REFORMING CAPITAL BUDGETING TO MAKE PLANYC EFFECTIVE

The latest report by the Citizens Budget Commission analyzes Mayor Michael Bloomberg's PLANYC, a long-range planning initiative that deserves both praise and effective implementation. This report identifies challenges confronting the initiative and makes four recommendations to overcome them.

- PLANYC should be expanded and institutionalized.
- A systematic plan should be developed for bringing all City-owned assets to a state of good repair.
- Capital assets should be placed on appropriate replacement cycles, funded with operating revenue rather than debt.
- All City expansion projects should be based on clearly explained priorities and rooted in rigorous economic analysis of future benefits.

This document is a summary of the CBC's latest report. The full report is available online at www.cbcny.org.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.

The Commission conducts research and regularly issues reports and recommendations based on that research. The research is conducted by staff members and consultants, and guided by committees composed of Trustees of the CBC.

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New York City, directly or through its authorities, owns $60.5 billion in capital assets, the largest of which are in transportation, environmental protection and education.

INTRODUCTION

Mayor Michael Bloomberg has launched the PLANYC 2030 initiative – a plan centered on ten goals for preparing New York City for an anticipated population increase of one million by 2030. PLANYC is a strategic plan for the City's future, including capital assets and infrastructure, that is new and visionary; its goals are ambitious and broad, and achieving them will require active cooperation from multiple stakeholders. Responsibility for its implementation rests with the City's newly-created Office of Long-Term Planning and Sustainability, but most of the capital resources required by PLANYC will be subject to the City's traditional capital budgeting procedures.

Successful implementation of the PLANYC agenda will require strengthening the City's current capital planning and budgeting procedures. This report identifies the four greatest challenges confronting this initiative and makes recommendation for overcoming them.

CHALLENGE 1

PLANYC is a new planning process that is broad, long-term and visionary, but it overlooks some large and important classes of assets.

PLANYC addresses important components of New York City's infrastructure: the water and sewer system, the transit system, energy supply and delivery, roads and bridges, housing, parks, and brownfields. It lays out a plan for these assets for the next 25 years, with clear goals and benchmarks for interim achievements, and necessitates the participation of other entities, including the State and its authorities.

In these ways, it represents an improvement over the City's current Ten-Year Capital Strategy, which focuses solely on City-owned assets, often lacks clear strategic objectives, and spans too short a time period to manage and plan for large infrastructure components. However, while all agencies are required by the City Charter to do ten-year capital planning, PLANYC applies only to certain agencies with assets that represent only part of the vast universe of capital assets in the City. Omitted from PLANYC are other capital assets critical to the City's vitality, particularly the school system and telecommunications network.

RECOMMENDATION

Institutionalize and expand the PLANYC approach.

All agencies would benefit from a plan for maintaining and improving infrastructure that reflects the long-term strategic perspective embodied by PLANYC. PLANYC assesses current conditions, projects future needs, and establishes clear long-term goals for addressing those needs. This is an improvement upon the traditional capital planning process, and efforts to institutionalize PLANYC should be pursued: first, through City Council approval of legislation establishing the Office of Long-Term Planning and Sustainability as a mayoral office; and second, through revision of the City Charter.

Only 47 percent of spending in the current $83.7 billion ten-year capital strategy is related to PLANYC.

The strategic approach should also be expanded to encompass other agencies and capital assets. For all agencies, a long-term strategic capital planning document (such as that released by PLANYC) should be accompanied by a shorter-term document that translates the goals in the longer document into specific agency objectives and expenditure estimates. A fixed, short-term capital plan would allow for better financial planning and capital budgeting, since rising construction costs and changing circumstances make expenditures difficult to estimate beyond a few years. Such a tiered planning process also would allow for judging progress against the goals and needs identified in the broader document in a way that is not possible with current capital planning documents.

CHALLENGE 2

Effective capital planning in the City is hindered by a lack of important information on capital assets within its boundaries and clear goals for achieving a state of good repair.

Future planning requires knowledge of current conditions and use. The City lacks much of this needed information for two reasons. First, the City does not survey public infrastructure that it does not own or manage, including assets owned by the federal and State governments, State authorities, and the private sector, such as airports, bridges, the mass transit system, energy delivery, telecommunication networks, and parkland. Second, the City's system of tracking the condition of its own assets has major gaps. The City's report on state of good repair, for instance, the Asset Information Management System (AIMS), is extremely limited in scope. Major omissions include large systems such as the East River Bridges, all housing assets, and assets owned by public authorities, including the water and sewer system financed by the Municipal Water Finance Authority.

For selected asssets, city agencies estimated $5.4 billion in state of good repair needs – but only 49 percent will be refunded.

As a result of these limitations, most agency plans for capital spending in the Ten-Year Capital Strategy are not linked to condition assessments or based on a standard for maintaining the condition of the asset. While PLANYC calls for achieving a state of good repair for transportation infrastructure by 2030, the same goal is not applied to other public infrastructure; and, most agencies consistently under-fund necessary investments.

