



Citizens Budget Commission

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Dear Pat,

As you know, early this year the Citizens Budget Commission created a Trustee Committee, co-chaired by Steve Cohen and Bob Lamb, to explore ways the Commission and its staff can help the Port Authority of New York and New Jersey to enhance its role in promoting the region's economic health and competitiveness. In coming months we will focus on the financing arrangements for PATH services and the longer-term strategies for developing the maritime ports. Initially, however, we sought to use the Commission's experience and expertise in public sector financial management to review the Port Authority's current budget practices and make suggestions for improvements. The purpose of this letter is to convey those recommendations with the intention that they be considered at the upcoming July 24 Board meeting for possible implementation in preparation of the 2014 budget.

The goals of our proposals are greater (a) transparency, (b) long-term financial viability including adequate infrastructure investment, and (c) public accountability for performance. These goals are consistent with the "Operating Principles" adopted by the PANYNJ Board at its February 6, 2013 meeting, which include:

- "The Port Authority shall pro-actively communicate, be transparent in its decision making, and set clear expectations upon which to measure the results of its actions."
- "The Port Authority shall continually evaluate opportunities for revenue enhancement, improved productivity, and cost effective execution in delivery of its services to minimize the financial burden on the public that it serves."
- "The Port Authority's staff shall continue to provide timely, relevant, reliable and succinct analysis, including historical and forecast performance metrics, to ensure that the Board of Commissioners, in exercising its oversight responsibilities, can make fully informed decisions and drive accountability."

The development of these principles was, and their implementation is being, aided by consultant reports commissioned by the Board and submitted in January 2012 and September 2012. The reports did not directly address the budget process, but presented recommendations relating to capital planning and operations management that require

effective budget procedures. Our budget process recommendations are consistent with the recommendations of the Board's consultants.

Background: Practices of Other Entities

In developing these recommendations we have drawn on the CBC's familiarity with the budget practices of other large public entities in the region, notably the City of New York, the Metropolitan Transportation Authority, and the State of New York. Their practices with respect to annual and multi-year operating budgets, capital planning and budgeting, and use of performance measures in budgeting inform the recommendations and are summarized below.

City of New York. As the City recovered from its mid-1970s fiscal crisis, its leaders in cooperation with State leaders developed a set of budget practices which have served it well in subsequent years. With respect to operating budgets, the City presents and balances its budget in accord with Generally Accepted Accounting Principles (GAAP). The City has an annual operating budget that is balanced at adoption and in implementation through the end of the year. The annual budget is presented and monitored in detail in accord with units of appropriation representing activities within departments. The City also prepares a four-year financial plan that presents forecasts for major categories of expenditures and revenues, identifies forecasted gaps between revenues and expenditures, and makes preliminary recommendations for closing those gaps. The budget and financial plan are modified quarterly during the fiscal year.

As a legacy of the fiscal crisis, the City also benefits from fiscal monitors who review each financial plan update, offer alternative economic forecasts, identify risks to the financial plan, and analyze budget-related issues. These monitors are the Office of the New York State Comptroller, the New York City Comptroller, the New York State Financial Control Board, and the New York City Independent Budget Office.

With respect to capital spending, the City prepares a Ten-Year Capital Strategy that is revised on a rolling basis every two years. It sets forth planned capital commitments for each municipal agency for a ten-year period. Implementation of the Strategy is based on a four-year capital commitment plan, revised three times each year, which indicates in greater detail the projects to be undertaken in that period. The four-year plan is accompanied by a financing plan indicating the sources of funds to be relied upon. The City annually prepares a capital budget and commitment plan; the former approves projects and authorizes funding, the latter allocates commitment authority (the ability to contract) to agencies for the current year as a part of the four-year commitment plan.

Performance measures and targets for municipal agencies are presented in an annual *Mayor's Management Report*. The measures are aligned with agency categories in the budget. Data are also updated monthly online and are published twice yearly in a preliminary report in January and a final report in September covering the preceding July-June fiscal year.

Metropolitan Transportation Authority (MTA). The MTA revised its budget and reporting practices in 2003 after criticism from the State Comptroller and others about the degree of transparency. Based on



recommendations of an advisory group (on which the CBC President served), the agency began to develop more transparent annual budgets and new four-year financial plans for its operations. The budgets are prepared in accord with GAAP, and are also prepared on a cash basis with reconciliation to GAAP. The Board seeks to balance the budget on a cash basis. The budget and financial plan for each fiscal year, which corresponds to the calendar year, are presented in preliminary form for the upcoming year and revised form for the current year in July; in updated form for the current year and revised preliminary form for the upcoming year for Board and public review in November; for Board adoption for the upcoming year and in revised form for the current year in December; and, in adopted form in February. The budget and financial plan include details for each unit of the MTA. In recent years the State Comptroller has published reviews of the MTA's financial plans.

With respect to capital budgeting, the MTA has had a process of five-year capital plans, initiated in 1982 in response to the long preceding period of infrastructure deterioration. A plan is prepared based on a 20-year assessment of needs, which is released to the public. The plan indicates all projects to be undertaken in a five-year period and the sources of funding for those projects. The plan is amended as needed, and the MTA provides updates on activity under the plan as part of regular reporting to the Board and to the public. Board review of progress on the capital plan includes reports to the Board from independent engineering consultants on their assessment of the status of major capital projects. The MTA, based on a recommendation from the CBC, also created a web-based "Dashboard" showing the status of each capital project in its current capital plan. The State Comptroller monitors implementation of selected capital projects, and an independent MTA Inspector General also investigates capital and operating spending.

