

Preliminary
Executive
Budget
Hearing

March 20,
2018

Department of Design and Construction
Ana Barrio, Acting Commissioner

New York City
Council
Committee on
Finance

Good afternoon Chairperson Dromm, Subcommittee Chair Gibson and members of the Committee. I am Ana Barrio, Acting Commissioner of the New York City Department of Design and Construction, and I am happy to appear before this Committee for the first time in my new role. I am joined today by DDC Deputy Commissioner of Infrastructure Eric Macfarlane, Deputy Commissioner of Public Buildings Tom Foley, Chief Administrative Officer Justin Walter, and members of my senior staff.

I want to acknowledge up front that I look forward to discussing with the Finance Committee and the Capital Subcommittee ways to improve project delivery and to build upon prior conversations on this subject.

BUDGET OVERVIEW

As the City's primary capital construction delivery agency, the funding for our projects is provided by the 27 City agencies that we collaborate with. For Fiscal Year 2018, our operating budget is \$526.2 million. The operating budget is comprised of \$128.3 million for Personnel Services, with a budgeted headcount of 1,570, and \$397.9 million for Other Than Personnel Services (OTPS). The funding breakdown of DDC's FY18 operating budget is as follows: \$133.1 million in IFA

funds, \$356.5 million in federal funds, \$17.1 million in City funds, and \$19.5 in Intra-city funds.

As of the January plan, DDC's FY19 total agency operating budget is \$155.9 million. This includes \$123.6 million for Personnel Services, with a budgeted headcount of 1,453, and \$32.3 million for OTPS. The funding breakdown of the FY19 operating budget is as follows: \$134.4 million in IFA funds, \$6 million in Federal funds, and \$14.7 million in City funds.

CAPITAL PROCESS OVERVIEW

Since its inception in 1996, DDC has completed more than 4,300 projects, with a capital value of more than \$21 billion. We continue to grow as an agency and in portfolio size. Today, DDC is managing 957 active projects – 449 projects in Public Buildings valued at \$4.1 billion and 508 projects in Infrastructure valued at \$9.8 billion – for a total value of more than \$13.8 billion.

I have often been asked how DDC prioritizes projects. Let me be clear that DDC treats every project the same way, no matter its location, its size, or its funding source – we want every project to be delivered on time and on budget.

As mentioned, we work on projects for 27 different City agencies. They are:

**ACS; DFTA; DCAS; DCLA; DEP; DHS; DOC; DOHMH; DOITT; DOT; DOP; DOS; DPR;
FDNY; HPD; HRA; HRO; Library Systems (Brooklyn, NY and Queens); Mayor's Office
to Combat Domestic Violence; MOCJ; NYPD; Office of the Chief Medical Examiner;
OEM; ORR; and TLC.**

From March 2017 to the present, DDC has started or completed many important projects. In the past year, we have:

- **Started the design of 127 projects, valued at \$1.3 billion;**
- **Started construction on 137 projects, valued at \$1.6 billion;**
- **Completed 127 designs, valued at \$1.7 billion; and**
- **Reached substantial completion on construction of 124 projects with a total value of \$1.4 billion.**

Some of this important work includes the following:

- **In May 2017, the Woodstock Library in the Bronx reopened after a renovation made it ADA accessible; the Brooklyn Public Library opened a beautiful new reading garden at its Park Slope branch, a design done in-**

house by DDC; and the residents of Bedford-Stuyvesant saw their historic Billie Holiday Theatre expanded and updated.

- In July, we broke ground on the Bronx Children's Museum, which will bring new educational opportunities to the borough; we joined with DOT and the local American Legion to open Myrtle-Cooper Plaza in Glendale, Queens; and a M/WBE contractor began work on Diversity Plaza in Jackson Heights, which is on budget and on schedule for a summer 2018 completion.
- In August, we broke ground on a new home and studio for the non-profit Dancewave in Brooklyn, a project with a 50% M/WBE component currently on time and on budget; also, we joined Borough President Melinda Katz to celebrate the women of Queens and dedicate the new Women's Plaza at Queens Borough Hall, a project designed by our In-House team; and with DEP, we completed the largest ever expansion of the Bluebelt system in the Woodrow area of Staten Island, a \$44 million project that came in \$4 million under budget.
- In September, after working with a very difficult contractor, around 200 community members helped us reopen the expanded and renovated Kew

Gardens Hills Library in Queens; in November, we celebrated the successful reconstruction of Main Street in Flushing, which widened sidewalks, calmed traffic, and upgraded infrastructure in the City's second busiest pedestrian corridor after Times Square.

- **Last month, we reopened two libraries in Brooklyn on schedule – the Marcy branch and the Mill Basin branch – which both received upgrades that improved their environmental efficiency; and we began a project to enhance Jack Pond's in Staten Island, another critical element of the Bluebelt system.**
- **And, just this past Thursday, we reopened the Chelsea Health Center, which included a full gut renovation of three floors of the facility with materials selected to accent the surrounding park and create a more open and inviting environment. The original work came in on-time.**

Improving the Capital Construction Process

DDC continues to improve upon ways to navigate the City's capital system. Here are just a few initiatives and ideas we have recently implemented and continue to refine:

- **DDC's Front End Planning Units focus on projects that are not yet accepted by DDC. The Units works closely with the client agency in reviewing scope, schedule, and budget to avoid funding shortfalls and schedule delays down the line. Typical review is 30-60 days. To date, the unit for Public Buildings projects has fully assessed 99 out of 120 CPIs in conjunction with site investigations, recommending that 42 proceed in their current form, with non-recommendations for 57 projects, or 58% of those reviewed. There are 21 assessments where site visits were conducted that are still pending determination. On the newly created Front Ending Planning Unit for Infrastructure, we have fully assessed 15 projects.**
- **DDC's In-House Design unit eliminates the time required to procure design services, while tackling smaller projects. With the support of OMB, the Unit currently has 14 staff members made up of architects, engineers, and specifications writers. The Unit generally designs projects under \$3 million, and to date has worked on 49 projects that have reached 100% design completion or are in various stages of design. Using In-House Design, we have seen a decrease in overall design durations when comparing similar projects.**

- **DDC continues to work to streamline and standardize our current design specifications, which will reduce design time and lessen the number of change orders (saving time and money) on our Public Buildings projects;**
- **And, DDC actively collaborates with our partner agencies in trying to find innovative ways to shorten procurement and overall project delivery times. This includes the push at the State level for Design Build, which eliminates a second procurement period and allows the designer and contractor to work in tandem to deliver projects faster and at a lower cost to the City.**

DDC PROGRAMS

I would like to now mention three of DDC's critical programs:

M/WBE Program

Under the leadership of Chief Diversity & Industry Relations Officer Maggie Austin, DDC continues to make strides in outreach to and contracts awarded to M/WBE contractors across the City and region. I am proud to report that DDC's M/WBE utilization rate is 26% through the second quarter of FY18. Over the course of the past three-and-a-half years, the agency has undertaken several initiatives to

increase transparency, build capacity, and increase M/WBE utilization. We have hosted 12 and attended more than 100 procurement events, engaging 9,500 vendors, including 3,981 M/WBEs. From FY15 to FY17, we increased our overall M/WBE utilization rate from 9.7% to 16.8% while awarding more than \$1.57 billion in contracts to M/WBEs. We continue to collaborate with the industry so that we can hear their concerns and implement creative ideas for M/WBE advancement both inside and outside of government.

