

Understanding New York City's Budget

A Guide to The Capital Budget



This guide is designed to help any interested New Yorker understand and participate in the city's capital budget process. It outlines the components of the city's capital budget, the timelines and processes for adopting it, and provides an overview of how the city raises capital funds and how those funds get spent.

IBO

New York City
Independent Budget Office

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New York City’s spending on capital projects — from building schools to repaving streets to buying fire trucks — consumes a significant portion of the municipal budget. Over the past decade, the city’s Capital Budget for these kinds of projects has averaged about \$4.5 billion annually.

Most of this capital spending is paid for with money the city borrows. The city has roughly \$40 billion in debt outstanding — more than \$5,000 for each resident. Every year, a portion of the city’s Expense Budget must be used to fund debt service — the payment of interest and principal on debt outstanding. The more the city spends on debt service, the less there are funds available for other city programs.

But it is more than size and cost that makes the Capital Budget so important. The projects funded by the Capital Budget are often essential to the city’s future, reflecting how New York will evolve in the coming years.

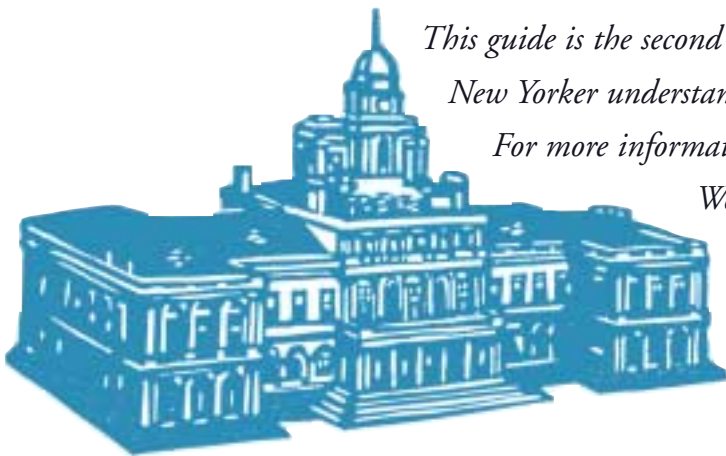
Despite the amount of dollars involved and the critical nature of the projects being selected for capital funding, many New Yorkers have little knowledge of how the Capital Budget is developed and implemented. This guide will help demystify the Capital Budget, an important but often neglected aspect of the city budget.

This guide is the second in a series by IBO designed to help any interested New Yorker understand and participate in the city’s budget process.

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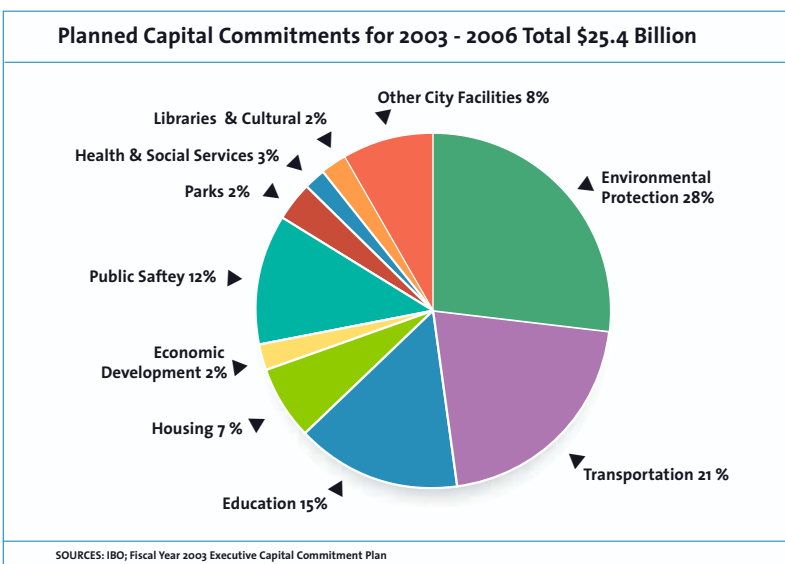
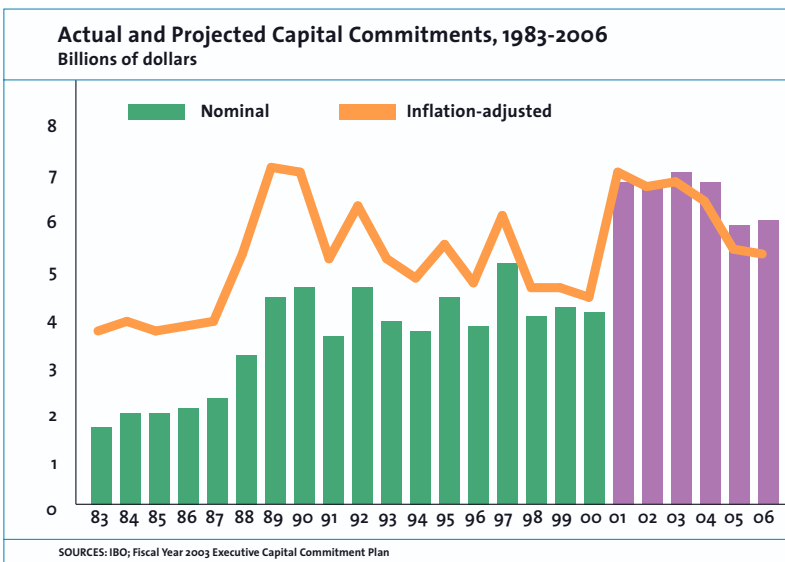
What Is The Capital Budget?