With respect to performance measures, the MTA staff provides to the Board and the public key indicators such as ridership and on-time performance on a monthly basis. These data and other Board materials are made available online. In addition, a Permanent Citizens Advisory Committee sponsored by the MTA prepares an Annual Performance Review of the operating divisions.

State of New York. The State's budget process, the key features of which are defined in the state constitution, has been improved incrementally by statute and administrative practice over several recent governors' terms. The operating budget is prepared by the Governor; it is presented and balanced on cash basis and in more aggregate form in accord with GAAP. The annual budget, covering the April-March fiscal year, is accompanied by a four-year set of projections of revenues, expenditures, and budget gaps. The budget is published shortly after adoption, is updated and revised in July and in the middle of the fiscal year (usually in October), and is again updated and revised with the presentation of the Executive Budget in January. The State Comptroller publishes reviews of the Executive Budget and the adopted budget shortly after each is released.

The State's annual budget includes a capital budget component that authorizes annual capital spending for each agency. The annual budget is accompanied by a five-year capital spending program that indicates planned capital investments by agency for a five-year period. The capital plan also indicates the sources of financing for the planned investments including the associated debt and debt service obligations. The capital plan does not include "off-budget" spending by state authorities and is not guided by a systematic assessment of capital needs; however, Governor Andrew Cuomo charged his



New York Works Task Force (on which I serve) with addressing these shortcomings, and in May 2013 they released a comprehensive "State of New York Statewide Capital Plan" covering the period fiscal years 2013-2014 through 2022-2023.

Governor Cuomo also has called for improvements in the use of performance measures in the State's budget and management procedures. The February 2013 report of the Governor's SAGE Commission announced the "New York Performs" initiative to be implemented during 2013. It will create performance measures for state agencies and make the information available on web-based dashboards.

The CBC staff is less familiar with the budget practices and documents of the State of New Jersey, which operates on a fiscal year of July 1 to June 30. However, we note the Governor prepares an annual Executive Budget with detailed appropriations for each Department, and the annual budget is accompanied by a rolling Seven-Year Capital Improvement Plan with departmental estimates of capital spending for that multi-year period. After adoption of the budget, the Governor releases a *Citizens' Guide to the Budget* presenting the major decisions incorporated in the budget. The Guide and details of the budget are available on the website of the State Office of Management and Budget. The budget is monitored on a cash basis, but year-end reporting is done in accord with GAAP with reconciliation to the cash basis.

Recommendations for the PANYNJ

The PANYNJ's budget practices are in transition. Prior to 2013 the agency prepared a detailed annual budget that included capital and operating expenses for each activity, but it did not have regularly updated multi-year financial plans for operating or capital expenses. Its 2013 operating budget is a shorter and less detailed document than that of previous years and was adopted without opportunity for prior public scrutiny. It contains major categories of operating expenses, but no capital budget. The PANYNJ does not have a multi-year financial plan for its operations and has no capital plan; the Board currently approves capital investments on a project-by-project basis. The staff is developing a long-term capital plan. Key performance measures for each major division are reported on a monthly basis.

Going forward the CBC recommends the following for operating and capital budgeting:

1. The PANYNJ should have a detailed annual operating budget and a four-year financial plan. The budget and plan should be prepared in accord with GAAP. The Board should seek to balance the budget in accord with GAAP, but in response to economic conditions and other special circumstances, deficits may be covered with accrued reserves or other resources as deemed necessary by the Board.
2. The operating budget should be adopted only after opportunities for public review and should be revised and updated during the fiscal year. A calendar similar to that used by the MTA is appropriate – initial release of a preliminary budget in July, updating and adoption in December, and updating in February.



3. The PANYNJ's capital budgeting should be guided by a long-term (a period of 10 to 20 years) capital strategy that is revised every four years. The strategy should be based on a professional assessment of investments needed to maintain facilities in a state of good repair and of investments needed to enhance and expand facilities to meet long-term demand trends and increase the competitiveness of the region. Long-term capital planning should be a key responsibility of and focus of attention among senior management.
4. The capital budget should include an annual and a four-year commitment plan revised annually. The plan should specify the projects to be initiated and the expected cost. The commitment plans should be accompanied by a financing plan that indicates the source of funding for each planned investment. The financing plan should be guided by explicit Board policies for financing capital investments that indicate the desired balance of pay-as-you-go and debt-supported capital spending.
5. Regular and frequent (quarterly) reports should be made to the Board and the public on the status of each capital project relative to the scheduled milestones and planned costs for the project. Major capital projects should be monitored by independent engineering consultants with reports to the board, and their reports available to the public.
6. Performance measures of activities and accomplishments should be specified for each major agency activity, and regular and frequent (quarterly) reports should be presented to the Board and the public comparing actual and targeted performance. The performance measures should be incorporated in budget documents and decisions with narratives explaining how planned expenditures and investments relate to changes in the volume and quality of services provided.

We hope you and the Board find these recommendations helpful. The staff and I would be glad to discuss them with you and your colleagues, and we look forward to continuing to work constructively with you.

Sincerely,



Carol Kellermann
President

cc: David Samson, Chairman of the Board, Port Authority of New York and New Jersey