Coming up next month and in June, we will host two large open houses at our Long Island City office, opening our doors to the contracting community and sharing vital information on how to work with the agency. We will continue to be creative in our outreach and implementation, seeking to meet the Mayor's ambitious M/WBE goals so that we can help M/WBEs achieve theirs. We invite you to join us at our open houses to see this plan in action.

Discretionary Funds Program

Another key program, DDC's Discretionary Funds Program, was assigned to DDC ten years ago. Our role is to facilitate reimbursement of equipment and vehicle purchases made by non-profit organizations, and to do this we work closely with

the non-profits and OMB. Once the non-profit provides DDC with an accurate scope of work and budget for the equipment/vehicle, DDC starts the initial step of seeking approval of the budget from OMB and preparing the funding agreement.

There are various additional steps in the process which our dedicated team can review with your offices and Committee staff. Please note again that this is a reimbursement program, and the non-profit must first purchase the equipment/vehicle before receiving payment.

Each year, we work directly with more than 50 non-profits on the reimbursement process. This fiscal year, 16 discretionary projects have already been registered with a total value of \$4.6 million, and we expect an additional 15 will proceed towards reimbursement. We will continue to make our staff available to work with the organizations in your districts, and to the Council as well.

STEAM

The third program that I would like to mention is DDC's Science, Technology, Engineering, Architecture, and Mathematics (STEAM) program, led by Deputy Commissioner Lee Llambelis. Through this program, DDC engages the City's

schoolchildren to help them understand their future opportunities and reach their full potential.

As of the end of 2017, the program had reached more than 2,100 students across the five boroughs, exposing them to new fields that they may not have considered before.

We have looked to expand our reach by working with other City agencies to help them develop their own STEAM programs, including with DOE Title 1 Schools, providing them with training materials and conducting "Train-the-Trainer" professional development sessions. In these sessions, DDC STEAM educators help others understand how to fully implement the DDC's "Building the Future" technical curriculum and engineering and architecture lesson plans. Over the summer, DDC's Coastal Resiliency curricula will be launched and will teach students about the effects of climate change and extreme weather. We are also engaging with several of the City's non-profit organizations, including the Lower East Side Girl's Club, LeAp, Aspira, and East Side Settlement, who have incorporated the DDC STEAM curricula into their afterschool programming.

STEAM partners with the NYC DOE, DYCD, and ACS to identify Title I schools where our efforts can have the greatest impact on our children, and where additional resources can be expended most efficiently for the greatest gain. In 2017, we worked with students in 12 different schools across the five boroughs, and will work with another 10 schools this spring, including in Stapleton, Riverdale, Belmont, Jamaica, Elmhurst, West Harlem, Bensonhurst, and Bushwick.

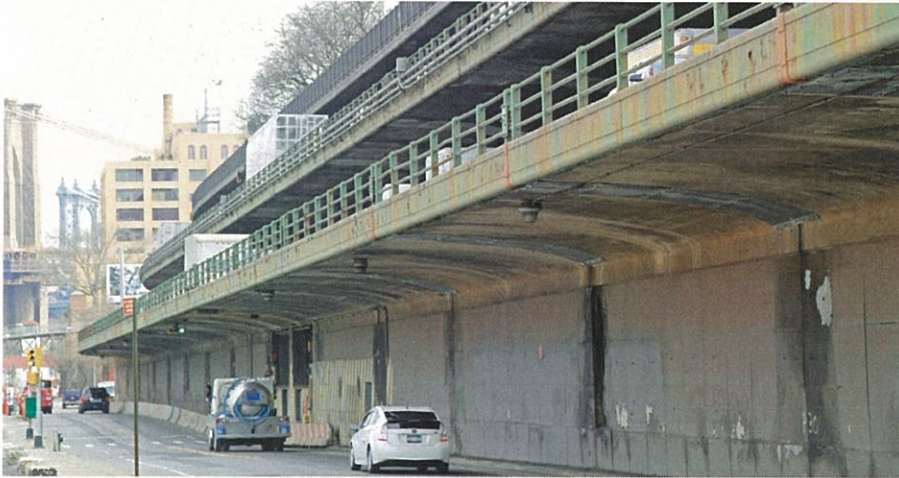
We are also preparing to welcome close to 75 high school, college, and graduate school summer interns to DDC. Our collective goal with each of our programs is to inspire these students, build confidence in the STEAM subjects and put them on a pathway to a future in STEAM study and careers.

My DDC team and I are proud of the support that we provide in making our City a better and safer place to live, work, and visit. Thank you for the opportunity to testify today. This concludes my prepared remarks and I am happy to answer any questions you and your colleagues may have.

DESIGN-BUILD



A Smarter Way to Build New York's Infrastructure



The BQE consists of 21 bridges including a unique triple cantilever structure. This portion of the highway carries a daily traffic volume of 140,000 vehicles.

Design-Build:

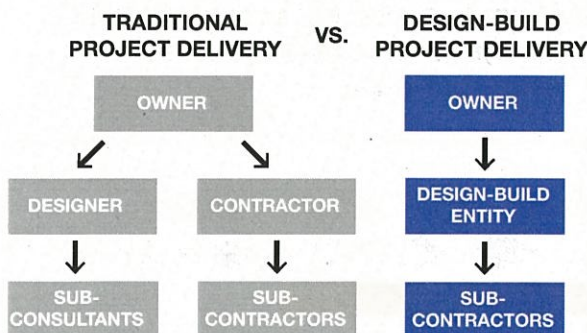
- Lower cost and better value for taxpayer dollars.
- More innovative, higher quality projects.
- Significantly faster completion time.
- Puts people to work faster.
- Reduces contractor claims and costly litigation.
- Meets budget constraints.
- Decreased administrative burden.

Design-Build Basics

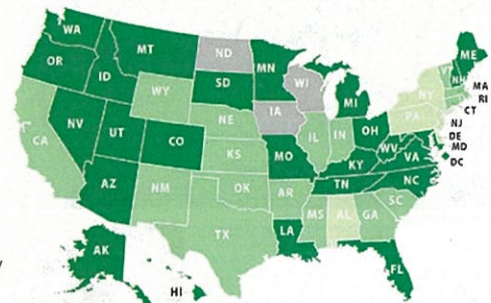
- Cost savings are achieved by avoiding cost escalations through an accelerated project delivery timetable, a reduction in change orders, and innovations that come from collaborative work between the design and construction team.
- Method of project delivery in which one entity works under a single contract to provide design and construction services.
- Successfully delivers buildings, schools, stadiums, transportation and water infrastructure projects as well as other large infrastructure projects with superior results.
- Collaborative project management means faster delivery with fewer problems.
- Using design-build achieves a 15-20% time savings over the traditional design-bid-build process, which is usually 12 to 24 months.

Design-Build is now the delivery method of choice in nearly 40% of non-residential projects nationwide.

All states now permit design-build to be used for public projects, according to the Design-Build Institute of America.



