THE COUNCIL OF THE CITY OF NEW YORK

Hon. Corey Johnson
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Chair, Committee on Finance

Hon. Vanessa Gibson
Chair, SubCommittee on Capital Budget

Report of the Finance Division on the

Preliminary Ten-Year Strategy for Fiscal 2020-2029, Fiscal 2020 Preliminary Capital Budget, and Fiscal 2020 Preliminary Capital Commitment Plan

March 6, 2019

Finance Division
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Introduction

On February 7, 2019, Mayor Bill de Blasio released the Preliminary Ten-Year Capital Strategy for Fiscal Years 2020-2029 (Ten-Year Strategy or Strategy), the Fiscal 2020 Preliminary Capital Budget (Capital Budget), and the Fiscal 2020 Preliminary Capital Commitment Plan (Commitment Plan or Plan). On March 6, 2019 the New York City Council will begin its review of the Mayor's proposed budget for the coming year with the Committee on Finance's hearing on the Fiscal 2020 Preliminary Financial Plan for Fiscal 2020. At this hearing, the New York City Council (Council) will be examining the Ten-Year Strategy, Capital Budget, and Commitment Plan in this document, as well as debt service spending that supports the Commitment Plan. This report, one of three prepared for the hearing of the Committee on Finance, also discusses the Council's concerns with a lack of serious long-term planning reflected in the Ten-Year Strategy; issues with the generic budget line descriptions in both the Capital Budget and Commitment Plan; excess appropriations in the Capital Budget; and a lack of adequate citywide indicators on capital plan implementation.

The Council and the Administration began addressing long-standing issues with the Capital Budget and Commitment Plan last year with the addition of new and more descriptive budget lines, the rescindment of excess appropriations, and the reduction in the amount of frontloading occurring in the Commitment Plan. It is imperative that we continue to build on this work and strengthen our collaboration with the Administration to improve the transparency, tracking, and the overall execution of the City's capital projects. By doing so we will give the City the infrastructure improvements it so desperately needs, and that all New Yorkers deserve.

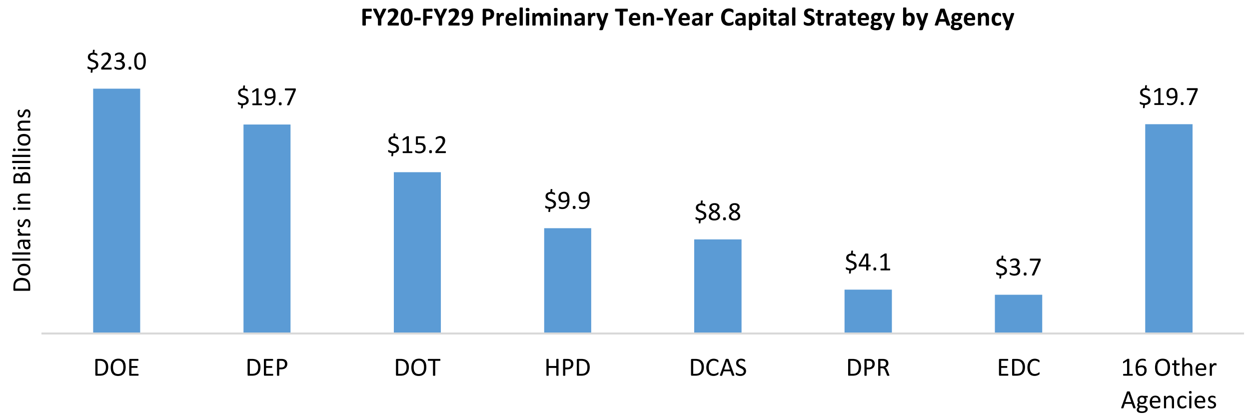
Fiscal 2020-2029 Preliminary Ten-Year Capital Strategy

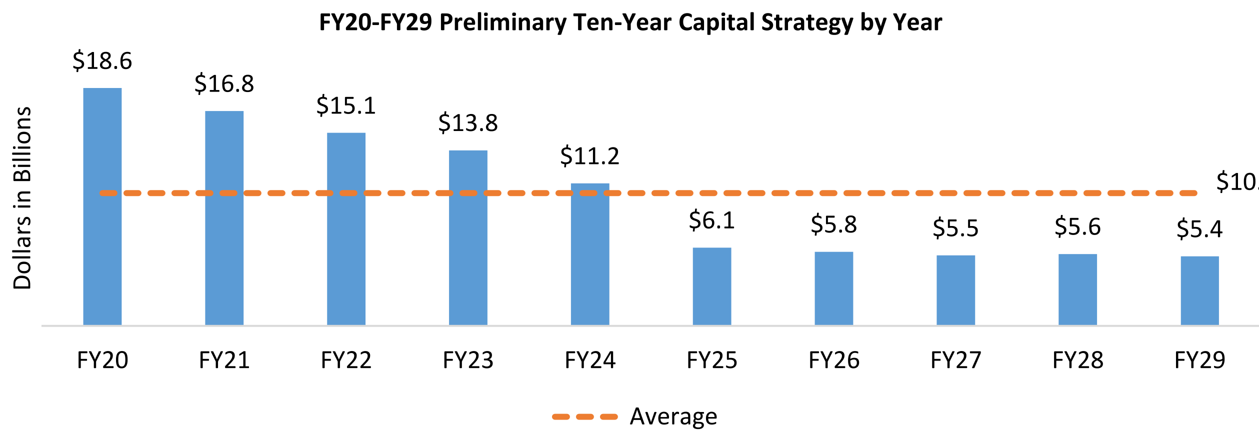
The Ten-Year Capital Strategy is the City's long-term capital planning document which provides a framework for capital spending by agency.[1] The Ten-Year Capital Strategy is released every two years as mandated by the New York City Charter (Charter). Under the Charter the process is as follows: by November 1 of each even-numbered year, the Director of the Office of Management and Budget (OMB) and the Director of the Department of City Planning (DCP) must jointly submit to the Mayor, the Council, the Borough Presidents, and the City Planning Commission (CPC) a draft Ten-Year Capital Strategy.[2]By January 16 of each odd-numbered year, the CPC must submit to the Mayor, the Council and the Borough Presidents its comments on the draft report after holding a public hearing.[3] A final Ten-Year Capital Strategy is then released by the Mayor by April 26 of each odd-numbered year.[4] The Ten-Year Capital Strategy must include:

- a narrative describing the strategy for the development of the City's capital facilities for the next ten fiscal years;
- tables presenting the capital commitments estimated to be made during each of the ensuing ten fiscal years, by program category and agency; and
- a map which illustrate major components, as relevant.[5]

[1] Projects eligible for capital funding include construction, reconstruction, purchases of land, buildings, technology systems, or equipment that have a useful life of at least five years and cost a minimum of $35,000.
[2] See Charter §228.
[3] See Charter §234.
[4] See Charter §248.
[5] See Charter §215(b).

The $104.1 billion Strategy is $14.5 billion larger than the $89.6 billion Fiscal 2018-2028 Ten-Year Capital Strategy. The City's public school system and water infrastructure are the largest areas of planned investment, followed by transportation infrastructure. These three areas have stood as the largest areas of the City's capital program. The charts below shows planned capital spending in the Strategy by agency over the ten-year period.





The Ten-Year Strategy has increased by $14.2 billion compared to the final Fiscal 2018-2027 Ten-Year Capital Strategy. This increase is mostly due to planned increases in spending on the expansion and improvement of facilities. Some agency highlights of the Ten-Year Strategy compared to the final Fiscal 2018-2027 Ten-Year Capital Strategy include the following changes in planned spending:

- A $2.5 billion increase to the Department of Education (DOE) primarily to maintain current schools and build new seats;
- A $1.6 billion increase to the Department of Environmental Protection (DEP) to fund improvements to wastewater treatments plants Citywide;
- A $1.6 billion increase for the New York City Housing Authority (NYCHA), largely to comply with the recent agreement with the U.S. Department of Housing and Urban Development (HUD) which will provide for mold and lead remediation as well as overall building improvements, increasing total planned spending to $3 billion;
- A $1.2 billion increase to the Department of Citywide Administrative Services (DCAS) for building construction, reconstruction and retrofitting;

- A $418.8 million increase to the Department of Housing Preservation and Development (HPD). This additional funding is mainly allocated in Special Needs Housing ($381 million) and for Occupied in rem rehabilitation ($166 million); and
- A $50 million decrease to the Department of Transportation (DOT) mostly due to a re-estimate on planned spending for bridges.

