POLICY BRIEF

Three Key Steps for Improving New York State's New Statewide Capital Plan

With little fanfare the New York Works Task Force reached a major milestone in June, releasing the first-ever New York State 10-year statewide capital plan.[1] The plan is an excellent first step toward consolidating the capital planning of 47 state agencies and public authorities, committing $174 billion for the fiscal year 2013-14 to 2022-23 period for projects that will improve the condition of New York's infrastructure and help grow the economy. The next version of the plan, due in 2014, should include three key features to continue to improve the State's capital planning process: 1) better information about asset condition and the match-up between planned levels of state of good repair (SOGR) spending and need; 2) an improved financing plan that addresses the issue of affordability; and 3) better project-level data to facilitate project tracking.

The New Statewide Capital Plan

The Statewide Capital Plan categorizes $174.4 billion in planned investment commitments across eight broad sectors – Transportation, Social Services and Public Health, Education, Energy, Environment, Development Projects, Public Safety, and General Government. (See Table 1.) Fully 65 percent or $113 billion of the plan is committed to transportation. The two largest transportation agencies – the Metropolitan Transportation Authority (MTA) and the New York State Department of Transportation (DOT) – together make up $97.6 billion of the total. The next largest sectors – Social Services and Public Health and Education – receive $20.9 billion and $17.0 billion, respectively, and comprise 21.7 percent of total planned spending. The largest investments in these sectors are for Homes and Community Renewal, slated to receive $14.7 billion and the State University of New York (SUNY), which will receive $11.3 billion.

In addition to distributing funding by sector, the plan also segments the 10-year total into three major categories – State of Good Repair (SOGR), Transformational Initiatives, and Capacity Optimization. The bulk of the investments, $117.8 billion or 67.5 percent, are for SOGR projects. (See Figure 1.) Spending of $32.8 billion for projects classified as "transformational" because they have the potential to drive economic growth comprises 18.8 percent of the total. Investments driven by demographic trends

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such as population growth and called "Capacity Optimization" total $18.8 billion and comprise 10.8 percent of the total. Projects that could not be placed in one of the three categories account for $5.0 billion, or 2.9 percent of the plan.

Table 1: State of New York, Capital Spending by Sector, 2013-14 to 2022-23

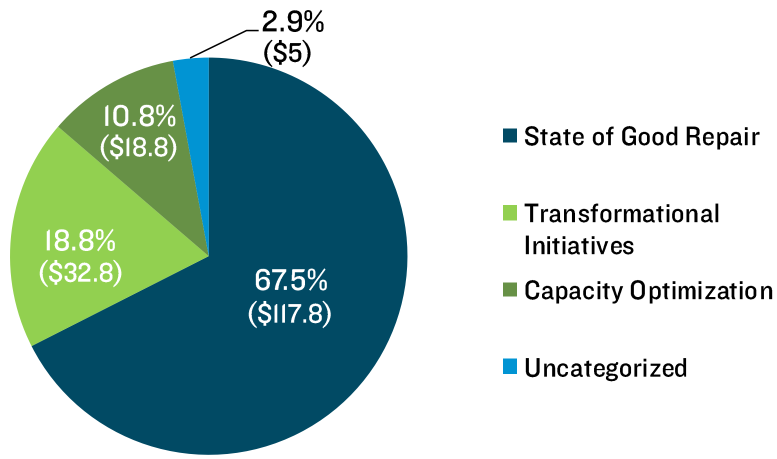
(dollars in millions)

Transportation	**$113.4**	**65.0%**
Metropolitan Transportation Authority	56.0	
Department of Transportation	41.6	
Port Authority of New York and New Jersey	8.0	
Thruway Authority and Canal Corporation	3.2	
Department of Motor Vehicles	2.2	
Other	2.4	
Social Services & Public Health	**20.9**	**12.0**
Homes and Community Renewal	14.7	
Office of Mental Health	2.4	
Department of Health	1.2	
Office of Alcoholism and Substance Abuse Services	1.2	
Other	1.4	
Education	**17.0**	**9.7**
State University of New York	11.3	
City University of New York	5.5	
Department of Education	0.2	
Energy	**7.3**	**4.2**
Long Island Power Authority	2.8	
Energy Research and Development Authority	2.3	
New York Power Authority	2.1	
Environment	**7.1**	**4.1**
Department of Environmental Conservation	5.4	
Office of Parks, Recreation & Historic Preservation	1.2	
Other	0.4	
Development Projects	**4.3**	**2.5**
Empire State Development	3.9	
Other	0.3	
Public Safety	**3.6**	**2.0**
Department of Correctional Services	3.0	
Other	0.6	
General Government	**0.9**	**0.5**
Office of General Services	0.8	
Other	0.1	
TOTAL	**$174.4**	**100%**

Source: New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013.