New York City has a Capital Budget, separate from its annual operating (or expense) budget, which presents the funding plans for city construction and repair projects; and purchases of land,

buildings, or equipment. Technically speaking, a “capital project” involves the construction, reconstruction, acquisition, or installation of a physical public improvement, with a value of \$35,000 or more and a “useful life” of at least five years. This may include everything from buying garbage trucks to reconstructing bridges to building housing.

The capital program is generally financed by borrowing money, usually through the sale of bonds. This differs from the city’s Expense Budget, which covers day-to-day operating expenditures and is financed by city taxes and other revenues along with state and federal aid. While some state, federal, and private grants help fund capital projects, generally 90 percent of the capital program is city-funded.

After remaining at a relatively low level following the fiscal crisis of the 1970s, the city’s capital program began rising again in the 1980s as the city was once again able to sell its bonds to investors. Beginning in 1989, the city’s capital commitments stepped up considerably, averaging about \$4.5 billion annually since 1991. Capital commitments reached their highest level ever in 2001, at \$6.7 billion. The commitment plan for capital projects for 2003-2006 totals \$25.4 billion.



Components of The Capital Budget

While the City Council adopts a Capital Budget each year, the planning and actual expenditure of funds for capital projects generally occurs over a period of years in accord with City Charter provisions. There are several different documents that articulate this process.

Ten-Year Capital Strategy. In November of every even-numbered year, the Department of City Planning and the Mayor’s Office of Management and Budget (OMB) jointly prepare a draft Ten-Year Capital Strategy. The strategy presents the goals, policy constraints, assumptions, and the criteria for assessing the city’s capital needs over the next 10 years. The document also provides the anticipated sources of financing, and the implications of the strategy, including any possible economic, social, and environmental effects. After a public hearing and a report by the City Planning Commission, the final version of the strategy is released with the Executive Budget in odd-numbered years. The strategy presents capital projects in broad categories that reflect city agency goals.

The Capital Budget. The Mayor submits an Executive Capital Budget concurrently with the Expense Budget each April. It proposes funding for capital projects for the coming fiscal year, and estimates the funds needed in each of the three following years. The final Capital Budget is adopted by the City Council with the Expense Budget. Spending for individual capital projects may not exceed the amount appropriated in the Adopted Capital Budget. Funds that are not committed in the fiscal year in which they are appropriated are typically reappropriated in the subsequent Capital Budget.

Capital Commitment Plan. To track the progress of projects included in the capital budget, a Capital Commitment Plan is issued three times each year. The commitment plan lays out the anticipated implementation schedule for the current fiscal year and the next three years. The first commitment plan is published within 90 days of the adoption of the Capital Budget (generally by early September). Updated commitment plans are issued in January and April along with the Mayor’s budget proposals for future years.