RECOMMENDATION

Develop a systematic plan for bringing all City-owned assets to a state of good repair.

Initial steps in this direction have been taken by PLANYC, which has identified state of good repair needs for transportation and transit services and has devised a plan to meet these needs by 2030. This thinking should be expanded to all of the City's capital assets by expanding the AIMS report to cover all of its capital assets and integrating the condition assessments of major capital asset systems conducted individually by agencies into a comprehensive reporting structure. The City should then develop a systematic plan to eliminate deferred maintenance and bring all of its capital assets and infrastructure systems to a state of good repair.

CHALLENGE 3

Many existing assets are not on regular replacement cycles, and ad hoc repairs are funded through borrowing in the capital budget.

At the end of its useful life, an asset should be replaced; insofar as useful lives are predictable, assets should be placed on regular replacement schedules. An asset should also be repaired and maintained regularly to optimize its useful life. The City's capital spending, however, is not strictly guided by regular replacement cycles; instead, assets tend to be repaired or replaced when they malfunction or break, with funds from the capital budget. Events such as water main breaks and broken playground equipment may trigger capital spending for replacements, but they are also associated with varying scales of disaster and service disruption that regular care and replacement cycles avoid.

Planned spending in the ten-year capital strategy will not keep pace with estimated state of good repair and replacement needs; the gap is about $3.3 billion.

The value of a capital asset is depreciated yearly to reflect its "wear and tear" during the course of its useful life. Prudent management and generally accepted accounting principles require that this yearly depreciation be recognized as an operating expense, and that a budget cannot be deemed "balanced" unless operating revenues cover all expenses, including depreciation. New York City, like many public entities, has not followed this basic principle; it does not recognize depreciation as an operating expense and routinely funds repairs and replacements by borrowing for these investments.

This is legally permissible but shortsighted: paying for this expense with borrowed funds rather than current revenues has two negative consequences. First, the City incurs interest costs for the borrowing. Second, it creates disincentives for performing regular maintenance, as agencies forego maintenance from the operating budget until assets deteriorate to the point where they can be replaced with funds from the capital budget.

RECOMMENDATION

Place capital assets on appropriate replacement cycles and fund their regular repair and replacement with operating revenues.

The City should place all capital assets on regular replacement cycles according to their useful lives. The City should also allocate funds in its operating budget for regular repair and replacement, as well as preventative maintenance. The annual allocations should be linked to the replacement cost depreciation for assets. This would provide a steady fund to replace assets on schedule and eliminate the need for costly borrowing for regular replacement. Debt and the associated interest costs should be incurred only for investments that bring assets to a state of good repair and for expanding the capital stock.

CHALLENGE 4

The City's rationale for pursuing many of its expansion projects is unclear or unstated.

With the exception of the $3.0 billion investment in Hudson Yards, none of $23 billion in new capital investments to be pursued by the City in the next ten years are clearly rationalized on the basis of anticipated economic benefits. While some projects are described as necessary for improving government services, no clear explanation of benefits exists for most projects. PLANYC documents justify some of the proposed projects in terms of improving services and accommodating emerging needs in the City, with limited data provided in a few cases to demonstrate the improvement in service; in most others, however, there is no such data.

RECOMMENDATION

Pursue expansion projects based on clearly explained priorities and rooted in rigorous economic analysis of benefits.

Expansion projects should be clearly explained, and their benefits should be demonstrated with data. For development projects, rigorous economic analysis should be presented in documents made available to the public. Presenting such information would ensure that scarce public resources are allocated in a transparent and beneficial manner.

This report was prepared under the auspices of the CBC's Competitiveness Committee, co-chaired by David R. Greenbaum and David Tanner. The other members of the Committee are: Lawrence D. Ackman, Paul R. Alter, Eric Altman, Paul T. Bader, Seth P. Bernstein, Larry Bettino, Kenneth W. Bond, Lawrence B. Buttenwieser, Herman R. Charbonneau, Cynthia R. Darrison, Roger W. Einiger, Bud H. Gibbs, Barry Gosin, H. Dale Hemmerdinger, Jack D. Hidary, Fred P. Hochberg, Robert N. Hoglund, Deborah Buresh Jackson, Peter A. Joseph, Jerome C. Katz, Eugene J. Keilin, Peter J. Kiernan, Alan M. Klein, Peter C. Kornman, Marianne E. Kozlowski, Hugh R. Lamle, David N. Lebenstein, Louis Lowenstein, Andrew S. Lynn, Robinson Markel, Randy M. Mastro, Frances Milberg, Stephen W. Nislick, James S. Normile, Steven M. Polan, Lester Pollack, Hector P. Prud'homme, Carol Raphael, John Rhodes, Heather L. Ruth, Donald Schapiro, Clarence Schwab, Adam Solomon, Richard B. Teiman, Alair A. Townsend, W. James Tozer, Jr., Cynthia King Vance, Ronald G. Weiner, Kevin Willens, and James L. Lipscomb, ex-officio.

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