- Design-build is limited to one political subdivision, agency or project
- Design-build is a limited option
- Design-build is widely permitted
- Design-build is permitted by all agencies for all types of design and construction



Enact Design-Build Authorization for New York City

The City of New York is seeking the authority to utilize Design-Build as a project delivery alternative for critical projects. This authorization would provide the same benefits and cost savings to New York City that New York State has realized on its projects, including the Tappan Zee and Kosciuszko Bridge.

Design-Build contracts would be subject to applicable federal, state, and local requirements for disadvantaged business enterprises and minority and women-owned business enterprises. The Mayor recently announced the following MWBE commitments: Setting a Citywide goal of 30%; the Creation of the Mayor’s Office of MWBE and interest rate contract financing in the state of 3% up to \$500,000 per loan. The use of Design-Build as a project delivery method will allow the City to complete more projects, increasing opportunities for MWBE firms. The City proposal includes Project Labor Agreements (PLAs) for all projects utilizing Design-Build. The City has reaffirmed its citywide PLA and NYCHA and HHC have signed PLAs. The Citywide PLA is in effect through December 31, 2018. The City is also committed to working with industry, labor and other stakeholders in a collaborative manner to ensure design-build is effectively implemented.

Project	Est. Project Costs	Est. Savings of 6%
Brooklyn-Queens Express Way, Atlantic to Sands (DOT)	\$ 1.9 B	\$ 113.4 M
Criminal Justice/Rikers Closure Construction of New Jails (DDC / DOC)		6% estimated
NYCHA Critical Capital Projects; including heating, roofs & elevators (NYCHA)		6% estimated
Strategic Security Measures to Protect NYC (DDC / NYPD)	\$ 27.26 M	\$ 1.6 M
NYPD Property Clerk Storage and Operations Facility in Queens (DDC / NYPD)	\$ 435 M	\$ 26 M
Staten Island Ferry Terminals and Mechanical Systems Resiliency (DOT)	\$ 25 M	\$ 1.5 M
Pelham Bay Bridge Rehabilitation, Bronx (DOT)	\$ 54.5 M	\$ 3.27 M
Belt Parkway Bridges Rehabilitation, Brooklyn (DOT)	\$ 90 M	\$ 5.4 M
Elmhurst Hospital Emergency Dept. Renovation & Expansion, Queens (H+H)	\$ 17.9 M	\$ 1.07 M
Kenisco-Eastview Water Connection Tunnel, Westchester, NY (DEP)	\$ 1.24 B	\$ 75.6 M
Upgrades at Hillview Reservoir, Yonkers, NY (DEP)	\$ 339.5 M	\$ 20.3 M
FDR Bridge 42nd Street Rehabilitation, Manhattan (DOT)	\$ 86.1 M	\$ 5.1 M
49th Avenue Bridge over LIRR Rehabilitation, Queens (DOT)	\$ 81.2 M	\$ 4.8 M
5th Avenue Bridge Over LIRR Rehabilitation, Brooklyn (DOT)	\$ 45.7 M	\$ 2.7 M

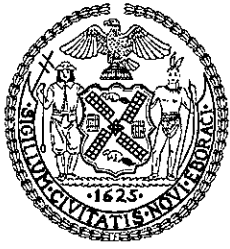
Design-Build in New York

- To date, agencies such as Port Authority, NYSDOT and the State Thruway Authority have used design-build on more than 30 projects including:
 - Tappan Zee Bridge
 - Kosciuszko Bridge
 - Long Island Rail Road
 - Rehabilitation of Atlantic Ave. Viaduct
 - Goethals Bridge



New York State is using a Design-Build contract for the Tappan Zee Bridge rebuild.





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Melanie Hartzog
Director

**TESTIMONY OF MELANIE HARTZOG, DIRECTOR, MAYOR'S OFFICE OF
MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK TO THE CITY
COUNCIL, JOINTLY WITH THE SUBCOMMITTEE ON CAPITAL BUDGET**

March 20, 2018

Thank you, Speaker Johnson, Chair Dromm, Subcommittee Chair Gibson, members of the Capital Budget Subcommittee, Finance Committee, and Council, for the opportunity to testify today.

I'm joined at the table by OMB Deputy Director Charles Brisky. And OMB staff is here to assist me in answering questions.

Before I give you an overview of the Preliminary Capital Plan, I would like to revisit the impact of federal and State actions on the budget.

At the previous hearing I noted that the Trump Tax Cuts and Jobs Act eliminated a long-standing federal law that permitted tax exempt advance bond refundings.

The City used refundings to generate expense budget savings and keep debt service payments low. This will cost us \$100 million annually in expense budget savings. With respect to the capital budget, eliminating these type of refundings may impair our ability to refinance bonds on favorable terms. As a result, the cost of building and repairing roads, bridges, schools, and other critical infrastructure may increase.

The tax act also lowers the federal corporate tax rate to 21 percent. As a result, low-income housing tax credits that fund the creation of affordable housing are less valuable to many. This has impacted our housing plan by some \$200 million per year.

State actions also jeopardize the City's financial well-being. The Governor's proposed budget shifts responsibility for funding the MTA's New York City Transit Capital Program to the City. This would be on top of the City's current \$2.5 billion capital commitment, and \$1.8 billion in direct and in-kind contributions. Taking on this nearly \$17 billion obligation would jeopardize our capital budget, endanger our bond ratings, and lead to a drastic reduction in City services.

As always, we will approach the capital budget process with caution.

We will continue to estimate debt service cautiously, and ensure that debt service does not exceed 15 percent of City tax revenue – the benchmark of responsible capital finance.

Fiscal monitors praise our adherence to this standard. It is also a factor ratings agencies consider when determining our bond credit ratings, which are at the highest levels in the City's history.

This is important, because strong credit ratings allow us to borrow on favorable terms and extend capital project funding over many years. For generations New Yorkers have had access to world-class bridges, fresh water from underground mains, and schools for their children. This publicly financed infrastructure is a key to the City's long term growth, and benefits us all.

Therefore, out of fairness, we share in the cost of building capital assets and maintaining them over their useful life span.

The alternative is paying for capital projects directly from current resources. This "pay-as-you-go" method would not work. It would drain expense funding that we use for crucial services. It would also impair our ability to maintain the current historic level of reserves, including \$1 billion in general reserves, \$250 million in the Capital Stabilization Reserve, and \$4.25 billion in the Retiree Health Benefits Trust Fund.

Now, I'd like to turn to the current plan. The Capital Commitment Plan for fiscal years 2018-2022 authorizes agencies to commit \$79.6 billion, an increase of 2.8% from the Adopted Capital Plan. The targeted level of commitments is \$19.3 billion in Fiscal Year 2019.

This five-year plan demonstrates the Mayor's commitment to making capital investments that improve the lives of New Yorkers. We provided \$1.5 billion for the Vision Zero initiative that makes city streets safer for cyclists and pedestrians. We contributed \$1.1 billion towards reducing flooding and improving drainage in Southeast Queens. We also invested \$664 million in capital funds to support MTA infrastructure. Most of this investment is designated for the MTA's current capital plan as part of the City's \$2.5 billion commitment.

I would like to highlight some of the investments we have made since the release of the Adopted Capital Plan. These deepen our commitment to education, affordable housing, and economic development.

In support of the Mayor's commitment to educating our children, we have invested almost \$220 million in building schools and expanding capacity in the Pre-K for All program.

