Capital Budgeting for 2030: Achieving the Goals of PLANYC

Citizens Budget Commission
December 18, 2007
Overview

- Why does infrastructure matter?
- Capital Assets in New York City
- Four Challenges to Achieving PLANYC
- Recommendations
  - Expanding PLANYC
  - Achieving state of good repair
  - Employing replacement cycles
  - Justifying expansion projects
Why does infrastructure matter?

- New York City is large and growing
  - 8.2 million people – 18 million in the region
  - 44 million tourists in FY2006

- Foundation of daily activity, government operation, commercial enterprise and public safety

- Critical to City’s ability to remain competitive and attract residents, business, and visitors

- Neglect of infrastructure can lead to delays, damages and catastrophic results:
  - Grand Central Station steam pipe explosion
  - Minnesota bridge collapse
  - Subway service suspended due to flooding
  - Energy blackouts in 2003 and 2005
Capital Assets in New York City
NYC has a vast and complex system of capital assets

- 20,000 miles of streets and highways
- 2,027 bridges and tunnels
- 3 million miles of fiber optic networking
- 29,000 acres of parkland
- 130,000 energy lines
- 324,000 street lights
- 29,000 public vehicles
- 6,600 sewer and 6,200 water main miles
- 6,200 subway cars and 4,500 buses
- 1,000 public school buildings
- 90 colleges & universities
- 2 airports
The State, State authorities, the Federal govt. and the private sector all own major assets in virtually all functions.

<table>
<thead>
<tr>
<th>Non-City Control of Capital Assets in New York City</th>
<th>Federal</th>
<th>State</th>
<th>Port</th>
<th>Other</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Govt.</td>
<td>Govt.</td>
<td>Authority</td>
<td>MTA</td>
<td>Authorities</td>
</tr>
<tr>
<td>Transportation</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>Transit</td>
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<td>✓</td>
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<tr>
<td>Education</td>
<td>✓</td>
<td></td>
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<td>✓</td>
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<tr>
<td>Housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Public Protection</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Health</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Parks &amp; Culturals</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanitation</td>
<td></td>
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<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Telecommunications</td>
<td></td>
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</tbody>
</table>
New York City Government
$60.5 Billion in Capital Assets

Water and Sewer System, $18,436
Education, $11,904
Sanitation, $760
Parks, Libraries and Culturals, $2,581
Transportation, $6,454
Public Protection, $3,840
Health, $2,878
Social services, $763
General Government, $2,935
Land and construction, $4,694
Housing, $5,220
How does the City plan and budget for these assets?

- **Ten-Year Capital Strategy**
  - Released every two years by the Office of Management and Budget
  - Describes citywide goals, priorities, policy constraints, financing mechanisms and other assumptions
  - Overviews agency capital programs
  - Is the basis for the capital budget and capital commitment plans
Plan to improve quality of life in NYC in anticipation of 1 million more people by 2030

10 broad goals to improve infrastructure, air and water quality, and sustainability

Scope includes non-city entities, most notably the MTA

127 specific initiatives with milestones and benchmarks

6 month progress report indicated 104 of 127 initiatives launched

Overseen by new mayoral office, Office of Long-Term Planning and Sustainability
Challenges to Achieving the Goals of PLANYC
PLANYC is a strategic planning process that is broad, long-term and visionary, but does not include all the City’s capital assets.
Weaknesses of Ten-Year Strategy

- **Ten-Year Strategy is not well-integrated with other strategic planning initiatives**
  - Does not link to Department of City Planning’s Master Plan or Strategic Policy Statement
  - Does not establish broad strategy goals itself
  - Does not address assets not under City control

- **Ten-year time frame is ineffective**
  - Too short for some infrastructure systems
    - Example: Water and Sewer system
  - Too long for credible financial planning
    - Agencies tend to focus on four-year plan
Weaknesses of Ten-Year Strategy

Where the first four years are generally on target, out-year commitments are dramatically underestimated

<table>
<thead>
<tr>
<th></th>
<th>Four-Year Total</th>
<th>Six-Year Total</th>
<th>Ten-Year Total</th>
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<tbody>
<tr>
<td>1996-2005 Capital Strategy</td>
<td>$15,400</td>
<td>$25,163</td>
<td>$40,562</td>
</tr>
<tr>
<td>Actual Commitments</td>
<td>$16,743</td>
<td>$35,562</td>
<td>$52,305</td>
</tr>
<tr>
<td>Difference</td>
<td>($1,343)</td>
<td>($10,399)</td>
<td>($11,743)</td>
</tr>
<tr>
<td>Actual Commitments</td>
<td>$18,700</td>
<td>$41,861</td>
<td>$60,561</td>
</tr>
<tr>
<td>Difference</td>
<td>$1,076</td>
<td>($14,961)</td>
<td>($13,884)</td>
</tr>
<tr>
<td>2000-2009 Capital Strategy</td>
<td>$22,983</td>
<td>$25,140</td>
<td>$48,123</td>
</tr>
<tr>
<td>Actual Commitments*</td>
<td>$22,759</td>
<td>$58,474</td>
<td>$81,233</td>
</tr>
<tr>
<td>Difference</td>
<td>$224</td>
<td>($33,334)</td>
<td>($33,110)</td>
</tr>
</tbody>
</table>
# PLANYC: Improvement Upon Current Process