The Ten-Year Strategy has 212 spending categories. A total of 46 sub-categories have at least $500 million in planned spending. These 46 sub-categories account for 85 percent, or $89 billion, of the Strategy's total planned spending. Examining how these categories are funded reveals areas where the City is failing to plan effectively and realistically. The following are examples of unrealistic planning:

- DOE's "System Expansion for New Schools" has $6.5 billion planned in the first five years of the Strategy and none afterwards;
- DCAS' "Energy Efficiency and Sustainability" has $1.4 billion planned in the Strategy, all of which happens in the first three years;
- Department of Correction's (DOC) "New Jails" has $766 million in the first year and nothing thereafter;
- DEP's "Green Infrastructure Program" averages $222 million in the first three years of the Strategy, drops to $18.5 million in the fourth year, and has no planned spending in the final two years;
- New York Police Department's (NYPD) "Police Facilities" plans $853 million in the first three fiscal years and only $160 million across the following seven;
- DOT's "Primary Street Reconstruction" averages $570 million in the first four years, falls to $215 million in the fifth year and only averages $53 in the final five years of the Strategy;
- Department of Cultural Affairs' (DCLA) "Essential Reconstruction of Facilities" averages $173 million in the first four years of the Strategy and $6 million in the final six years; and
- The Strategy includes funding for libraries averaging $184 million in the first four years of the Plan and $7 million in the final six years for spending across the three public library branches and the research branch.

Strategy Guiding Principles

According to the Strategy, it "provides a venue for the City to demonstrate the comprehensive infrastructure planning that the City undertakes as part of its responsibility to all New Yorkers, across all neighborhoods, and explain the connection between capital investment and strategic priorities."[6] It claims to strive to do this through four guiding principles, discussed in detail below.

1. Maintain New York City's financial responsibility

The Strategy goes into detail about the improving debt service outlook for the budget, with a focus on debt service as a percentage of tax revenue. The figures presented in this section of the Strategy make several precarious assumptions that will be further discussed in the Debt Service portion of this report. But, in brief, anticipated debt service obligations are partially based on an assumption of the total debt the City borrows. This assumption is only as firm as the planned capital spending is thoughtful in its future projections.

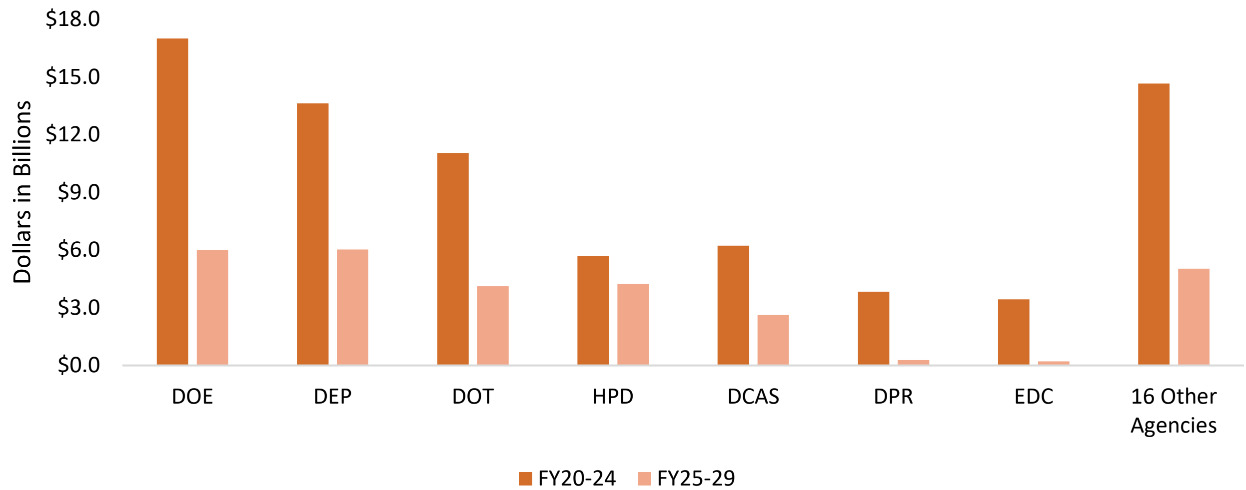
[6] See Preliminary Ten-Year Capital Strategy page I-3

2. Promote forward-looking, holistic capital planning that anticipates the neighborhood needs of tomorrow

The Strategy devotes many pages to efforts made towards having a "forward-looking, holistic capital planning" approach, and cites successes in folding housing and population growth trends into planning, accounting for an aging population, a new formula for the School Construction Authority's (SCA) school capital planning, increased infrastructure in areas with large job growth, and climate resiliency. While this data is published in reports from DCP, the extent of their use in individual agencies' efforts to plan long-term commitments is not clear.

Overall, the planned spending in the Strategy reflect that it is not truly a comprehensive infrastructure planning document that anticipates expected needs. The chart below compares planned spending for select agencies with large capital programs in the first and second half of the Strategy. Most agencies have a dramatic decline in planned spending, with some having nearly no spending, in the second half of the Plan's reporting period. This suggests that OMB and agencies did not thoughtfully engage in planning for their capital needs over the full ten-year period.

Ten Year Strategy Planned Spending FY20-FY24 vs. FY25-FY29

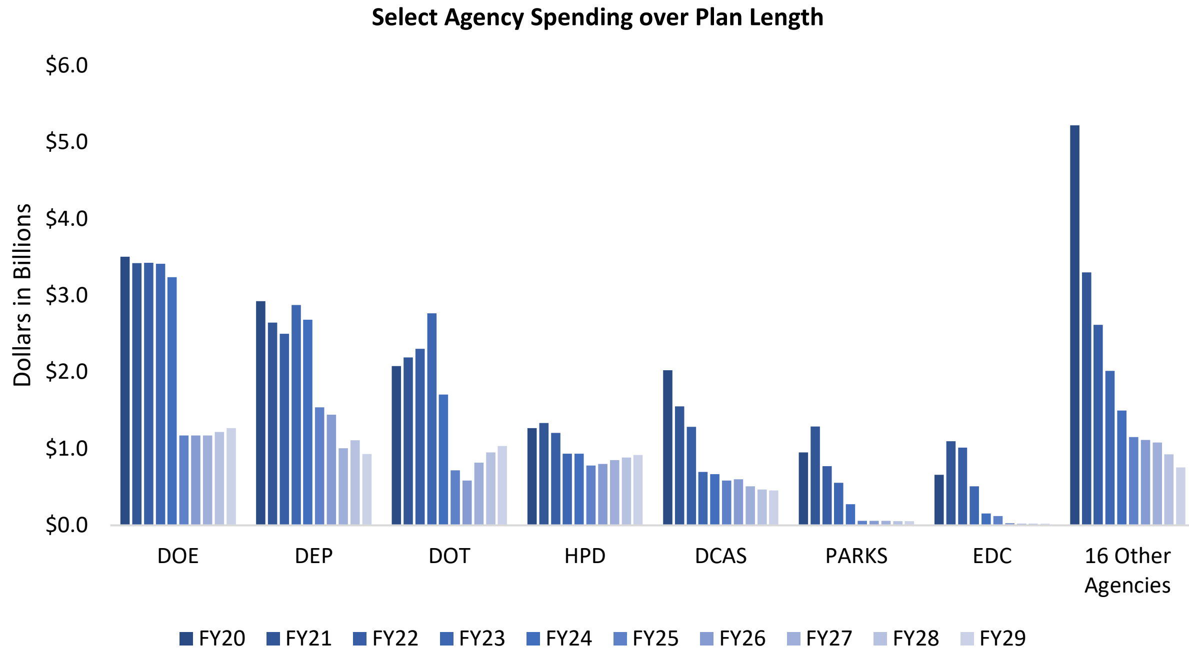


Similarly, the chart to the right shows the same select agencies and the planned spending in the first half of the Strategy for every dollar that is planned in the second half. This reflects the egregious misbalance in planning for the first five years of the Strategy compared to planning for the last five years of the Strategy. This may be due to planned spending being overestimated for the first five years of the Strategy, planned spending being underestimated for the last five years of the Strategy, or, most likely, a combination of the two.