We also invested \$750 million to accelerate and expand Housing New York. The City will create 200,000 affordable homes by 2022 - two years ahead of schedule - and finance an additional 100,000 affordable homes by 2026. This allows us to build on the progress of the last several years, and create 25,000 homes annually - a record achievement.

New Yorkers need affordable housing, and a good job to pay for it. Therefore, we have fulfilled the Mayor's commitment to New York Works, a plan that will spur 100,000 good paying jobs over the next decade. The \$155 million investment will support industries that pay high wages and have strong job growth, including technology, garment manufacturing, and film and television production.

We also added \$209 million to improve heating systems in NYCHA developments. \$9 million of these funds allow NYCHA to rapidly respond to heating emergencies. The remaining \$200 million will fund boiler replacement and heating systems upgrades at 20 NYCHA developments. This increases the Mayor's capital investment in NYCHA to an unprecedented \$2.1 billion.

We recognize that NYCHA's capital funding needs are great - in excess of \$20 billion. Years of disinvestment by the state and federal governments have challenged NYCHA's ability to fund many necessary repairs. We are doing everything we can - these recent heating investments are neither our first nor our last commitments to NYCHA - but we must have long term, substantial commitments from the state and federal governments as well.

The capital projects I just mentioned, like all others, are subject to OMB's capital approval process. We work closely with agencies to evaluate capital eligibility, project scope, and cost. We have a responsibility to carefully assess each project, as failure to do so has serious consequences. Projects may face delays and our bond ratings could be lowered. We would also have to divert expense dollars to make up for the loss of capital funds.

To address these issues, we have taken steps to help Agencies make project approval requests that more accurately reflect their needs. These include providing resources for project pre-scoping and front end planning, and encouraging the use of standardized project templates.

This administration has invested more than \$50 million to help Agencies pre-scope their projects. Parks, DOT, and Correction are among agencies that have commissioned studies to review project scope and cost before a commitment is made. This early stage review will lead to a reduction in both cost and delay. In Fiscal Year 2018 we invested \$5 million in DDC to develop front-end planning, project scoping units, and in-house design. 51 staff are now dedicated to reviewing projects very early in the process, often before funds are committed. This also funds an In-House Design Unit to take on smaller projects, which reduces the time spent in the design phase.

We also invested \$19 million in resources that will help Parks evaluate capital projects. The agency with the largest City capital portfolio now has 200 additional staff focused on design, cost estimates, and project management. Parks will also save time and money on construction planning by using standardized project templates.

At OMB we reviewed our own project evaluation process, and cut our approval time in half.

We will continue to work on our processes, and with Agencies and the City Council, to improve the capital process.

But the best way to streamline capital project delivery is to use design-build. This simplified procurement method combines bidding for the design and construction of a project into one contract managed by a single entity. Applying the design-build approach would shave hundreds of millions of dollars from the cost of projects and reduce completion times by 18 months on average.

By applying design-build we would accelerate construction of the facilities we need to close Rikers. Two years would be trimmed from the BQE triple-cantilever rehabilitation timeline. We would increase the speed of providing critical NYCHA repair work. We would also reduce construction-related disruption on our already crowded roads and bridges. These are just some examples of how New York City would take advantage of design build.

The State and some cities are authorized to use the design-build method. Together we must work with our allies in Albany to extend design-build authorization to New York City in this year's State Budget.

I would like to finish by acknowledging that this City is well known for taking on ambitious capital projects. We have built and maintained world-class bridges and acres of parkland. Recently, we funded record levels of affordable housing. We also funded less visible— but no less important – infrastructure. This includes the water and sewer system that serves 8.5 million New Yorkers.

This capital plan reaffirms the Mayor's commitment to making strategic capital investments that will benefit the City and its residents for generations to come. Further, by maintaining cautious debt service estimates and keeping debt service payments below the benchmark level, we ensure the affordability and viability of the plan now, and in the future.

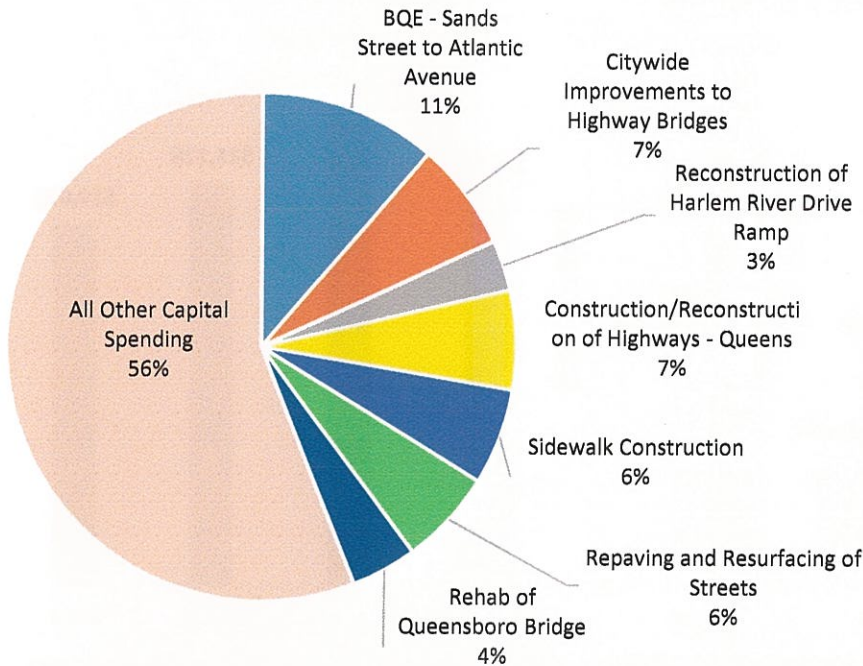
In conclusion, we look forward to working productively with this new Subcommittee to improve the capital process, as we previously did with the Council.

And now I look forward to taking your questions.

Thank you.

CAPITAL BUDGET SNAPSHOT

DOT has the largest Capital Commitment Plan for Fiscal 2018-2022: **\$31.3 billion**



The Capital Commitment Plan for Fiscal 2018-2022 also includes **\$682.4 million** for MTA.

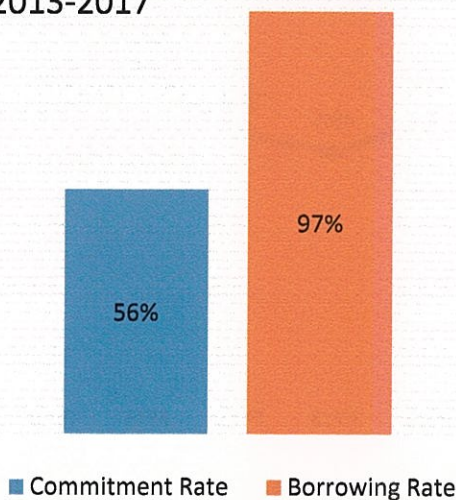
Planned New Facilities in the Capital Plan include:

- ❖ 10 pre-K centers
- ❖ 87 elementary/secondary schools
- ❖ 4 jails
- ❖ DOC training academy
- ❖ EMS station
- ❖ Queens police precinct

Significant changes in the Commitment Plan include:

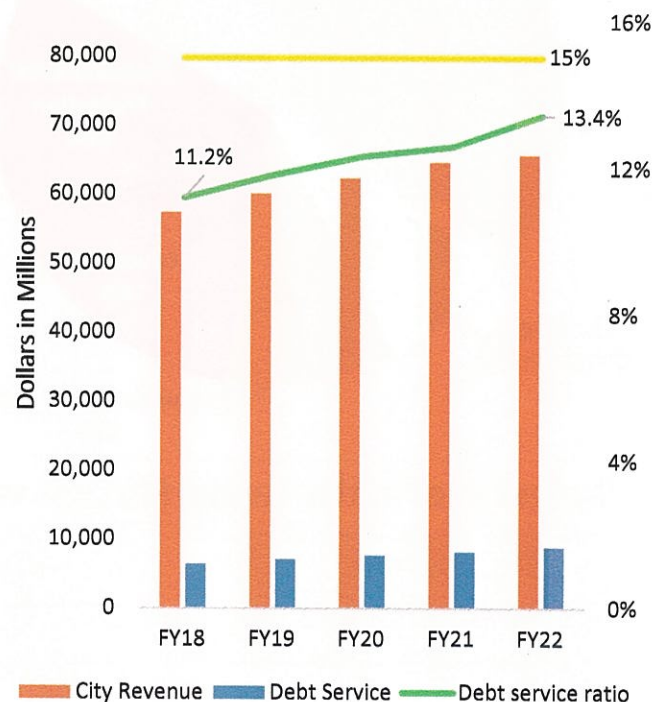
- ❖ \$750 million additional funding to create/preserve 100,000 units of affordable housing
- ❖ \$200 million for heating system improvements at NYCHA developments

Borrowing & Capital Commitment Accuracy Fiscal 2013-2017



The City is able to accurately project how much money it needs to borrow for capital projects, suggesting the financing plan and capital commitment plan are not aligned.

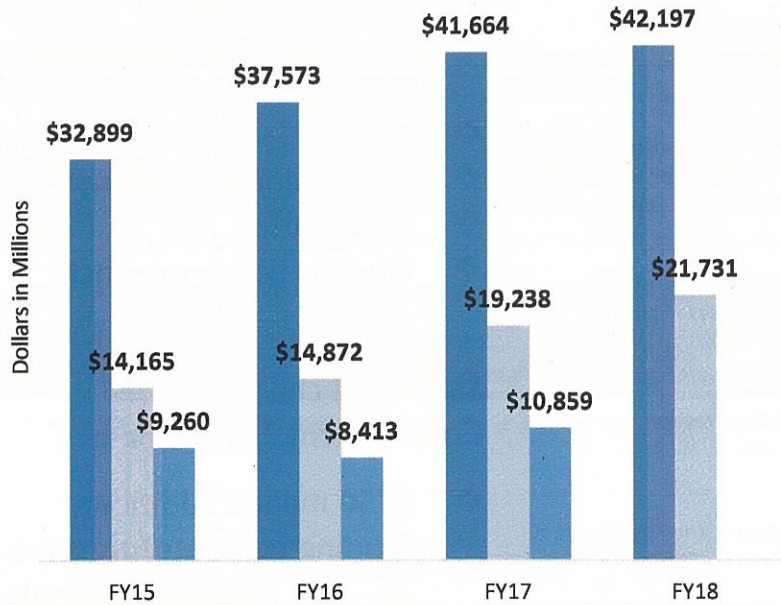
Debt Service Ratio



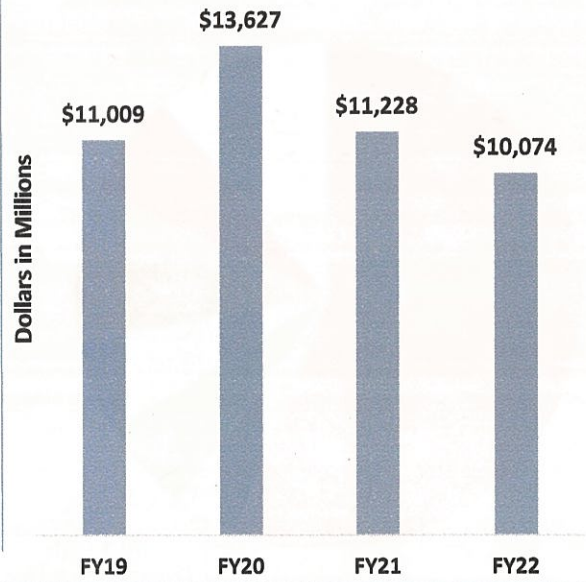
CAPITAL BUDGET SNAPSHOT

Capital Budget appropriations are far greater than commitments.

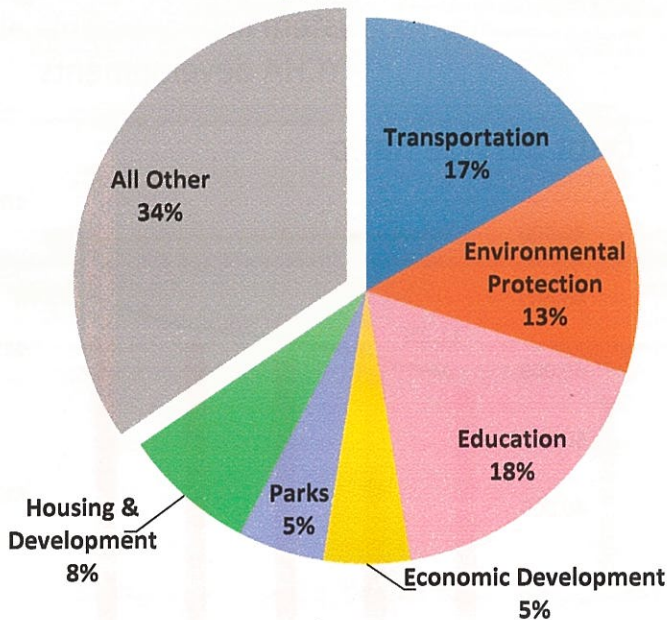
■ Appropriations ■ Planned Commitments ■ Actual Commitments



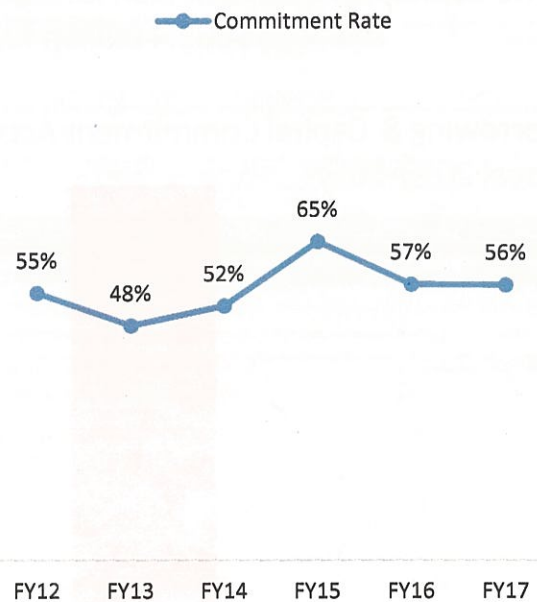
The Preliminary Capital Budget for Fiscal 2019-2022 totals \$45.9 billion.