<table>
<thead>
<tr>
<th></th>
<th>Ten-Year Strategy</th>
<th>PLANYC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Goals</strong></td>
<td>Not clearly linked to broader strategic goals</td>
<td>Ten clear strategic goals</td>
</tr>
<tr>
<td><strong>Time Frame</strong></td>
<td>Ineffective: Too short for long-term infrastructure planning</td>
<td>Longer-term: 25-year plan for water and sewer, transit and transportation systems</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>Not comprehensive: Focuses only on City-controlled assets</td>
<td>More comprehensive: Addresses assets owned by MTA, Port Authority, others</td>
</tr>
<tr>
<td><strong>SOGR Plan</strong></td>
<td>No timetable or plan for achieving SOGR</td>
<td>SOGR timetable for transit, roads and bridges</td>
</tr>
</tbody>
</table>
PLANYC does not capture all of the City’s assets

<table>
<thead>
<tr>
<th>PLANYC Spending in the Ten-Year Strategy</th>
<th>Spending</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLANYC Agencies</td>
<td>$39,012</td>
<td>47%</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>$19,485</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>11,106</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>4,713</td>
<td></td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>2,653</td>
<td></td>
</tr>
<tr>
<td>Transit Authority</td>
<td>767</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>287</td>
<td></td>
</tr>
<tr>
<td>All Other Agencies</td>
<td>$44,653</td>
<td>53%</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL STRATEGY</strong></td>
<td><strong>$83,665</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Notably absent: Largest capital program $28 billion in spending on schools
Effective capital planning is hindered by a lack of important information on capital assets and clear goals for achieving a state of good repair.

Many assets are not on regular replacement cycles, and ad hoc repairs are funded through borrowing in the budget.
How does the City determine the condition of its assets?

- City assesses assets in two ways:
  - Agency Evaluations
    - Schools, Bridges and Tunnels, Water and Sewer System
  - Asset Information Management System (AIMS)
    - Engineers survey some agency assets on a four-year rolling basis
    - Recommends capital and expense budget spending necessary to bring assets to a state of good repair
Agency evaluations reveal improved conditions...

- **WATER AND SEWER – ENGINEER EVALUATION**
  - Adequate condition: no major deterioration
  - Will address high priorities in FY2008
  - BUT need more comprehensive assessments for major facilities so upgrades can occur on an “orderly basis”

- **BRIDGES AND TUNNELS – ANNUAL REPORT**
  - Based on State standards – Very Good to Poor
  - A bridge that is continually well maintained should never fall below good
  - CY2006: 328 good or very good bridges; 456 fair bridges; 3 poor bridges

- **SCHOOLS – Building Condition and Assessment**
  - Architectural, mechanical, electrical inspections – Rated Good to Poor
  - FY2006 – Less than 1% poor; 69% fair; 28% fair to good
...but AIMS Report Shows City Has Not Achieved SOGR

Change in Funding of AIMS Recommendations, Fiscal Years 2000-2008
(dollars in millions)


Funding Shortfall in FY2008: $2.8 billion
Why haven’t we achieved State of Good Repair?

- Agencies don’t fully fund AIMS recommendations
- This indicates there is no clear policy for funding maintenance and repairs and no plan for achieving SOGR
- Regular replacement cycles do not guide asset replacement; instead, assets tend to be repaired when they malfunction
Weak ties between AIMS and Ten-Year Strategy

- Ten-Year Strategy does not appear to be firmly rooted in needs assessments
  - Information is limited:
    - For City-owned assets, AIMS does not include:
      - Housing, water and sewer assets
      - Piers and bulkheads and the East River Bridges
      - Smaller assets with a replacement cost of less than $10 million
    - For assets not owned by the City, little is known about their condition
  - Where good information exists, it does not always guide investment decisions
    - Demonstrated by shortfalls in AIMS funding
    - No goal, timetable, or plan for achieving SOGR
  - An example of where needs are tied clearly to the capital plan: Bridges and Tunnels
Four:
The City’s rationale for pursuing many expansion projects is unclear or unstated.
Expansion Projects: $23 billion

- 26 percent of the $86.7 billion in planned investments will be for new capital projects, including Hudson Yards
- PLANYC includes major expansions in Transportation, Environmental Protection, Housing, Parks and Energy
- Ten-Year Strategy includes additional expansions in schools and economic development
- Little or no justification provided for new projects based on data or economic analysis (such as the kind done for Hudson Yards)
- PLANYC does a slightly better job at explaining why projects should be pursued or what improvement in service can be anticipated
Recommendations
Recommendation: Institutionalize and Expand PLANYC

Institutionalize and expand PLANYC in the context of a tiered planning process:

- Pass City Council bill establishing Office of Long-term Planning & Sustainability
- Include PLANYC process in City Charter
- Expand planning to cover education and all other agencies
- Tiered planning process:
  - Longer-term strategic document that can vary by agency
  - Shorter-term budgetary document for realizing strategy through specific goals and benchmarks
Recommendations

Achieve SOGR

Develop a systematic plan to bring all City-owned assets to a state of good repair

- Conduct a fuller assessment of needs
- Produce a plan or timetable to achieve SOGR
- Tie capital plans to this SOGR plan
- Assess non-City owned assets and work with other owners to achieve SOGR for those assets
Recommendation

Fund Regular Replacement

Place assets on appropriate replacement cycles and fund their depreciation with operating revenues, not debt

- **Replacement Cycles**
  - Impose greater discipline on capital planning
  - Provides incentives for upkeep and maintenance

- **Funding from Operating Revenues**
  - Steady stream of funds available for replacement
  - Will mitigate debt service costs in the long-run
Recommendations

Justify Expansions

Pursue expansion projects based on clearly explained priorities that reflect better provision of services or high rate of return

- Economic analysis should clearly demonstrate anticipated benefits
- Example: Hudson Yards