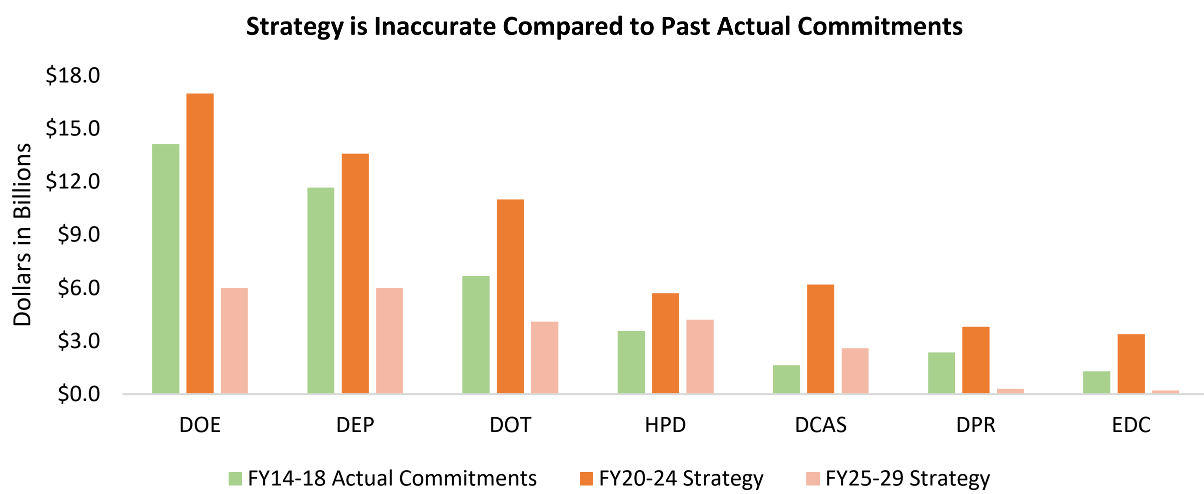
FY20-FY24 Planned Strategy Spending per Dollar in FY25-FY29 Planned Strategy Spending Dollars in Billions

Agency	Ratio
EDC	$16 : 1
DPR	13.5 : 1
DOE	2.8 : 1
DOT	2.7 : 1
DCAS	2.4 : 1
DEP	2.3 : 1
HPD	1.3 : 1
16 Other Agencies	$2.9 : 1

The chart below shows annual planned spending for select agencies with large capital programs. For all but HPD, there is a very large decrease in planned spending beginning in the sixth year through the tenth year of the Strategy. If the Strategy was truly comprehensive, then the final five years would reflect a more realistic spending plan.



The chart below presents a comparison between planned spending in the first and second five years of the Strategy and the most recent five years in which actual spending is available, Fiscal 2014 through Fiscal 2018. This demonstrates that for most agencies, both planned spending in the first five years of the Strategy is likely overstated, and planned spending in the last five years of the Strategy is dramatically understated.



3. Advance a more equitable New York City through capital investment

The Strategy lays out a few examples of efforts to have more equitable capital investments across New York City. However, the given examples do not come from a study or focused citywide effort on equity. Instead, they are agency examples where equity may be one of many factors in the decision-making process or the result of efforts for more public input. While individual agencies may be successfully incorporating an equity lens into their capital planning, the Strategy does not lay out any citywide mechanisms to truly address equity. For instance, more Select Bus Service in a community does not address inequity in a transit desert since no new routes are being added. Refurbished parks do not address a community where children have no local green spaces.

4. Consider community perspectives in capital planning and decision-making

The Strategy devotes little space to how the City engages the community. The Strategy lists five specific ways of collecting and assessing community input in capital planning: community board requests, DOT street ambassador programs, DCP District Profiles, 311 complaints, and Small Business Services Commercial District Needs Assessments. These examples, however, do not seem to be initiatives born out of a central goal of community input for capital planning. Instead, they are agency-driven efforts for community input to meet certain internal goals.

Community Boards may not reflect all of the population in a neighborhood and have inconsistent processes for compiling capital requests. While DOT's street ambassador program engages hundreds who would otherwise not have any input in City functions, this program has not been expanded to or modeled by other agencies. Moreover, it is focused on changing current streetscapes, not building new infrastructure. The DCP District Profiles do not include public input. Calls to 311 are largely focused on day-to-day quality of life complaints and have never been marketed as a civic participation tool on long-term infrastructure needs, moreover, no information was provided on how complaints were used to form the Strategy. Lastly, the Commercial District Needs Assessments are specifically focused on commercial corridor needs and in four fiscal years have only touched ten neighborhoods. While individual agencies may be living up to this guiding principle in their own capital planning processes, the examples presented do not demonstrate that there is a clear citywide emphasis on engaging relevant communities in capital planning.

The Strategy's guiding principles closes with:

> "Comprehensive planning is not just about the projects that are funded, but equally about the process and principles that guide our approach to ensure that city infrastructure meets our dynamic long-term needs. This also includes proactively collaborating across all capital agencies to consider overall neighborhood impact; driving consistency and quality in planning inputs and assumptions; sharing best practices and technology; regularly and actively coordinating in project planning and delivery; increasing public transparency in decision making; and making continuous process improvements to realize potential cost efficiencies and time savings. By considering financial responsibility, neighborhood needs of today and tomorrow, equity, and community perspectives, we pursue integrated capital planning to shape a stronger and fairer city for all New Yorkers."[7]

Unfortunately, the Ten-Year Strategy does not truly present a comprehensive capital plan that lives up to its own guiding principles.

[7] See Preliminary Ten-Year Capital Strategy page I-18

Fiscal 2020 Preliminary Capital Budget and Commitment Plan

The Capital Budget supports large, long-term investments that aim to improve the state of good repair of the City's infrastructure, as well as support its growth. The Capital Budget provides, by agency and budget line, the requested appropriations for Fiscal 2020 and the three-year capital program. It proposes new appropriations of $11.3 billion for Fiscal 2020 and a total of $52.8 billion for Fiscal 2020 through Fiscal 2023.

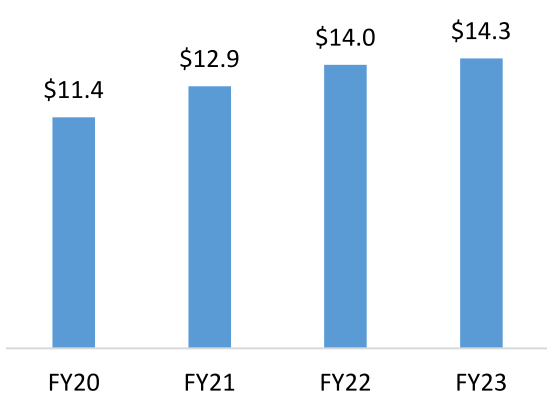
The Commitment Plan, which is a five-year spending plan, provides, by agency and budget line, appropriations for Fiscal 2019 and planned commitments. The Commitment Plan also shows, by budget line, the total current contract liability, the total spending since the introduction of the budget line, and commitments made during Fiscal 2019 through November. Planned commitments are scheduled across the five-year period at the project level. The Commitment Plan includes $83.8 billion in planned commitments for Fiscal 2019 through Fiscal 2023.

The Capital Budget is significantly less than the Commitment Plan because it does not include the appropriations for Fiscal 2019 or the amount of funding that will be re-appropriated for Fiscal 2020 in Adopted Budget. Each year, the Executive Capital Budget includes a proposed appropriation total for each budget line, which typically significantly increases the size of the Capital Budget for the coming year. At the adoption of the Fiscal 2019 Capital Budget, approximately $27.4 billion in Fiscal 2018 appropriations were re-appropriated for Fiscal 2019. There is currently a balance of $35.1 billion in available appropriations in Fiscal 2019 and whatever is uncommitted at the end of the fiscal year in June will be re-appropriated into Fiscal 2020 and will increase the Adopted Capital Budget accordingly.