What \$10 Million in Capital Spending Buys

Housing	100 units of housing for the homeless mentally ill
Transit	6 high technology subway cars/25 hybrid diesel-electric buses
Sanitation	54 dual-bin recycling trucks
Fire	11 ladder trucks
Education	7 classrooms
Transportation	Resurfacing 100 lane-miles of city streets
Environment	8,000 feet of water mains (new construction)
SOURCE: IBO	

How to Read

The Capital Commitment Plan

Commitments and Expenditures

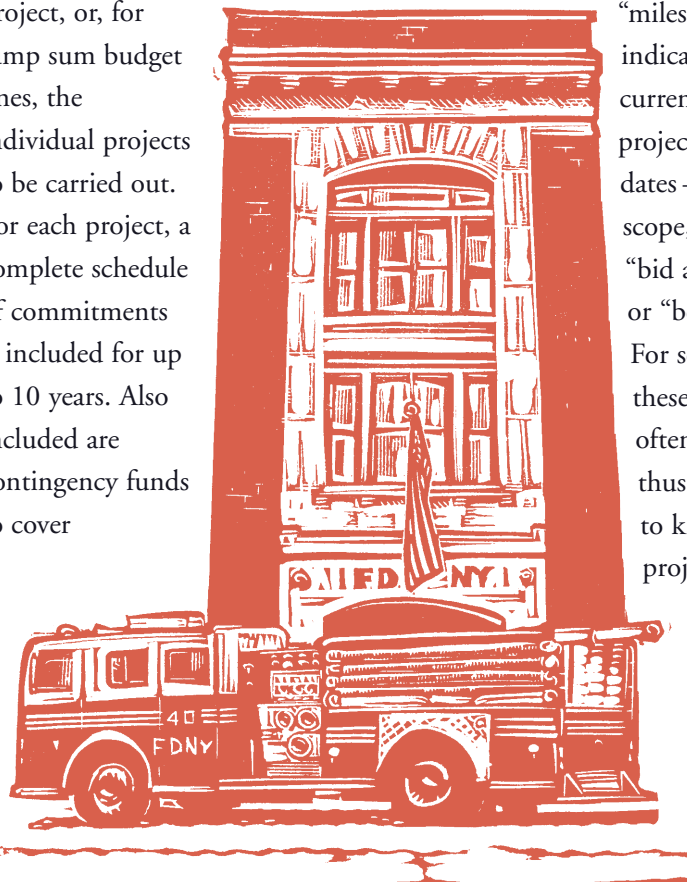
A “capital commitment” occurs when the City Comptroller registers a contract to construct or purchase a capital asset. The city can register a contract in one fiscal year for a project that will actually take two or more years to complete. For budgeting purposes, the entire contract amount is registered as a commitment in that year, but spending—actual cash outlays—will take place over the life of the project, typically at defined milestones agreed to between the city and the contractor. In general, for each dollar of contracts registered in a given year, only about 14 cents is actually spent in that same year.

The commitment plan is structured by “budget line.” The budget line provides a short project title. Budget lines may be either for discrete projects, or they may be lump-sum projects that provide funds for similar types of work at multiple locations, for example, “Tennis court reconstruction, citywide,” or “Article 8A loan program.”

Beneath each budget line there may be one or more project IDs, which describe discrete phases of a single project, or, for lump sum budget lines, the individual projects to be carried out. For each project, a complete schedule of commitments is included for up to 10 years. Also included are contingency funds to cover

unexpected costs and “inter-fund agreements” (IFA): amounts transferred from the city’s capital projects fund to the general fund for capital-related work performed by city employees or contractors—typically for planning and design work and project supervision. IFA funding reimburses the city treasury for work paid for from the city’s Expense Budget, but eligible under city rules to be financed by the proceeds of long-term borrowing.

The commitment plan also contains a “milestone” field to indicate the project’s current status along with projected start and end dates—e.g., “develop scope,” “final design,” “bid award and register,” or “begin construction.” For several years now, these fields have most often been left blank, thus making it difficult to know the status of projects.