Preliminary Commitment Plan for Fiscal 2018-2022: \$79.6 billion



Citywide Commitment Rates are too low.



Budget lines in the Capital Plan are vague and include many discrete projects:

\$4.1 billion
2,109 Parks projects
110 budget lines

\$1.1 billion
Four jails
One budget line

\$1.4 billion
330 NYCHA projects
Seven budget lines



Two Penn Plaza ■ Fifth Floor ■ New York, New York 10121

Testimony to the New York City Council Committee on Finance and Subcommittee on Capital Budget

Preliminary Budget Hearing on the Fiscal Year 2019 Preliminary Capital Budget and Commitment Plan

March 20, 2018

Thank you for the opportunity to testify today. My name is Sean Campion, and I am a Senior Research Associate at the Citizens Budget Commission (CBC). CBC is a nonpartisan, nonprofit civic organization whose mission is to achieve constructive change in the finances and services of New York State and New York City government.

We commend the City Council for creating a Subcommittee on the Capital Budget and look forward to working with you. CBC has long advocated for improvements to the City's capital planning, budgeting, procurement, and asset management processes to make them more transparent, efficient, and effective.

The de Blasio Administration has recognized that the city's capital plan needs to be rightsized and right timed.¹ Nevertheless, our analysis of the \$79 billion Preliminary Capital Commitment Plan for Fiscal Years 2018 to 2022 shows that capital commitments continue to exceed historic levels and remain front-loaded. In short, the commitment plan remains unrealistic in its ambition, obscures capital priorities, and discourages accountability for completing capital projects efficiently.

In addition to rightsizing and right timing the capital plan, CBC has identified other problems, including:

- *Capital plans that are not tied to assessments of needs, which makes it virtually impossible to assess whether or not the City is adequately addressing its capital needs or investing enough to keep its assets in a state of good repair;*

¹ Testimony of Dean Fuleihan, Director, City of New York Office of Management and Budget, before the New York City Council Committee on Finance (May 4, 2017), www.councilnyc.viebit.com/player.php?hash=xydG6ucAaPr0.

- *Inefficient design, procurement, and construction management policies that increase project costs and timelines;*
- *Lack of sufficient data to track project-level spending and progress toward key milestones;*
- *Lack of asset management policies for routine maintenance that would keep assets from falling into disrepair;*
- *Failure to consider the impact of maintenance, operations, or the cost of debt service on the operating budget; and finally*
- *A growing debt burden caused by high levels of capital spending and overreliance on borrowing.*

CBC has explained these problems in depth in our past work, but I'd like to focus today on how these problems can best be tackled:

- **Make Smart and Targeted Capital Investments:** The Preliminary Capital Commitment Plan and the Ten-Year Strategy that guides it are too large. Adding to capital plans should be treated with the same caution and scrutiny as adding to the operating budget. The City's capital dollars should be directed to repairing its critical infrastructure, ensuring its buildings and facilities are safe, and expanding where it makes sense to improve services. Projects, particularly those billed as "economic development," should only be included if they demonstrate greater benefits than costs or a return on investment.
- **Reflect Realistic Timelines in the Capital Plan:** The capital plan should reflect more accurately the timing of the City's capital projects, which would improve project coordination, budgeting, and monitoring, as well as reduce the buildup of appropriations that curtails City Council oversight.
- **Improve the City's Needs Assessment:** The current system for evaluating City-owned assets, the Asset Management Information System (AIMS), fails to capture the full universe of City assets and does not align with the categories in the Ten-Year Capital Strategy or the annual capital commitment plans. As a result, the City lacks information on the level of investment needed to reach a state of good repair and what share of that need is being met. AIMS should incorporate the thorough needs assessments conducted by the Departments of Transportation and Education, include a broader set of capital assets, and align more closely with the capital plan.
- **Improve the City's Capital Planning Process:** In theory, the City is supposed to develop a capital strategy based on the findings of a comprehensive needs assessment and implement that strategy through its capital plan. In practice, AIMS's shortcomings make it difficult to develop a capital strategy that reflects the City's actual capital needs. Improving AIMS will in turn improve the process by which the City identifies and prioritizes capital spending.
- **Incorporate Life-Cycle Cost Analysis:** In addition to upfront construction costs, the capital planning process should include a life-cycle cost analysis that incorporates the cost of operating, maintaining, and ultimately replacing capital assets.
- **Add Performance Metrics to the Capital Plan:** The capital budget lacks sufficient programmatic indicators to allow the City Council and other observers to measure the

efficiency and effectiveness of capital investment. Indicators such as per-unit costs (for example, the cost per affordable housing unit produced by Housing Preservation and Development's loan programs) or benchmarks to measure progress toward project milestones should be included with the capital budget or added to the Mayor's Management Report.

- **Improve the City's Capital Management:** Historically, a lack of coordination among agencies, outdated procurement rules, and inadequate project oversight have contributed to delays, cost overruns, and inflated construction budgets. Identifying and addressing the root causes of these issues would help contain spending growth and speed up project delivery.
- **Require the Use of Discrete Project Codes:** City agencies use lump sum project codes to gain flexibility in how they deploy their capital funding. These codes offer little transparency into how and where agencies plan to commit funds and should be replaced with codes that clearly define projects.
- **Make Actual Spending on Capital Projects Public:** Currently planned spending is available by project, but comprehensive data on actual spending, in the Mayor's Management Report and capital budget documents, are only at the agencywide level. Greater data on actual capital spending would facilitate oversight and accountability by allowing observers to monitor the progress and total cost of individual projects.
- **Pursue Procurement Reform:** The de Blasio Administration and the City Council should work with the State Legislature to enact procurement reforms, including the ability to use design-build and the repeal of Wicks Law, in order to reduce project costs and accelerate capital projects.
- **Use Pay-Go Financing:** The City's debt service costs have increased as the capital plan, which is funded through borrowing, has grown. A prolonged low-interest rate environment and strong tax revenue growth have enabled the increase in debt service. However, with interest rates beginning to rise, the City's costs of borrowing are expected to increase and should be offset by the use of pay-go financing.

Thank you again for the opportunity to testify, and I am happy to answer questions.

Recent Citizens Budget Commission Reports on the City of New York's Capital Budget

Rightsizing and Right Timing New York City's Capital Plan (March 2018),

<https://cbcny.org/research/rightsizing-and-right-timing-new-york-citys-capital-plan>.

What New Yorkers Can and Cannot Learn from the Ten-Year Capital Strategy (May 2017),

<https://cbcny.org/research/what-new-yorkers-can-and-cannot-learn-ten-year-capital-strategy>.

Design-Build Contracting: A Way to Fix More Bridges for Less Money (February 2016),

<https://cbcny.org/research/design-build-contracting>.

Planning After PlaNYC: A Framework for Developing New York City's Next Ten-Year Capital Strategy

(December 2013), <https://cbcny.org/research/planning-after-planyc-framework-developing-new-york-citys-next-ten-year-capital-strategy>.