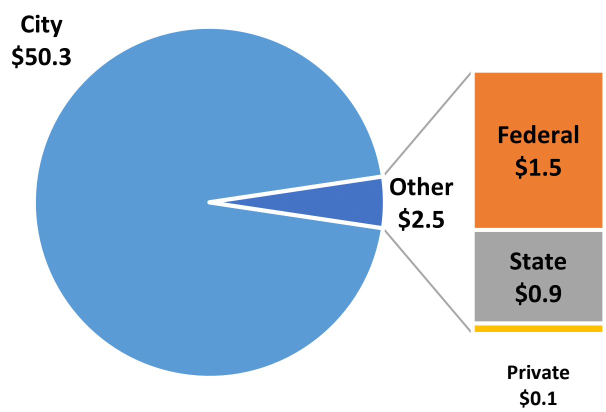
Preliminary Capital Budget

The Capital Budget totals $52.8 billion, with an average appropriation of $13 billion for each year, to support capital programs at 28 City agencies. Of this amount, $50.3 billion, or 95 percent, is City-financed, with the remaining $2.4 billion expected to come from State, federal, and private grants.

Capital Budget by Year
TOTAL - $52.83 Billion
Dollars in Billions



FY20-FY23 Preliminary Capital Budget by Funding Source
Dollars in Billions



The Capital Budget provides the framework for capital spending by agency. The budget is released three times annually, in January, April, and June, and it presents a four-year plan for what appropriations the City anticipates will be needed for agencies to complete their capital projects. The

Preliminary and Executive Capital Budgets show an estimate of the appropriations needed for each agency for each fiscal year. The Adopted Capital Budget shows the actual appropriations for the current fiscal year and plan for the subsequent three years, all of which are broken down by agency and budget line. The actual appropriations are the maximum amount that agencies are legally authorized to spend on the capital projects contained within each budget line. The table below shows the Fiscal 2020 to Fiscal 2023 Preliminary Capital Budget by agency and funding source.

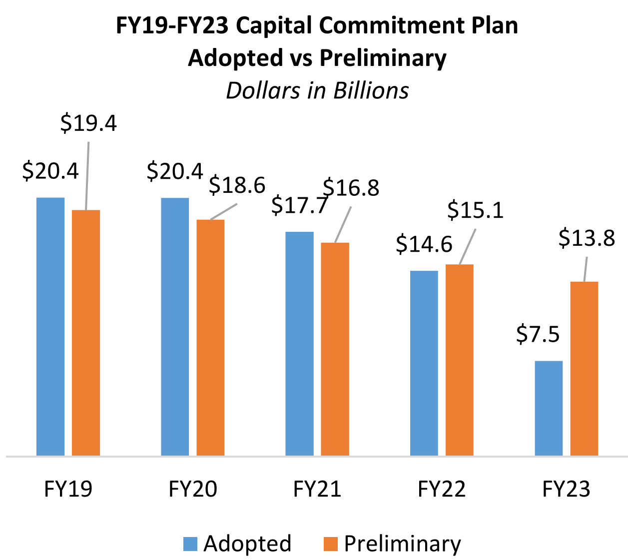
Capital Budget Financial Summary
Dollars in Thousands

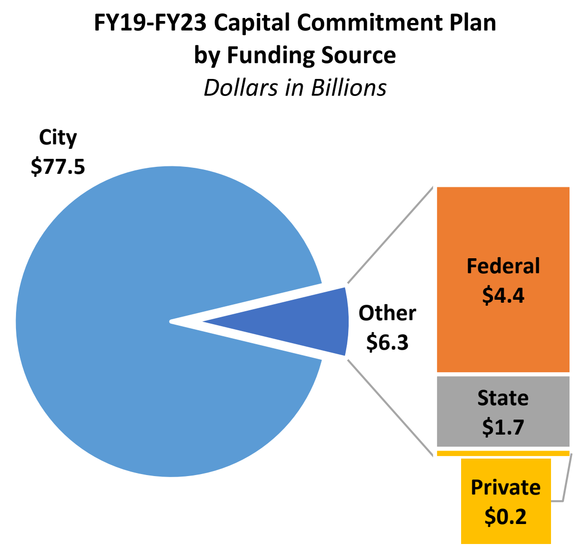
	FY20 Preliminary Budget				
	FY20	**FY21**	**FY22**	**FY23**	**TOTAL**
Spending					
Administration for Children Services	$0	$10,324	$25,507	$9,984	$45,816
City University of New York	32,003	35,742	32,474	23,518	123,738
Courts	274,082	283,667	205,032	147,334	910,116
Department for the Aging	0	1,505	4,827	1,672	8,004
Department of Citywide Admin Services	873,509	1,286,571	1,245,969	668,728	4,074,778
Department of Corrections	618,963	142,919	123,656	54,731	940,270
Department of Cultural Affairs	911	5,870	119,753	11,537	138,072
Department of Education	3,183,806	3,401,942	3,426,320	3,414,380	13,426,448
Department of Environmental Protection	2,032,219	2,514,255	2,522,271	2,923,379	9,992,125
Department of Health and Mental Hygiene	1,157	52,143	107,872	42,497	203,670
Department of Homeless Services	2,363	108,925	111,801	84,504	307,593
Department of Housing & Development	862,068	1,142,753	1,180,889	921,284	4,106,994
Department of Human Resources	5,939	9,865	14,014	9,212	39,031
Department of Parks and Recreation	372,321	768,714	623,862	505,727	2,270,626
Department of Sanitation	463,174	260,391	358,288	467,252	1,549,105
Department of Transportation	1,343,883	1,919,884	2,044,790	2,601,397	7,909,956
Economic Development Corporation	298,710	344,015	910,434	503,131	2,056,291
Health & Hospitals Corporation	240,699	569,562	389,424	278,070	1,477,755
Libraries	16,638	75,313	67,498	51,694	211,145
Metropolitan Transportation Authority	47,775	54,275	40,000	40,000	182,050
New York City Housing Authority	429,584	337,500	387,500	337,500	1,492,084
New York Fire Department	62,826	173,679	118,101	137,165	491,772
New York Police Department	163,537	421,765	226,907	56,671	868,880
TOTAL	**$11,326,177**	**$13,921,585**	**$14,287,194**	**$13,291,371**	**$52,826,329**
Funding					
City Funds	$10,893,110	$12,702,886	$13,905,749	$12,833,666	$50,335,411
State	28,652	771,992	26,768	57,055	884,467
Federal - Other	339,642	433,242	343,560	389,558	1,506,002
Private	64,773	13,466	11,117	11,093	100,449
TOTAL	**$11,326,177**	**$13,921,586**	**$14,287,194**	**$13,291,372**	**$52,826,329**

Of the $52.8 billion in the Capital Budget, $31.3 billion, or 60 percent, is allocated to three key areas previously mentioned as the major drivers of the City's capital spending: environmental protection, transportation, and education. DOE has the largest proposed capital budget of $13.5 billion, followed by DEP at $9.9 billion, and DOT at $7.9 billion. While the Capital Budget proposes a budget-line appropriation level and outyear plans for each agency, it does not provide detail on the projects the new appropriations would support. The Commitment Plan presents this additional and necessary information related to the City's capital program.

Preliminary Capital Commitment Plan

The Commitment Plan for Fiscal 2019 to Fiscal 2023 provides a roadmap for how the City plans to spend a total of $83.8 billion for the City's capital program. Planned commitments average approximately $16 billion annually. The majority of the Commitment Plan, $77.5 billion, is City-financed, with the remaining $6.3 billion is expected to come from State, federal, and private grants. Overall, the Commitment Plan shows growth of $4.5 billion, or six percent, when compared to the Fiscal 2019 Adopted Capital Commitment Plan total of $73 billion. The chart below shows the variance between the Adopted and Preliminary Commitment Plans by fiscal year. As demonstrated in the chart, planned commitments in Fiscal 2019, Fiscal 2020, and Fiscal 2021 have decreased while planned commitments in Fiscal 2022 and Fiscal 2023 have increased. Planned commitments for Fiscal 2019 total $19.4 billion for agency capital programs, with $17.1 billion in City funds. City funds comprise the majority of planned commitments.