Figure 1: State of New York, Capital Spending by Category 2013-14 to 2022-23

(dollars in billions)



Source: New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013.

Within the $117.8 billion allocated for SOGR the lion's share – $89.2 billion or 75.7 percent – is for transportation. (See Table 2.) The MTA will spend the largest amount, $43.4 billion, to refurbish stations, maintain subway trains and buses, and replace rolling stock. The DOT will spend an amount of similar magnitude – $39.1 billion – on bridge and highway repair, as well as for the upgrade of aviation and port facilities. Other agencies with large SOGR commitments include the Department of Environmental Conservation for the repair of dams, levees, flood walls, and pumps, and the State University of New York for the upkeep of campus centers and facilities.

Next Steps for the Statewide Capital Plan

The Statewide Capital Plan is an important achievement for New York. It moves the State toward a more coordinated, sophisticated process for making capital investments. The plan should continue to be revised and improved incorporating three additional categories of information.

1. *A Better Assessment of Planned Spending for State of Good Repair Projects*

The Plan includes $117.8 billion for SOGR, but the specific projects to be funded are not described. Although this seems like a sizeable commitment, it is not possible to judge whether it will meet the state's needs because the information available about the condition of the state's infrastructure assets and the cost of upgrading them is incomplete. For some classes of assets such as transportation, general or partial information is available, but for others very little is known.

Table 2: State of New York, State of Good Repair Spending by Sector, 2013-14 to 2022-23
(dollars in millions)

Transportation	**$89.2**	**75.7%**
Metropolitan Transportation Authority	43.4	
Department of Transportation	39.1	
Thruway Authority and Canal Corporation	3.2	
Port Authority of New York and New Jersey	1.8	
Other	1.7	
Social Services & Public Health	**9.5**	**8.1**
Homes and Community Renewal	4.3	
Office of Mental Health	2.3	
Office of Alcoholism and Substance Abuse Services	1.2	
Other	1.8	
Education	**7.3**	**6.2**
State University of New York	3.6	
City University of New York	3.6	
Department of Education	0.0	
Environment	**5.2**	**4.4**
Department of Environmental Conservation	3.9	
Office of Parks, Recreation & Historic Preservation	1.1	
Other	0.1	
Public Safety	**3.3**	**2.8**
Department of Corrections and Community Supervision	3.0	
Other	0.2	
Energy	**2.2**	**1.9**
New York Power Authority	2.1	
Other	0.1	
General Government	**0.8**	**0.7**
Office of General Services	0.8	
Development Projects	**0.3**	**0.2**
Battery Park City Authority	0.2	
Other	0.1	
TOTALS	**$117.8**	**100%**

Source: New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013.

The DOT tracks asset condition using a detailed rating system and publishes an extensive report on its website annually on every state-owned bridge and roadway, but there is currently no way to make the connection between planned capital investments and the sums needed to attain SOGR.[2] The MTA plan provides more information linking capital spending to SOGR needs. As a response to the deterioration of the transit system in the 1970s, the legislature mandated in 1982 that the MTA provide a 20-year "needs assessment" prior to releasing its five-year capital plan.[3] This report shows the share of each of the system's components that have reached SOGR and an estimate of the total investment needed to maintain SOGR over the 20-year period. Target dates for upgrading assets not yet in SOGR are provided for only a subset of components. (SOGR estimates by component are also provided in the MTA's five-year capital plan).[4]

In order to prioritize SOGR in a capital planning process, information on the estimated cost of reaching SOGR over the period of investment is needed for every asset. Assets should be classified as major or minor according to criteria that include the dollar value of the asset and a priority score that reflects its importance to the region. Because SOGR may be unattainable for every asset, the State should also set condition improvement targets and provide estimates of the cost of achieving the desired improvement. This framework will help facilitate the kinds of tradeoffs inherent to a comprehensive capital planning process and make it possible for the public to judge how far $117.8 billion in planned SOGR spending will take New York State toward improving its infrastructure.