Rightsizing and Right Timing New York City's Capital Plan

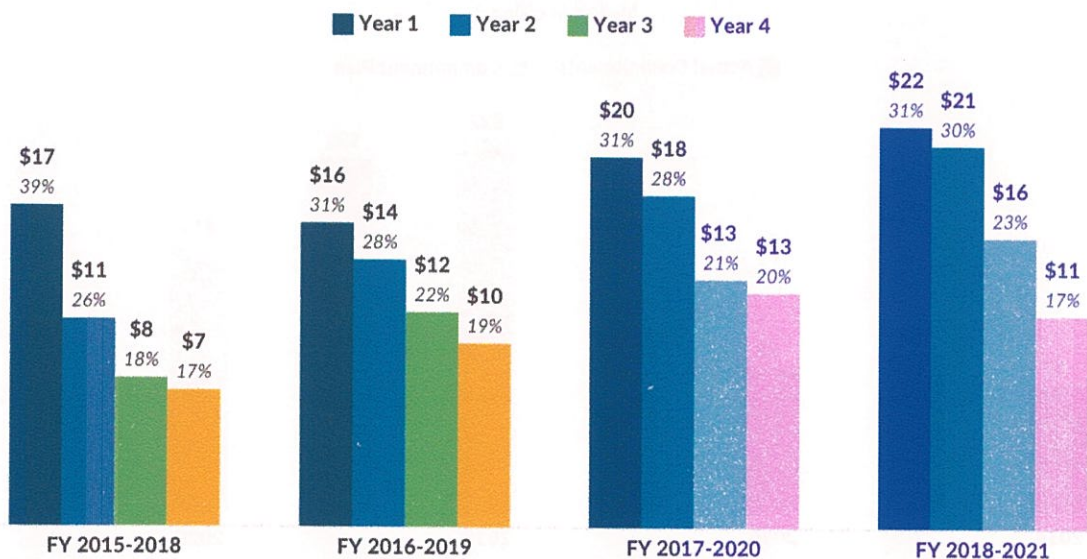
March 14, 2018

In testimony to the New York City Council's Finance Committee in May 2017, City officials pledged to work with the Council to develop a Capital Commitment Plan that more realistically projects the timing of capital commitments.¹ Despite this pledge, the recently released Fiscal Year 2019 Preliminary Budget includes an overly ambitious capital commitment plan that continues to be front-loaded. The practice of front-loading commitments leads to a buildup of appropriated capital funds, as uncommitted funds are rolled forward from one year to the next without a clear indication of when—or if—they will be used.

Rightsizing and right timing the capital plan is necessary for a more effective and more transparent capital planning process. Reducing planned commitments in the early years of the plan to a more attainable level would require the City to clearly articulate its capital priorities and immediate needs. It would also facilitate improved tracking of capital projects and allow for more accurate projections of City borrowing.

Figure 1: Share of Planned Capital Commitments by Year in the Preliminary Capital Commitment Plans, Fiscal Years 2015-2018

(dollars in billions)



Sources: City of New York, Office of Management and Budget, *Preliminary Capital Commitment Plan*, Fiscal Years 2015, 2016, 2017, and 2018.

Keys to a More Effective Capital Commitment Plan

- The City should reduce the size of the capital commitment plan. A more realistic capital plan will force agencies to identify their capital priorities.

- The commitment plan should reflect what agencies can reasonably commit and manage in a given year.
- Reducing the size of the plan will prevent the buildup of excess appropriations and allow for better oversight of capital expenditures.
- Eliminating the front-loading of planned commitments will allow for more accurate timing of future commitments.

The Preliminary Capital Commitment Plan

While the City has pledged to project more accurately commitments over the duration of the plan, the Preliminary Capital Commitment Plan for Fiscal Year 2019 mirrors Mayor Bill de Blasio’s previous capital plans. (See Figure 1.) The 2019 plan calls for \$69.6 billion in capital commitments from fiscal year 2018 through fiscal year 2021 and remains front-loaded, with \$21.7 billion, or 31 percent, planned for the first year, decreasing to \$11.5 billion in fiscal year 2021. (See Figure 2.)

The plan also remains large. It is \$1.7 billion greater than the commitment plan proposed one year ago in January 2017 for fiscal years 2017 to 2020. Even the lowest level of spending projected in the last year of the current capital plan exceeds the actual value of commitments attained in any of the previous four years.

Figure 2: Actual and Planned Commitments by Fiscal Year, Preliminary Fiscal Year 2019 Capital Commitment Plan
(dollars in billions)



Sources: City of New York, Office of Management and Budget, *Preliminary Capital Commitment Plan*, Fiscal Year 2018.

How the City Accounts for Unattained Commitments

The City accounts for delays and cancellations of capital projects by including a “Reserve for Unattained Commitments” in the capital plan. This reserve represents the estimated value of commitments that will not occur on schedule. The City assumes that each agency—with several exceptions discussed below—will commit a flat percentage of its current-year plan, regardless of the status of the capital projects in their portfolios.³ Overall, this yields what the Office of Management and Budget (OMB) calls a commitment target. In the current Preliminary Capital Commitment Plan, the target for 2018 is \$15.7 billion, which leaves a reserve of \$6.0 billion, or 28 percent.

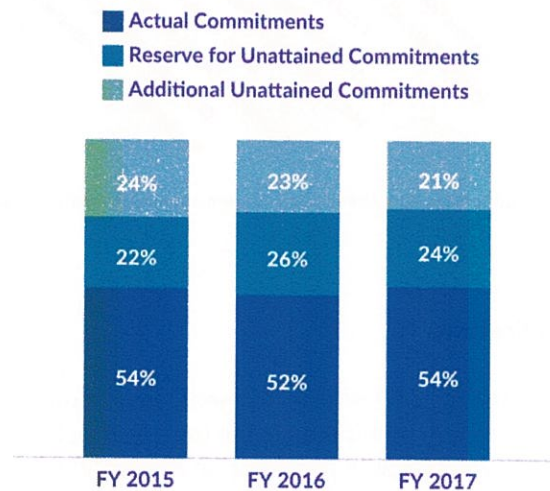
Recent history shows the City’s planned commitments are overstated significantly and that the magnitude of commitments that go unrealized each year dwarfs what the City includes in the reserve. In last year’s Preliminary Capital Commitment Plan, for example, the City projected it would commit \$20.0 billion in capital funding (including \$4.9 billion in the reserve for unattained commitments) during the fiscal year. Actual commitments were just \$10.9 billion. This left an additional, unattained \$4.2 billion beyond the amount in the reserve.

Overall, the City committed 54 percent of what it planned in fiscal year 2017, and this share has held steady over the last three fiscal years. In 2015 the City committed just 54 percent of its \$17.3 billion plan, while in 2016 it committed 52 percent of its \$16.4 billion plan. (See Figures 3 and 4.)