The principles that guide the development of the Ten-Year Strategy should also guide the development of the Commitment Plan as there is an overlap between both documents in the first four years of the Strategy (Fiscal 2020 through Fiscal 2023). Due to the lack of any text in the Capital Commitment Plan it is very difficult to determine if this is occurring.

Commitment Plan Structure

The Commitment Plan shows how the City plans to spend the appropriations allocated in the Capital Budget. The Commitment Plan breaks the budget lines down into individual projects and timelines for their completion. The Commitment Plan is first organized by City agency with the budget lines (analogous to units of appropriation, or "U/As", in the expense budget) for each agency grouped together. Some agencies are so large that they are broken down into multiple sections, which appear in the Capital Commitment Plan as a separate agency. In these cases, the sections are aggregated when examining both their capital budgets and commitment plans. These agencies and their sub-agencies are:

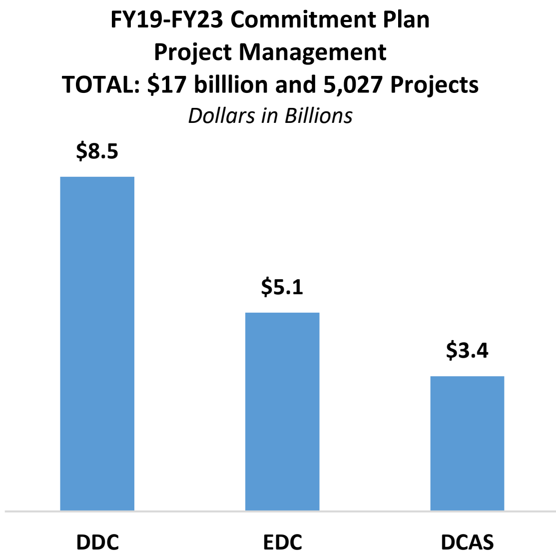
- DOT
  - DOT – Equipment
  - Ferries & Aviation
  - Highways

  - Highway Bridges
  - Traffic
  - Waterway Bridges
- DCAS
  - Environmental Data Processing Equipment & Finance Costs
  - Department of Information Technology & Telecommunications – Equipment
  - Public Buildings
  - Real Property
- DEP
  - DEP – Equipment
  - Sewers
  - Water Mains
  - Water Pollution Control
  - Water Supply
- Libraries
  - Brooklyn Public Library
  - New York Public Library
  - New York Research Library
  - Queens Public Library
- Metropolitan Transit Authority (MTA)
  - MTA Bus Company
  - Transit Authority
  - Staten Island Rapid Transit Operating Authority

Each budget line contains multiple project IDs, which represent discrete capital projects. Budget lines offer a general description of the type of work that will be done and the project IDs represent specific projects that fit within that description. Appropriations are allocated at the budget line level rather than the project ID level. This gives the Administration the ability to change funding levels for the individual projects and to add new projects without approval of the Council, as long as it remains within the limits of the approved appropriations for that budget line. A budget modification is required in order to transfer funding among budget lines during the course of a fiscal year. Since most lines have more appropriations than they need this is rarely necessary.

A notable exception to this is the non-City capital projects (projects done for non-profit entities with City capital funding). Non-City capital projects have budget lines that describe the individual non-profit with the project ID representing a specific project for that non-profit. This contributes to the fact that City Council and Borough President-funded budget lines are more appropriately associated with individual projects, as shown in the table below.

Projects Funded by the Council and Borough Presidents are more closely associated with their own budget line and/or project ID in the Fiscal 2020 Preliminary Capital Commitment Plan					
Funding Source	**Planned Commitments**	**Portion of Planned Commitments**	**Budget Lines**	**Portion of Total Budget Lines**	**Project IDs**
Mayor	$80.1 billion	96%	778	40%	7,869
City Council	$2.4 billion	3%	627	32%	3,356
Borough Presidents	$1.0 billion	1%	564	29%	1,655



Although there are 28 agencies with capital programs, some agencies do not have the capacity to manage some or all of their capital projects. In these cases, another agency, as assigned by OMB, manages the projects for the budgeted agency. The sole function of the Department of Design and Construction (DDC) is to manage projects for other City agencies. As such, DDC has no capital budget of its own. The Economic Development Corporation (EDC) and DCAS manage projects for other City agencies, but also have their own capital budgets. The chart on the left demonstrates that DDC is the largest managing agency with 3,432 capital projects. While these three agencies shown manage the most projects for other City agencies, they are not the only ones that do so.

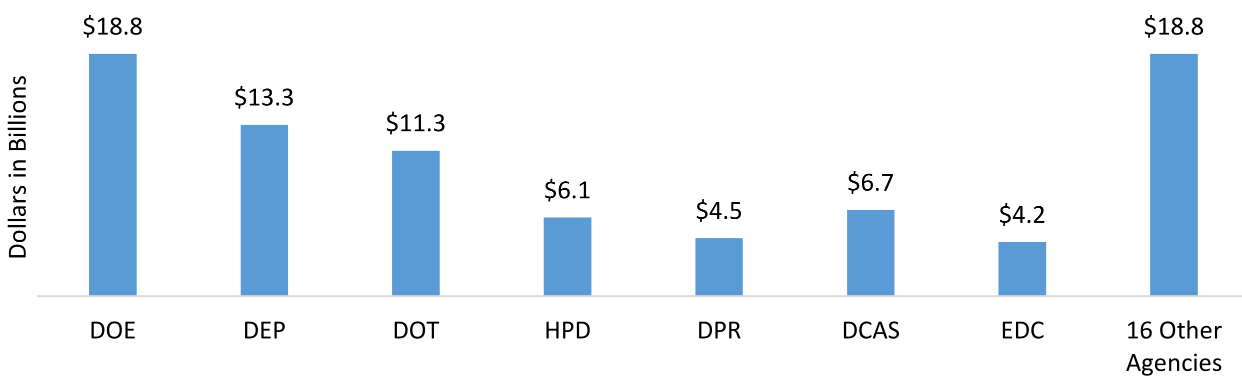
The table below shows the Commitment Plan by agency, including the respective five-year planned commitment amounts and the numbers of budget lines and project IDs. Because, in general, projects IDs represent an individual project, they provide a rough estimate of how many projects each agency has in its capital plan. The agencies with the largest number of project IDs are the Department of Parks and Recreation (DPR), DEP, DOT, DCAS, and DCLA.

Preliminary Capital Commitment Plan by Agency
Dollars in Thousands

Agency	FY19-23 Plan	Budget Lines	Project IDs	Project ID to Budget Line Ratio
Administration for Children's Services	$386,084	35	96	2.7 : 1
City University of New York	611,428	34	511	15.0 : 1
Courts	1,302,051	29	108	3.7 : 1
Department For The Aging	48,934	32	72	2.3 : 1
Department of Citywide Administrations Services	6,741,376	235	1,221	5.2 : 1
Department of Correction	2,135,566	11	172	15.6 : 1
Department of Cultural Affairs	1,154,105	582	640	1.1 1
Department of Education	18,766,967	19	14	0.7 : 1
Department of Environmental Protection	13,343,313	71	1,893	26.7 : 1
Department of Health & Mental Hygiene	553,318	135	419	3.1 : 1
Department of Homeless Services	533,800	12	246	20.5 : 1
Department of Human Resources	204,653	63	139	2.2 : 1
Department of Parks and Recreation	4,476,038	139	1982	14.3 : 1
Department of Sanitation	2,082,498	22	198	9.0 : 1
Department of Transportation	11,346,565	222	1,344	6.1 : 1
Economic Development Corporation	4,194,969	82	519	6.3 : 1
Health & Hospitals Corporation	2,749,380	17	456	26.8 : 1
Housing Preservation and Development	6,091,377	138	475	3.4 : 1
Libraries	982,633	34	553	16.3 : 1
Metropolitan Transportation Authority	754,577	10	11	1.1 : 1
New York City Housing Authority	2,695,765	7	330	47.1 : 1
New York Fire Department	899,452	16	268	16.8 : 1
New York Police Department	1,709,139	24	415	17.3 : 1
Total	**$83,763,988**	**1,969**	**12,082**	**6.1 : 1**

Six agencies: DOE, DOT, DEP, HPD, EDC, and DPR, account for approximately 67 percent of the total Commitment Plan, as shown by the table below. As with the Ten-Year Strategy and the Capital Budget, education, environmental protection, and transportation are the major drivers of planned capital spending. This consistency reflects the connection between these three documents: the Commitment Plan reflects the plan to spend appropriations in the Capital Budget, and the Ten-Year Strategy reflects planned spending similarly to the Commitment Plan, though over a longer period of time.