The place to begin is with DOT assets, which comprise a large portion of what New York State owns. In fiscal year 2012 New York State reported $95.4 billion in total assets net of depreciation.[5] Road and bridge infrastructure accounted for fully $65.9 billion of total built assets and $4.4 billion in construction in progress.[6] These assets include 42,600 lane miles of highway and 7,871 bridges.[7] In order to comply with generally accepted accounting principles the State sets a condition target for these assets and provides the estimated cost of meeting the target. In the following year the actual condition and maintenance spending are reported. Each asset is part of a network that gets regular assessment and as a consequence more is known about maintenance need and spending.[8] For example, highway pavement condition had a target range of 6.7 to 7.2 in fiscal year 2012 on a scale of 1 (very poor) to 10 (excellent).[9] The bridge condition target range was 5.3 to 5.6 on a scale of 1 to 7. [10] About $1.2 billion was spent to maintain highways and bridges in fiscal year 2012 compared to an estimated need of $891 million.[11] Actual pavement condition was rated 6.7 and bridge condition was 5.35, just within the target ranges.[12] This tracking system should serve as the foundation for more fully developed SOGR spending estimates and condition monitoring for DOT assets and other agencies.

2. Improving the Financing Plan

A complete capital plan should include a financing component that describes how the resources needed to fulfill the plan will be raised. Capital financing typically includes a mix of bond proceeds raised from investors and paid back over time with interest, cash investments to be made on an annual pay-as-you-go (PAYGO) basis from the operating budget, and funds from other sources such as intergovernmental or private partners. Government's ability to raise capital funds is limited in most cases by statutory or constitutional debt limits, market constraints, and/or the willingness of the public and elected officials to spend more.

The new Statewide Capital Plan includes a mix of agencies and public authorities; some have been included in the traditional state capital planning process – managed through the State budget – and others have not. One of the key distinctions for inclusion has been the extent to which resources raised from sources in the state budget will be used to pay for an agency's capital investments. Public authorities that raise funds from user fees – tolls, fares, utility rates, and rents, for example – have traditionally been viewed as separate, discrete entities and excluded from the state's capital plan. However, the situation is complicated by the fact that for many years the State has relied upon borrowing by public authorities on behalf of the State to circumvent the constitutional provision requiring voter approval of new state general obligation bond issuances.[13] As a result, many of the State's larger public authorities such as the Dormitory and Thruway Authority carry two kinds of debt – one repaid by reimbursement with state funds and the other from the collection of user fees. The line between state-supported and public authority revenue debt has also been blurred recently by the re-categorization of SUNY debt that had been counted as state-supported as revenue-backed in the fiscal year 2013-14 budget. The new bonds will technically be backed by dorm rents and will not be subject to the statutory debt limit described below, although the amount of state support flowing to SUNY is not projected to diminish.[14]

Recognizing the limited impact of the constitutional voter approval requirement on the amount of debt defined as state-supported, State leaders adopted a statutory debt limit covering both general obligation debt and backdoor debt in the Debt Reform Act of 2000 (DRA). Total debt outstanding is capped at 4 percent of personal income to link the level of indebtedness in some way to the state's economic performance and ability to support debt with own-source resources. Debt service, the annual cost of repaying the debt, is limited to 5 percent of total governmental fund receipts to prevent other needs from getting "squeezed out" of the annual operating budget by rising debt service. Limits on user-fee-backed public authority debt are set by the legislature and are revised on a case-by-case basis according to each authority's capital needs and revenues.

The current Statewide Capital Plan provides a snapshot of the debt outstanding for the entities included. For fiscal years ending in State fiscal year 2011-12 the agencies and authorities included in the plan had $180.3 billion in debt outstanding.[15] State-supported debt under the DRA debt limit was $52.8 billion. Thirteen public authorities including the Dormitory Authority, Empire State Development, the MTA, and the Port Authority of New York and New Jersey had $123.9 billion in debt outstanding. The remainder, about $3.6 billion, was for state-related debt not counted under the DRA limit but backed by State guarantees of some kind. The snapshot helps establish the right scale for a consideration of debt issuance among plan participants, but it is not a financing plan. However, the plan does contain information about the sources of the expected funds for most of the agencies and authorities in the separate sections that describe planned spending. From that information it is possible to construct a rough financing summary.

From all sources – bond financing, PAYGO, expected local contributions, and other miscellaneous funding – the State expects to raise $177 billion over the period of the plan.[16] Bond financing comprises the majority of the sources (53 percent); the State and its authorities expect to borrow $93 billion over the 10-year period. The next largest source of funds, $66.5 billion, or 37 percent of the plan, is PAYGO. A smaller share of the plan, 10 percent or $17.4 billion, is expected from local or other payments for projects. For example, New York City and its surrounding communities are expected to contribute $10.2 billion to the MTA capital plan.[17] Another $5.7 billion will come from "other major sources" of financing for energy efficiency projects by the New York State Energy Research and Development Authority (NYSERDA).[18]