Figure 3: Share of Planned Commitments and Commitment Target at the Preliminary Budget vs. Actual Commitments
(dollars in billions)



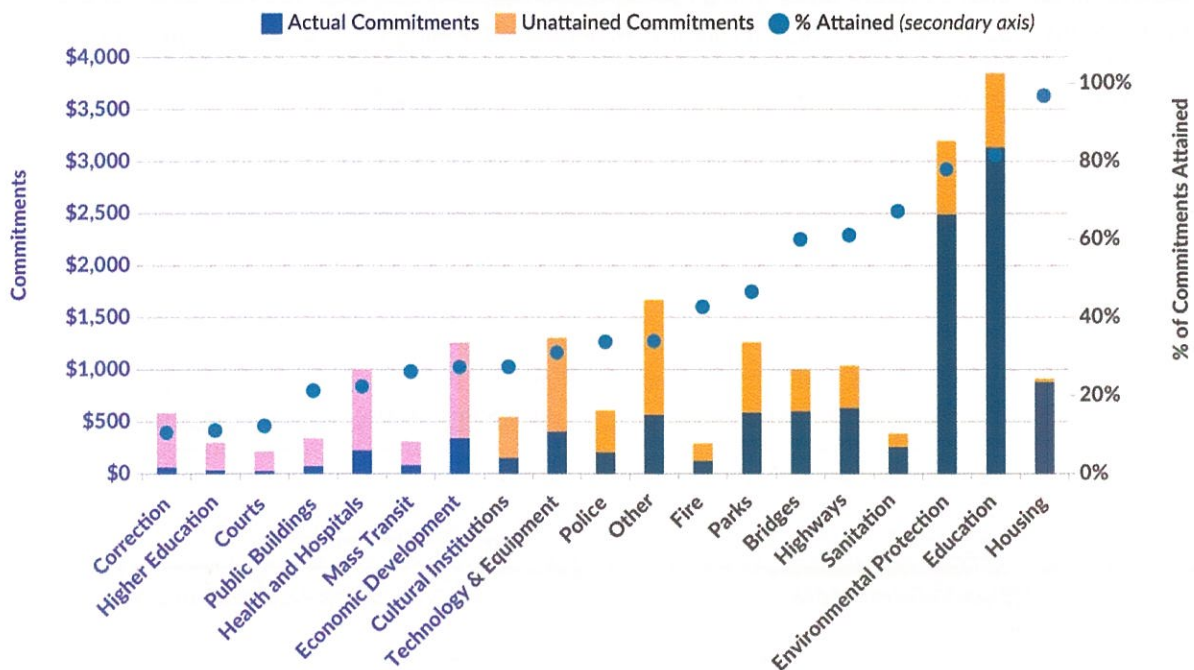
Figure 4. Actual and Unattained Commitments as a Share of the Capital Commitment Plan at the Preliminary Budget



Sources: City of New York, Office of Management and Budget, *Preliminary Capital Commitment Plan*, Fiscal Years 2015, 2016, 2017, and 2018.

Few agencies meet OMB's annual commitment targets. For example, in fiscal year 2017, most agencies had a target of 66 percent as of the Preliminary Budget. However, the Education, Environmental Protection, and Mass Transit categories were given a target of 100 percent.⁴ Of the agencies with a 66 percent target, only Sanitation and Housing met their goal. (These figures do not reflect additional planned commitments added to the Housing capital plan at the Executive Budget, most of which went unattained.) While some of the remaining agencies came close to meeting the 66 percent target, many fell well short. The average attainment rate citywide between the Preliminary Budget and the close of the fiscal year was 54 percent, with many agencies committing less than one-third of their 2017 commitment plans. (See Figure 5.)

Figure 5: Actual and Unrealized Commitments by Programmatic Area, Fiscal Year 2017 Preliminary Capital Commitment Plan
(dollars in millions)



Source: City of New York, Office of Management and Budget, *Preliminary Capital Commitment Plan*, Fiscal Years 2017 and 2018

Implications

The inability of agencies to meet their commitment targets suggests that their capital plans are either overly ambitious or fail to reflect actual priorities. This overly ambitious schedule leaves the City vulnerable to taking on more capital projects than it has capacity to manage, which has led in the past to delays and increased costs. A 2017 analysis by the City Council found that more than half of city capital projects with budgets greater than \$25 million are behind schedule, over budget, or both.⁵

Beyond falling short of targets, the current process allows excess appropriations to build up because appropriated funds are often rolled into future years if the commitment does not take place as planned. The City Council appropriates funding for specific budget lines in the capital plan, which in turn gives agencies the authorization to commit funding to specific capital projects. Commitments occur when the City registers a contract for capital spending with the New York City Comptroller. If Council-authorized funding is not committed in a given year, that authorization can be rolled forward into future years. For example, in fiscal year 2017, a large portion of the approximately \$9.2 billion in unattained commitments was likely rolled into fiscal year 2018 or later. The City Council has argued that building up appropriations allows city agencies to amend capital projects or shift funds without City Council approval.⁶ According to a City Council analysis of the Fiscal Year 2018 Preliminary Capital Commitment Plan, the City planned to commit \$17.1 billion in fiscal year 2017, but the level of available appropriations was \$30.6 billion.⁷ In the Fiscal Year 2018 Executive Budget Capital Commitment Plan, the Council rescinded \$3.2 billion of these prior appropriations.

The de Blasio Administration's pledge to work with the Council to more realistically project capital commitments is extremely worthy. The continued front-loading of capital commitments and the projection of an unlikely commitment level indicates that additional work is required to fulfill that pledge.

By Sean Campion

Footnotes

1. Testimony of Dean Fuleihan, Director, City of New York Office of Management and Budget, before the New York City Council Committee on Finance (May 4, 2017), www.councilnyc.viebit.com/player.php?hash=xydG6ucAaPr0.
2. While the Preliminary Fiscal Year 2019 Capital Commitment Plan includes five years (fiscal years 2018 to 2022), our analysis is limited to the first four years to facilitate comparison with prior preliminary capital plans. All charts and analyses are adjusted accordingly. City of New York, Office of Management and Budget, *Preliminary Capital Commitment Plan* (February 2018), Volume 1, www1.nyc.gov/assets/omb/downloads/pdf/com2-18a.pdf.
3. OMB has adjusted its commitment target for agencies in recent preliminary capital plans. The target was 66 percent in fiscal year 2016 and 63 percent in fiscal year 2015.
4. Agencies with the 66 percent commitment targets represented \$14.4 billion of the \$20.0 billion commitment plan. Planned commitments for Mass Transit, Environmental Protection, and Education categories represented the remaining \$5.6 billion. Weighted together, 66 percent of \$14.4 billion plus 100 percent of \$5.7 billion yields a total commitment target of \$15.2 billion, or 76 percent of the plan, with a reserve for unattained commitments of \$4.9 billion, or 24 percent, as shown in Figure 4. The actual commitment data in the Capital Commitment Plan for the Environmental Protection category includes projects managed by a variety of agencies, including the Department of Design and Construction, the Department of Environmental Protection, and the New York City Economic Development Corporation.
5. Office of Council Member Brad Lander and others, *NYC Capital Project Reform* (May 2017), www.bradlander.nyc/sites/default/files/Capital%20Projects%20Reform%20Brief.pdf.
6. The Council of the City of New York, *Report on the Mayor's 2018 Preliminary Budget: Financial Plan Overview, Economy, Revenue, Pensions, Capital and Debt Service* (March 2, 2017), www.council.nyc.gov/budget/wp-content/uploads/sites/54/2017/03/Financial-Plan-Overview.pdf.
7. The Council of the City of New York, *Report on the Mayor's 2018 Preliminary Budget: Financial Plan Overview, Economy, Revenue, Pensions, Capital and Debt Service* (March 2, 2017), www.council.nyc.gov/budget/wp-content/uploads/sites/54/2017/03/Financial-Plan-Overview.pdf.

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