Preliminary Capital Budget by Agency, FY19-FY23

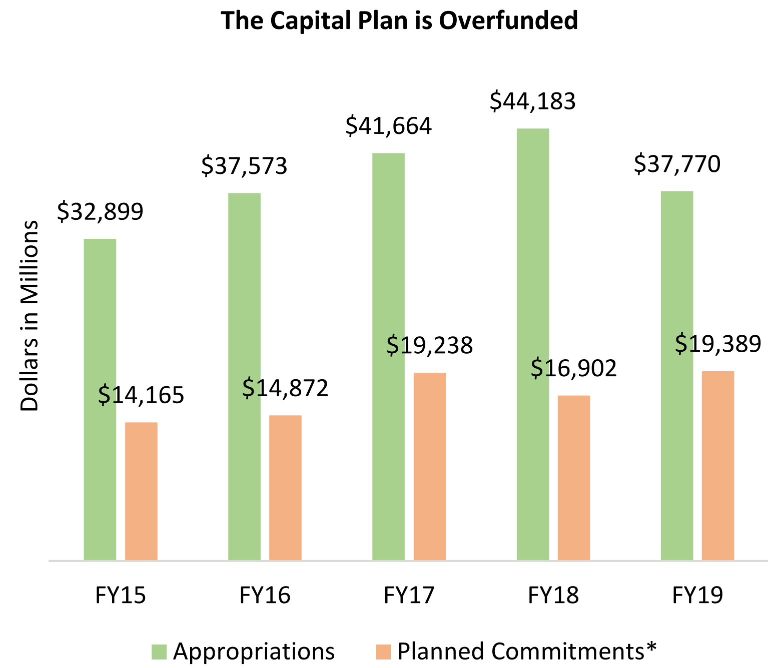


Capital Appropriations vs. Capital Commitments

Appropriations represent the legal authority to spend capital dollars and are what the Council votes to approve when adopting the capital budget each year. The capital commitment plan is the plan to spend these appropriations. Appropriations are assigned at the budget line level.

Total appropriations for Fiscal 2019 are $37.8 billion with planned commitments totaling $19.3 billion.[8] This excess balance of $18.5 billion in appropriations gives the Administration a considerable amount of flexibility in executing its capital program without seeking a budget modification from the Council. Because appropriations can be spent only on projects scheduled in the budget line to which they are attached, this flexibility is more limited than it appears from this variance alone. However, appropriations in the Capital Budget are still excessive compared to planned and actual commitments at the budget line level. Having more appropriations in a budget line than necessary to complete the individual projects contained therein gives the Administration the ability to add projects within the fiscal year without a capital budget modification or the Council's approval.

[8] These planned commitments do not include inter-fund agreements, or IFA, amounts transferred from the City's Capital Fund to the General Fund as reimbursement for costs related to any capital planning and design work, and project supervision performed by city employees. IFA is excluded from the discussion of planned commitments in this report, however, appropriations are required to pay IFA. Total appropriations are as of July 31 of each fiscal year.



The chart to the left compares appropriations to planned and actual commitments since Fiscal 2015, and reflects that excessive appropriations are a longstanding issue. The Administration's first capital budget in Fiscal 2015 did significantly lower appropriations from the Fiscal 2014. The Council's Fiscal 2019 Preliminary Budget response called for a reduction of excess appropriations. The Administration responded by rescinding $5.98 billion from the Fiscal 2019 Adopted Capital Budget.

The Charter requires that if a capital project is not initiated by the expenditure of funds within two years of appropriation in the capital budget, the capital project must be eliminated from the budget.[9] While the Administration does remove some appropriations on a yearly basis, because there are multiple projects within each budget line and a large amount of excess appropriations rolling from year to year, it is difficult to determine whether the Administration is complying with this Charter requirement. While appropriations will, and should, always be somewhat higher than planned commitments, the Administration should continue to reduce excess appropriations annually.

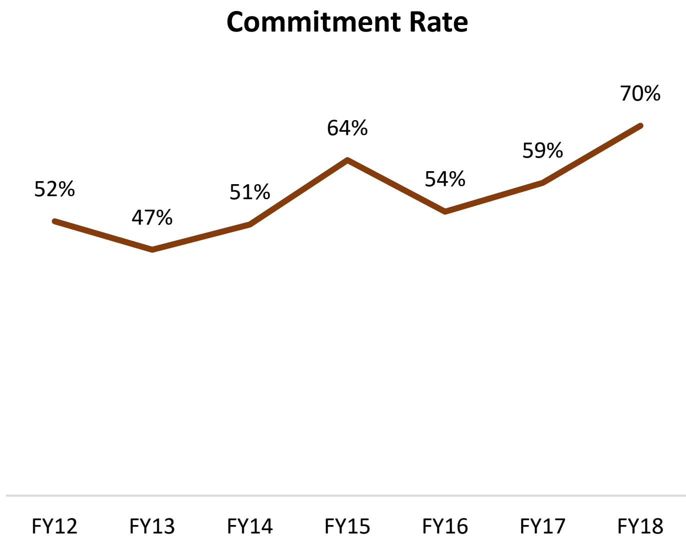
Capital Project Implementation

The Administration's reports provide limited information regarding the effectiveness of the implementation of the Capital Commitment Plan at the citywide level. The capital commitment rate, discussed below, has long been used as an indicator of the City's success in implementing the Capital Plan. However, this is only one measure of effectiveness. Other actual and potential methods of measuring capital project implementation are also discussed in this section.

Capital Commitment Rate

Historically, the City does not fully execute its capital commitment plan as forecast. The capital commitment rate reflects the portion of planned commitments that were actually made in a given fiscal year. Much of the gap between planned and actual commitments may simply be due to poor planning and inaccurate budgeting. Some factors are beyond the City's control, such as unforeseen site conditions and bid prices that are above budget due to current construction market performance, both of which can delay projects. In addition to these outside factors, the City's own rules and regulations often delay capital projects, as well as inflate their cost.

[9] See Charter §217(b).



As reflected in the chart to the left, the City's Fiscal 2018 capital commitment rate was 70 percent. This reflects a significant increase over the Fiscal 2017 commitment rate of 59 percent, and the average commitment rate since Fiscal 2015 of 61 percent. The improved commitment rate is the result of both more accurately forecasted commitments in the Fiscal 2019 Executive Capital Commitment Plan—planned commitments were $2.33 billion less than they were the year before—and higher actual commitments in Fiscal 2018—the City committed an additional $965 million in Fiscal 2018 compared to Fiscal 2017. The Council called for both changes in its Fiscal 2019 Preliminary Budget Response, and this represents a significant improvement.

However, commitment rates continue to vary widely by agency. Improvements are still needed to ensure that individual agencies are both accurately forecasting commitments and committing capital funding at an appropriate rate to execute needed repair, replacement, and expansion projects. Moreover, a singular focus on commitment rate can have perverse incentives, causing agencies to artificially lower planned commitments rather than improve the actual execution of capital projects, and/or to prioritize the commitments of large projects that will significantly improve the capital commitment rate at the expense of smaller but still critical projects that would individually have little impact on the commitment rate. OMB should continue to work to improve both citywide and agency-level commitment rates, while also using other methods to track and assess the implementation of the capital plan.

Capital Project Performance Measures

The Commitment Plan includes Commitment Targets by Managing Agency and Capital Program Performance Indicators. These targets are lower than planned commitments and it is unclear how they are used by OMB. The total commitment target for Fiscal 2019 is $14.1 billion, compared to $19.39 billion in total planned commitments.

The Capital Program Performance Indicators are divided into three types:

- Financial indicators- the total dollar amount of commitments;
- Management indicators- the number of projects entering three phases (design start, construction start, and project completion); and
- Programmatic indicators- performance against specific programmatic goals such as miles of streets resurfaced.

