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New York City Should Be Cautious About Increasing Its Debt

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By Carol Kellermann

New York City has more outstanding debt than ever before, and Mayor Bill de Blasio has proposed a 10-year capital plan that will increase it substantially. Now is the time to consider how much debt is appropriate.

As of June 30, 2014 (the end of the previous fiscal year), New York City's outstanding debt, including the Water Authority, exceeded $110 billion, having grown by 96 percent since 2002. New York City -- unlike other state and local governments with large capital programs -- borrows to pay for virtually all of its capital projects, and the increased debt has supported expanded construction and rehabilitation of schools, the water and sewer system, bridges and roads, housing, parks, and public buildings.

Is it too much? Bond rating agencies typically judge the affordability of debt on the basis of the resources that are available to repay it. On that basis, the City's debt burden is high. Debt repaid from tax revenues (that is, excluding water and sewer debt) in fiscal year 2016 is projected to be approximately 8 percent of the City's real property values and 13 percent of its personal income -- compared to benchmarks of 5 percent and 6 percent, respectively.

Mayor de Blasio's proposed Ten-Year Capital Strategy for Fiscal Years 2016-2025 would further increase debt. The Strategy totals $83.8 billion, with $30 billion more in debt issued over the next four years; as a result, debt service paid from the operating budget is projected to increase 30 percent. One out of every 8 dollars in tax revenue will be dedicated to debt service costs.

The large and growing debt load means new investments need to be undertaken cautiously. The Strategy is $30 billion greater than the prior Ten-Year Capital Strategy released in 2014, and it funds new priorities that include the Mayor's $8 billion affordable housing plan, energy efficiency investments that are part of OneNYC, accelerated repair and rehabilitation work on schools and roads, and a $2 billion increase for libraries, public transit, and the housing authority.

It's hard to tell whether the planned investments are worthwhile; the City does not provide the information needed to judge.

The Strategy is not directly linked to a needs assessment, so it's impossible to tell how much progress will be made toward achieving a state of good repair. New Yorkers know that their streets, bridges, parks, and schools need fixing, but how large is the need, and where is it greatest? There is no single comprehensive source that describes all the City's assets and their condition; agencies use different criteria and metrics, and many assets are not assessed at all.

Furthermore, little performance information is available to assess spending. Even where spending plans are described in more detail, performance metrics and timelines with milestones are not provided. Without this information, it will be impossible to track performance and to hold agencies accountable for their management of capital projects.

Capital investment is critical to the city's future, and determining the appropriate level of debt for the City is crucial. The City has benefited from economic growth since the Great Recession in 2008, but at some point we will face a budget crunch -- with debt service obligations crowding out other priorities. Proposed capital spending should be limited to clearly defined projects with demonstrable benefits.