CITIZENS BUDGET COMMISSION

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Testimony on the City of New York's Capital Budget

Submitted to the NYC Council Committee on Finance and Subcommittee on Capital Budget

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

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

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

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

- *Capital plans that are not tied to assessments of needs, which makes it virtually impossible to assess whether or not the City is adequately addressing its capital needs or investing enough to keep its assets in a state of good repair;*
- *Inefficient design, procurement, and construction management policies that increase project costs and timelines;*
- *Lack of sufficient data to track project-level spending and progress toward key milestones;*
- *Lack of asset management policies for routine maintenance that would keep assets from falling into disrepair;*
- *Failure to consider the impact of maintenance, operations, or the cost of debt service on the operating budget; and finally*
- *A growing debt burden caused by high levels of capital spending and overreliance on borrowing.*

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

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

problems can best be tackled:

- **Make Smart and Targeted Capital Investments**: The Preliminary Capital Commitment Plan and the Ten-Year Strategy that guides it are too large. Adding to capital plans should be treated with the same caution and scrutiny as adding to the operating budget. The City's capital dollars should be directed to repairing its critical infrastructure, ensuring its buildings and facilities are safe, and expanding where it makes sense to improve services. Projects, particularly those billed as "economic development," should only be included if they demonstrate greater benefits than costs or a return on investment.
- **Reflect Realistic Timelines in the Capital Plan**: The capital plan should reflect more accurately the timing of the City's capital projects, which would improve project coordination, budgeting, and monitoring, as well as reduce the buildup of appropriations that curtails City Council oversight.
- **Improve the City's Needs Assessment:** The current system for evaluating City-owned assets, the Asset Management Information System (AIMS), fails to capture the full universe of City assets and does not align with the categories in the Ten-Year Capital Strategy or the annual capital commitment plans. As a result, the City lacks information on the level of investment needed to reach a state of good repair and what share of that need is being met. AIMS should incorporate the thorough needs assessments conducted by the Departments of Transportation and Education, include a broader set of capital assets, and align more closely with the capital plan.
- **Improve the City's Capital Planning Process***:* In theory, the City is supposed to develop a capital strategy based on the findings of a comprehensive needs assessment and implement that strategy through its capital plan. In practice, AIMS's shortcomings make it difficult to develop a capital strategy that reflects the City's actual capital needs. Improving AIMS will in turn improve the process by which the City identifies and prioritizes capital spending.
- **Incorporate Life-Cycle Cost Analysis:** In addition to upfront construction costs, the capital planning process should include a life-cycle cost analysis that incorporates the cost of operating, maintaining, and ultimately replacing capital assets.
- **Add Performance Metrics to the Capital Plan***:* The capital budget lacks sufficient programmatic indicators to allow the City Council and other observers to measure the efficiency and effectiveness of capital investment. Indicators such as per-unit costs (for example, the cost per affordable housing unit produced by Housing Preservation and Development's loan programs) or benchmarks to measure progress toward project milestones should be included with the capital budget or added to the Mayor's Management Report.
- **Improve the City's Capital Management:** Historically, a lack of coordination among agencies, outdated procurement rules, and inadequate project oversight have contributed to delays, cost overruns, and inflated construction budgets. Identifying and addressing the root causes of these issues would help contain spending growth and speed up project delivery.
- **Require the Use of Discrete Project Codes:** City agencies use lump sum project codes to gain flexibility in how they deploy their capital funding. These codes offer little transparency into how and where agencies plan to commit funds and should be replaced with codes that clearly define projects.
- **Make Actual Spending on Capital Projects Public**: Currently planned spending is available by project, but comprehensive data on actual spending, in the Mayor's Management Report and capital budget documents, are only at the agencywide level. Greater data on actual capital spending would facilitate

oversight and accountability by allowing observers to monitor the progress and total cost of individual projects.

- **Pursue Procurement Reform:** The de Blasio Administration and the City Council should work with the State Legislature to enact procurement reforms, including the ability to use design-build and the repeal of Wicks Law, in order to reduce project costs and accelerate capital projects.
- **Use Pay-Go Financing***:* The City's debt service costs have increased as the capital plan, which is funded through borrowing, has grown. A prolonged low-interest rate environment and strong tax revenue growth have enabled the increase in debt service. However, with interest rates beginning to rise, the City's costs of borrowing are expected to increase and should be offset by the use of pay-go financing.

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

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

Rightsizing and Right Timing New York City's Capital Plan (March 2018), https://cbcny.org/research/rightsizing-and-right-timing-new-york-citys-capital-plan.

What New Yorkers Can and Cannot Learn from the Ten-Year Capital Strategy (May 2017), https://cbcny.org/research/what-new-yorkers-can-and-cannot-learn-ten-year-capital-strategy.

Design-Build Contracting: A Way to Fix More Bridges for Less Money (February 2016), https://cbcny.org/research/design-build-contracting.

Planning After PlaNYC: A Framework for Developing New York City's Next Ten-Year Capital Strategy (December 2013), https://cbcny.org/research/planning-after-planyc-framework-developing-new-york-citys-next-ten-year-capital-strategy.