According to the Commitment Plan, in Fiscal 2018 the City committed 97 percent of its financial indicator target of $12.3 billion. The target amount is different from planned commitments, and is based on an assumption that the City will commit approximately 70 percent of City planned commitments and 100 percent of non-City planned commitments, with the exception of the DOE, MTA, and DEP, which are expected to commit 100 percent of all of their City and Non-City planned commitments. For comparison, the Fiscal 2018 planned commitments in the Fiscal 2019 Executive

Capital Commitment Plan totaled $15.2 billion—almost $3 billion more than target amount. Fiscal 2019 planned commitments of $19.4 billion are similarly $5.3 billion higher than the target amount of $14.1 billion. Since the target amount is the figure used to estimate debt service costs, and is much more accurate than planned commitments, OMB should work to align planned capital commitments with these targets.

Management indicator information at the citywide level is presented below. OMB collects this information from managing agencies.

	FY17 Actual	FY18			FY19 Plan
		Plan	Actual	% of Plan	
Design Starts	963	1,001	1,252	125%	1,187
Construction Starts	1,110	1,382	1,136	82%	1,258
Project Completions	1,081	1,289	1,109	80%	1,249

Because programmatic indicators are tied to specific agencies, there are no citywide indicators.

The Mayor's Management Report (MMR) does not include any citywide performance measures related to the implementation of the Capital Plan. However, some agencies do report on their own capital programs through the MMR and Preliminary MMR (PMMR). For example, DDC reports on the portion of design and construction projects completed early/on time, broken down by project type, as well as the total number of projects completed. SCA reports on the average cost per square foot of new school buildings, the portion of projects completed on-time/early, and the portion of projects completed within budget. Parks similarly reports on the portion of capital projects completed on time/early, and the portion of projects completed within budget, as well as the total number of projects completed. However, there is concern that how these indicators are measured and captured is not standardized across agencies, and is not accurately capturing whether projects are truly on time and within budget.

Capital Project Tracking

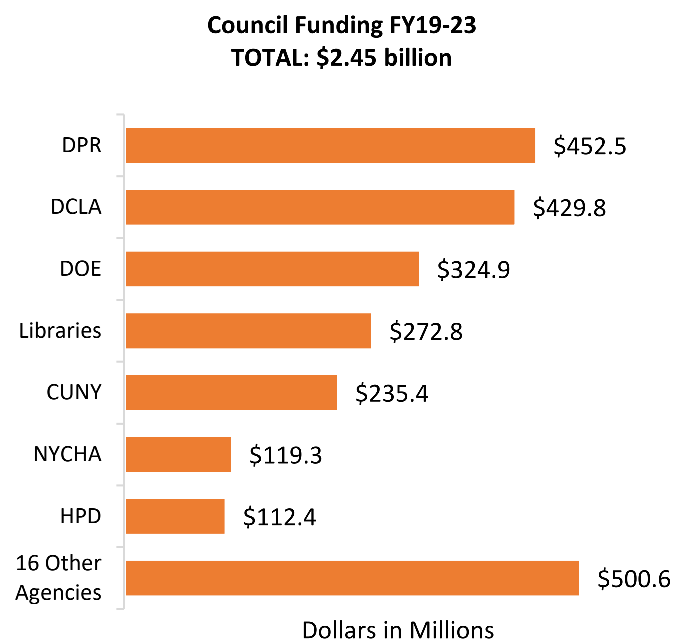
There is no comprehensive citywide capital tracker. Some capital project tracking currently occurs at the agency level. For example, SCA produces a quarterly report on the status of all capital projects in-progress and DPR has an NYC Capital Projects Dashboard on its website which tracks the agency's capital projects. The Administration also tracks some projects related to certain initiatives, such as projects related to Hurricane Sandy (Sandy Funding Tracker) and projects tied to a rezoning (Zoning Commitments Tracker). In addition, the Mayor's Office of Operations manages the NYC Capital Projects Dashboard, which reports on active capital projects with budgets of $25 million or more. The data on this dashboard is captured manually from agencies, is only updated three times a year (with the release of each capital commitment plan), and only captures a small subset of the thousands of City capital projects in progress. Currently, the NYC Capital Projects Dashboard captures only 287 projects. Finally, OMB produces a detailed, multi-volume report, known as the Capital Project Detail Data report, to track capital project status and present information on cost, budget, scope, and milestones. However, this report is only produced as a PDF document, is not publically available, often has missing information, and may not accurately capture information at a project level since it captures information at the project ID level, and some project IDs contain multiple discrete projects.

Given the piecemeal nature of capital tracking, it is difficult for the Council to assess the implementation of the Capital Plan at the project level or community level, or by any measure of equity. On February 12, 2019, the Council's Committee on Finance and the Subcommittee on Capital Budget held a joint hearing on two pieces of legislation: Intro. No. 113, which would require a comprehensive public capital project tracker, and Intro. No. 32, which would require notifications when projects are delayed. Please see the Committee Report from this hearing for more information on capital project tracking.[10]

Design-Build. Rather than requiring the City to conduct separate bids for the design and construction phases of each project, design-build procurement would allow the City to use the same firm to design and build a capital project. The City is currently lobbying the State for the authority to use design-build, a method that the State has authorized for itself for many years, thereby saving hundreds of millions of dollars and many years on numerous capital projects.

Council Discretionary Projects

The Commitment Plan includes $2.45 billion for City Council discretionary projects over the plan period. Of the $2.45 billion, $600 million was added in the Fiscal 2019 Adopted Capital Budget (excluding rescindments) with the remaining $1.8 billion added in past years for various projects, many of which are in-progress or have not yet begun. It is common for the Council, Mayor, and Borough Presidents to co-fund capital projects. Many cultural projects, for example, are funded jointly. As reflected in the chart to the right, of the Council-allocated funding included in the Commitment Plan, 80 percent is allocated to the following seven agencies: parks, cultural institutions, education, libraries, higher education, NYCHA, and housing.



Discretionary capital funding generally supports smaller community projects that are not adequately funded by the Administration, such as small parks upgrades, projects at local libraries, and technology for schools. However, the Council is concerned that its discretionary funding is being used to support essential City infrastructure, rather than items that are truly discretionary. For example, the Council allocates $40 to $50 million annually on technology in schools. This is an essential school component that should be funded by the Administration, and a schools' access to technology should not be based on its ability to secure capital funding from an elected official who faces many competing demands for their discretionary capital funding. Similarly, Council Members are funding critical upgrades and repairs in not only schools but also at parks, libraries, and NYCHA facilities.

This use of discretionary capital funding suggests that certain City agencies are not accurately assessing the need of their capital assets, or are not fully funded to address the need of these capital assets. In some cases, such as NYCHA, insufficient funding results in capital needs going unaddressed. However, in other cases, the Administration has failed to comprehensively recognize the scope of the

[10] Available at: https://legistar.council.nyc.gov/LegislationDetail.aspx?ID=3331730&GUID=BE0F4611-05D7-4C61-8CE6-D4E31E4A7A6E&Options=&Search= (last accessed February 27, 2019).

problems being addressed by discretionary capital funding. Discretionary capital funding for schools has resulted in the Administration adding funding for targeted improvements, such as science labs and bathroom upgrades. However, even this funding is not based on a needs assessment, and the Administration has not taken up a comprehensive assessment of the need for improvements to school components that are often funded by Council Members and Borough Presidents, such as specialized instruction spaces, air-conditioning in non-classrooms spaces, and physical education facilities improvements. Again, the reliance on discretionary funding for these kinds of projects reflects inadequacy in capital planning for essential City infrastructure.

Financing and Debt Service

New York City sells bonds to fund its capital program, and the Fiscal 2020 Preliminary Budget estimates $45.1 billion in long-term borrowing between Fiscal 2019 and Fiscal 2023 to pay for the five-years of the Capital Plan. This borrowing is supplemented with an estimated $8.8 billion in borrowing by the New York City Municipal Water Finance Authority (NYW), for which NYW pays its own debt service through dedicated water and sewer fees. A summary of the financing plan is shown in the table below.