The financing plan total is higher than the $174 billion commitment plan in part because participating agencies and authorities used different approaches to report this spending – commitments versus disbursements. A capital commitment is typically recorded as the full value of the contract to construct or purchase a capital asset in the year the contract is approved even though the total will be most likely be disbursed over multiple years.[19] Cash disbursements to fulfill that commitment are recorded in the years they are or will be paid according to the schedule agreed to in the contract. These expected payments make up a disbursement plan and financing is then matched to disbursement needs. Commitments can lead or lag disbursements depending on whether the capital plan is growing or shrinking. For 22 of the agencies/authorities in the plan commitments equal disbursements and financing sources.[20] These agencies are among the smaller ones, accounting for $10.7 billion in planned investments. In contrast, some of the larger agencies such as the MTA and DOT present commitment plans that are higher than their disbursement and financing plans.[21] A third group of agencies/authorities including Empire State Development and the Port Authority of New York and New Jersey show disbursement and financing plans that are much larger than their commitment plans, a condition indicative of shrinking plans where payments for past commitments overshadow the expected requirements for new ones.[22]

Other discrepancies include missing agencies and conduit financing arrangements that are difficult to assess. For the Long Island Power Authority $2.8 billion in capital investments are included in the commitment plan but no information about the financing has been provided.[23] For NYSERDA, an authority that expects $5.7 billion in payments from "other major funding sources," the statewide commitment plan totals $2.3 billion of the $5.7 billion it expects to finance and disburse.[24] The difference may result from the conduit nature of the spending; NYSERDA offers energy efficiency conversion financing for homeowners and businesses that is repaid with surcharges on the borrowers' utility bills. The next plan should reconcile these differences and standardize the approach to commitments versus financing and disbursements.

In addition a framework for assessing the affordability of the plan should be established. One possible model is New York City's Annual Statement of Debt Affordability, which is required by New York State pursuant to Chapter 16 of the Laws of 1997. The statement shows the City's "debt incurring power" or debt limits for its majoring borrowing entities for the capital plan period, the sources of funds for its capital plan, and the debt service payable by each entity.[25] A series of ratios that addresses affordability is presented for debt outstanding and debt service in relation to: 1) total revenue; 2) total taxes; and 3) total personal income. Debt service and debt outstanding per capita are also presented. Although the statement does not set a limit on what can be afforded from all sources, its annual publication serves as a baseline for judging subsequent plans. Constructing a similar statement for the various agencies included in the Capital Plan will be challenging, but New Yorkers pay taxes *and* fees and tolls, and the overall affordability of the Plan should be an important consideration.

3. Tracking Project Progress

The Capital Plan is ambitious, attempting to encompass $174 billion in planned capital projects across 47 governmental entities. Understandably, the first version does so in broad strokes; it is a compilation of separate capital plans. At the top of the plan there is total planned spending and at the bottom there are thousands of projects with budgets that add up to that total. Future Statewide Plans should include information that allows the user to "roll down" to project-specific information.

Project-specific information would allow the performance of the agency/authority overseeing the project to be assessed. Timeline lapses and cost overruns are useful accountability metrics.

The New York Works Task Force's Statewide Capital Plan is an important and developing effort. As the process continues it will inculcate in State leaders a culture of collaborative infrastructure planning, end years of fragmentation, and improve the competitive standing of New York's infrastructure assets for future generations. The effort should be embraced in every budget cycle and improved with the addition of information on asset conditions and SOGR needs and costs, a fuller picture of how the state plans to pay for its investments, and project-level data that allows for tracking.

ENDNOTES

[1] Citizens Budget Commission President Carol Kellermann is a member of the Task Force.

[2] See State of New York, Department of Transportation, *2010 Pavement Data Report*, Statewide, available at https://www.dot.ny.gov/divisions/engineering/technical-services/technical-services-repository/pavement/2010%20pdr%20statewide.pdf and State of New York, Department of Transportation, Highway Bridge Data, available at https://www.dot.ny.gov/main/bridgedata.

[3] Metropolitan Transportation Authority, *Twenty Year Capital Needs Assessment*, August 2009. Available at http://www.mta.info/mta/capital/pdf/TYN2010-2029.pdf.

[4] Metropolitan Transportation Authority, *MTA Capital Program 2010-2014*, January 2012. Available at http://web.mta.info/news/pdf/CapitalConstruction_1014.pdf.

[5] State of New York, Office of the New York State Comptroller, *Comprehensive Annual Financial Report For Fiscal Year Ended March 31, 2012*, p. 25.

[6] *Ibid.*, p. 65.

[7] *Ibid.*, p. 25.

