projects, and the City's rationale for its expansion program is to support economic and population growth. As such, four-fifths of spending for expansion purposes will be concentrated on building new schools, creating housing and expanding the water and sewer system. Other major projects will include commercial, industrial and waterfront development, new courthouses and correctional facilities and construction of marine transfer stations.

None of these individual expansion projects is based on clearly justifiable, analytically rigorous analysis of benefits that will accrue to the City. Such an analysis should be conducted to demonstrate of a high return of investment for the public dollar or better or improved service to be provided to the public. Some expansion projects, like sewer expansion in Staten Island, are

necessary for improving government services; however, for most projects, the rationale is not obvious and no justification is provided in the plan. For example, the plan anticipates \$9.4 billion in spending for the new school construction at a time when enrollment in public schools is expected to decrease.

For development projects, particularly those in housing and those conducted by Small Business Services, no justification is provided based on any rigorous economic analysis. Inclusion of these multi-billion dollar investments into the plan is not supported by any evidence of a high rate of return for public investment. Presenting such analyses in support of projects rooted in clear planning priorities would ensure that scarce public resources are allocated in a transparent and beneficial manner.

Thank you. I would be pleased to take any questions.