The City's borrowing strategy is a function of numerous factors, including but not limited to the conditions of the financial market, the City's project schedule, and cash flow considerations. The financing plan does not directly align with the Ten-Year Strategy or the Commitment Plan, as it more closely follows the City's actual capital expenditures in any given year. Making the Strategy and Commitment Plan more accurate and realistic would help better illuminate the connection between what the City spends on capital projects and how it pays for them.

Summary of Capital Financing Plan - FY20 Preliminary Financial Plan
Dollars in Millions

	FY19	FY20	FY21	FY22	FY23
Financing Plan					
General Obligation Bonds	$2,300	$4,040	$4,650	$5,280	$5,500
Transitional Finance Authority Bonds(1)	3,900	4,040	4,650	5,280	5,500
Water Authority Bonds	1,701	1,652	1,667	1,752	1,993
Total	**$7,901**	**$9,732**	**$10,967**	**$12,312**	**$12,993**
Debt Outstanding					
General Obligation (GO) Bonds	$38,765	$40,563	$42,984	$45,878	$48,827
Transitional Finance Authority (TFA) Bonds(1)	37,938	40,583	43,711	47,369	51,151
Other Debt(2)	2,181	2,090	1,995	1,901	1,781
Total	**$78,884**	**$83,236**	**$88,690**	**$95,148**	**$101,759**
Water Authority Bonds	30,684	31,934	33,186	34,492	36,041
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	12.0%	12.3%	12.7%	13.2%	13.7%

Source: *OMB Fiscal 2020 Preliminary Financial Plan*
1) TFA Bonds do not include Building Aid Revenue Bonds (BARBs) issued for education capital purposes which are secured by Building Aid revenues from the State
2) Other debt includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).

The City's debt issuance remains well below the City's constitutional debt limit of $106.2 billion,[11] which is forecasted to grow sufficiently to accommodate new borrowing in the Capital Financing

[11] New York City's debt limit, as established by the State Constitution, is ten percent of the five-year rolling average of the full value of taxable real property in the City.

Plan.[12] The City's bonds continue to be well received by the markets, and all of its issuing authorities have maintained AA ratings or better by Moody's, Standard & Poor's, and Fitch.

While the City enjoys a strong cushion on its debt limit and favorable credit ratings on its bonds, there are factors to keep an eye on. The City's debt service is projected to rise as a percentage of City revenues over the course of the financial plan period, from 11.1 percent in Fiscal 2019 to 13.2 percent by Fiscal 2023. The City also has an above-average debt burden per capita compared to other cities.[13]

Summary of Debt Service Payments - Fiscal 2020 Preliminary Financial Plan
Dollars in Millions; Before Prepayments

	FY19	FY20	FY21	FY22	FY23
Debt Service					
GO Bonds	$3,841	$4,202	$4,328	$4,661	$5,022
TFA Bonds(1)	2,773	3,015	3,203	3,549	3,915
Other Debt(2)	195	210	209	203	224
Total	**$6,809**	**$7,427**	**$7,740**	**$8,413**	**$9,161**
Debt Service Burden					
Debt Service/Total Revenue	7.3%	8.0%	8.1%	8.6%	9.2%

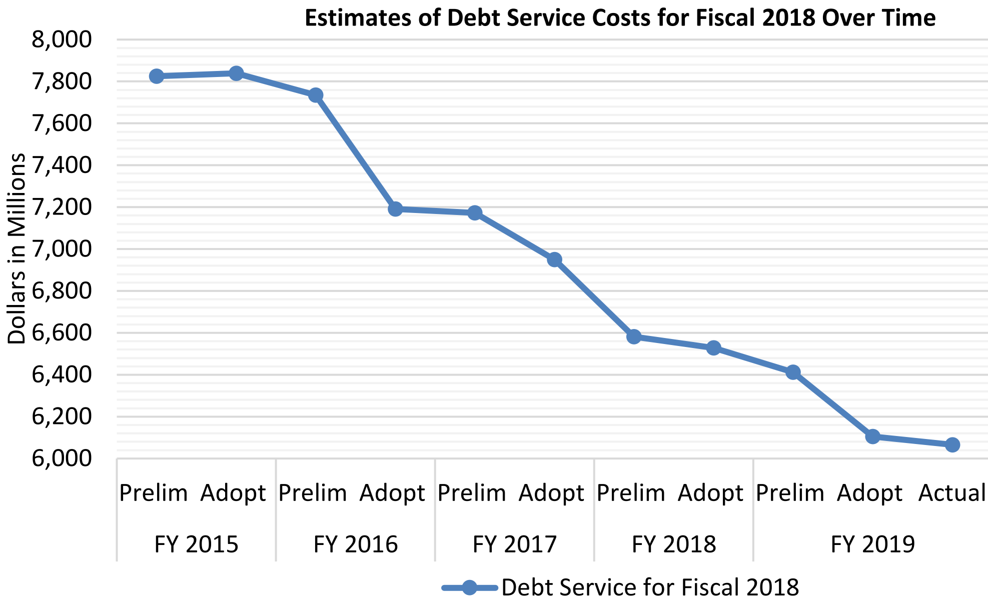
Source: *OMB Fiscal 2020 Preliminary Financial Plan*
1) TFA Bonds do not include BARBs
2) Other debt includes TSASC

Debt Service Savings

The Fiscal 2020 Preliminary Financial Plan recognizes $74.5 million in debt service savings for Fiscal 2019, primarily from revised interest rate assumptions for variable rate bonds and the retention of State building aid. These savings are in addition to savings of $159.9 million for Fiscal 2019 recognized in the November 2018 Financial Plan, which included savings related to refunding transactions the City completed during the fiscal year. Savings from these refunding are also reflected in the outyears.

The debt service budget serves as a routine source of savings for the City as savings from lower-than-assumed interest rates are recognized and refunding are done over the course of the fiscal year. This means the debt service budget tends to be overstated for the outyears, and while the Preliminary Financial Plan projects that debt service will stay in line with measures of best practice and affordability over the financial plan period, it is likely that actual debt service costs will be even lower in the outyears than currently projected. For example, the City's debt service costs in Fiscal 2018 were 22 percent lower than first projected in the Fiscal 2015 Preliminary Budget. This overestimation skews the picture of the City's debt affordability over the plan and provides the Administration a convenient source of savings for subsequent Citywide Savings Plans.

[12] New York City Comptroller, Fiscal Year 2019 Annual Report on Capital Debt and Obligations, December 2018 (available at: https://comptroller.nyc.gov/wp-content/uploads/documents/Fiscal-Year-2019-Annual-Report-on-Capital-Debt-and-Obligations.pdf last accessed February 27, 2019).
[13] Ibid.



Source: Mayor's Office of Management and Budget (OMB); New York City Comprehensive Annual Financial Report of the Comptroller for Fiscal Year 2018.

Surplus Roll

The City's surplus roll, held in the Budget Stabilization Account for the prepayment of future years' debt service costs, is approximately $3.2 billion for Fiscal 2019. In Fiscal 2018, the surplus roll at the end of the fiscal year was $4.1 billion.

Bond Ratings

New York City currently has strong credit rating, but this rating could be improved if the City increases its budgetary reserves. The three major rating agencies have assigned a credit rating of Aa2, or the equivalent, to the City of New York and the two largest financial resources of the debt service are the General Obligation (GO) and Transitional Finance Authority (TFA).

New York City's reserves are currently around ten percent of total adjusted expenditures. This is low for a city of its size with an Aa2 rating. New York City's reserves are lower than the Aa2 large city median which is more than the 12 percent ratio of total reserve. Cities with higher bond ratings generally do better than this, for example, the City of San Antonio, Texas, has a 15 percent ratio of total reserve and holds a credit rating of Aaa.

Higher reserves would aid the City in managing the next economic downturn, butut they also could yield a high bond rating and lower debt service costs to the City.

Conclusion

We have identified many concerns with the Ten-Year Strategy, Capital Budget, and Commitment Plan that we look forward to working with the Administration to solve. Building on last year's collaboration we have shown that we can effectively address long-standing issues such as the frontloading of the Commitment Plan and excess appropriations in both the Capital Budget and Commitment Plan. The Council is confident that the Administration will continue to work with the Council on these issues along with our concerns about the Ten-Year Strategy.