[8] In 1999 the Government Accounting Standards Board (GASB) issued Statement 34 changing the way state and local governments report the use of infrastructure assets in their financial statements to require a statement of net assets that accounts in some way for the "use" of public infrastructure. Two methods – depreciation and a "modified" approach – are allowed. Depreciation methods spread the total value of an asset across its period of usefulness according to a schedule. Under this method to account fully for the estimated annual use of the assets the full cost of depreciation should be funded in the operating budget. Under the modified approach a state or local government specifies the condition in which it will keep an asset and reports the amount necessary to maintain it in the specified condition. This approach can be used only for assets that are part of a network managed with ongoing condition assessments. New York State opted to use the modified approach for its transportation assets. For a fuller discussion of GASB 34, see Governmental Accounting Standards Board, *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* April 2000. Available at, http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163026371 .

[9] State of New York, Office of the New York State Comptroller, *Comprehensive Annual Financial Report: For Fiscal Year Ended March 31, 2012*, p. 25

[10] *Ibid*.

[11] More has typically been spent on maintaining the assets in the target condition than the State estimated was needed. From fiscal year 2003 to fiscal year 2012 New York State reported total maintenance spending of $12.1 billion compared to an estimated need of $10.7 billion, a difference of $1.4 billion. An additional $1.0 billion was spent on roads and $419 million on bridges. Despite the extra spending condition ratings have slipped slightly; pavement ratings decreased from 7.0 to 6.87 and bridge ratings decreased from 5.44 to 5.35 from fiscal year 2002 to 2011. This suggests that that the maintenance estimates should be reexamined before they are incorporated in the Statewide Capital Plan. CBC staff analysis based on data from State of New York, Office of the New York State Comptroller, *Comprehensive Annual Financial Report,* fiscal year 2003 to 2012 editions.

[12] State of New York, Office of the State Comptroller, *Comprehensive Annual Financial Report: For Fiscal Year 2011 Ended March 31, 2011*, p. 104.

[13] General obligation debt backed by the full faith and credit of New York State is required to go before the voters as a ballot initiative.

[14] This change frees up borrowing capacity under the debt limit, which is beginning to bind. With the current capital plan and the assumptions about the rate of personal income growth in the coming years, by fiscal year 2016-17 the State projects that debt outstanding will be just $641 million below the debt limit.

[15] New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013, pp.308-309.

[16] CBC staff analysis based on data from New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013. The MTA and DOT make up the bulk of these revenues, at $54.6 billion and $40.2 billion, respectively.

[17] New York Works Task Force, *State of New York Statewide Capital Plan: Fiscal Years 2013-14 through 2022-2023*, June 2013, p. 64.

[18] *Ibid.*, p. 177.

[19] New York City's capital planning process uses this method. For a fuller explanation of the process see City of New York, Independent Budget Office, *Understanding New York City's Budget: A Guide to the Capital Budget*. Available at http://www.ibo.nyc.ny.us/iboreports/IBOCBG.pdf.

[20] The 22 agencies are the Albany Port District Commission, Battery Park City Authority, Buffalo and Fort Erie Public Bridge Authority, Capital District Transportation Authority, Central New York Regional Transportation Authority, Department of Health, Department of Homeland Security and Emergency Service, Development Authority of the North Country, Division of Military and Naval Affairs, Hudson River Park Trust, New York Power Authority, Bridge Authority, Niagara Frontier Transportation Authority, Office for People with Developmental Disabilities, Office of Information Technology, Ogdensburg Bridge and Port Authority, Olympic Regional Development Authority, Port of Oswego Authority, Roosevelt Island Operating Corporation, Thousand Islands Bridge Authority, Thruway Authority and Canal Corporation, and the United Nations Development Corporation.

[21] The other agencies with commitment plans that are larger than their financing plans are City University of New York, Department of Corrections and Community Supervision, Department of Environmental Conservation, Department of Motor Vehicles, Division of State Police, Long Island Power Authority, Office of Alcoholism and Substance Abuse Services, Office of General Services, Office of Mental Health, Office of Parks, Recreation and Historic Preservation, Office of Temporary and Disability Assistance, and the Rochester-Genesee Regional Transportation Authority.

[22] These agencies are the Department of Agriculture and Markets, Department of Education, Department of State, Empire State Development, Energy Research and Development Authority, Homes and Community Renewal, Office of Children and Family Services, Port Authority of New York and New Jersey, and the State University of New York.

[23] *Ibid.*, p. 173 and p. 178.

[24] *Ibid.*, pp.176-177.

[25] City of New York, Office of Management and Budget, *Fiscal Year 2013 Debt Affordability Statement*, May 3, 2012.

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

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