Establishing Capital Budget Priorities

The preparation of the Capital Budget is a process that lasts many months and is intended to take into account neighborhood and borough needs as well as those citywide (see page 12 for a detailed timetable). The process begins in the fall, when each of the city's 59 Community Boards holds public hearings on the capital needs of its district. After the public hearings, each Community Board submits a statement of its capital priorities for the next fiscal year to the Mayor and appropriate Borough President.

Also in the fall, as part of preparing the Mayor's Preliminary Budget, city agencies make detailed estimates of their capital needs for the upcoming fiscal year and three succeeding fiscal years. In developing these estimates, agencies are required to consult with the Community Boards and consider their capital priorities.

After the Mayor presents the Preliminary Capital Budget by January 16, the Community Boards and

Borough Presidents hold public hearings and evaluate the responsiveness of the proposed budget to their capital priorities. Each Borough President then issues a set of recommendations to the Mayor and City Council for modifying the capital proposals.

The City Council holds hearings on the Mayor's Preliminary Budget proposals in March, and sends its recommendations to the Mayor. In years past, the Council has held separate hearings on the Expense and Capital Budgets, but more recently each committee has typically held a single hearing on both budget proposals.

The Mayor submits the Executive Capital Budget to the City Council by April 26. The Borough Presidents again comment to the Mayor and Council on the proposed budget. The City Council also holds another set of hearings and then adopts the budget. The Council can and does add new projects to the Capital Budget. Total capital appropriations, however, may not exceed the amount contained in the Mayor's "certificate of debt

affordability" issued with the Executive Budget, which sets forth the maximum amount of debt and appropriations for capital projects that, in the Mayor's opinion, the city may "soundly incur."

The City Charter requires the Mayor to document any variance between the Adopted Capital Budget and the Ten-Year Capital Strategy within 30 days after adoption. In practice, the Mayor's budget office considers the adopted Capital Commitment Plan to fulfill this requirement.

The Capital Commitment Plan translates the appropriations approved under the Adopted Capital Budget into a schedule for implementing individual projects. The fact that funds are appropriated for a project in the capital budget does not necessarily mean that work will start or be completed that fiscal year. The choice of priorities and timing of projects is decided by OMB in consultation with the agencies, along with considerations of how much the Mayor thinks the city can afford to spend on capital projects overall.

Plans, Targets and Actual Commitments

Managing Capital Projects

Almost every city agency has a capital program. For some of these agencies, particularly those with relatively small capital budgets, managing their programs would be difficult and inefficient. Two city agencies provide capital program management services for many of these smaller agencies. The Department of Design and Construction managed 18 percent of city capital contracts in 2000, including portions of programs for at least 17 city agencies, ranging from discrete projects in large agencies such as the Departments of Sanitation and Environmental Protection to the entire capital program of some smaller agencies such as the Department of Juvenile Justice. The Department of Citywide Administrative Services also oversees portions of the capital programs of some city agencies. Other agencies, such as the Department of Business Services, occasionally oversee capital projects for the benefit of other agencies.

In the Capital Commitment Plan, OMB lays out the schedule for which projects agencies are authorized to begin or continue work on during the coming four years. The sum of all the projects that OMB authorizes for the current year usually exceeds what it actually expects city agencies to undertake—referred to as the commitment targets.

Uncommitted funds may be rolled over, or transferred, into subsequent years, subject to Mayoral and Council approval.

The commitment targets are the amount that OMB expects each agency to actually commit during the year. While presented as a floor, or benchmark, for measuring agency performance, in practice the commitment target is also a ceiling dictated by considerations of affordability and capacity. In practice,

the commitment targets are identical percentages of each managing agency's authorized commitment total. There are two exceptions: the Metropolitan Transportation and School Construction Authorities. In both of these cases, the capital commitments are essentially a transfer of funds to the agency, and the target equals 100 percent of authorized commitments.

The difference between authorized commitments and the target amount is referred to as the “reserve for unattained commitments.” The “reserve” is simply the difference between the sum of all projects authorized for the year, and the target set by OMB.

Having a spending target that is below the plan level allows flexibility for delays, changes in project scope, and other adjustments to capital projects.

Fiscal Year 2002-2006 Commitment Plan
Millions of dollars; city funds only

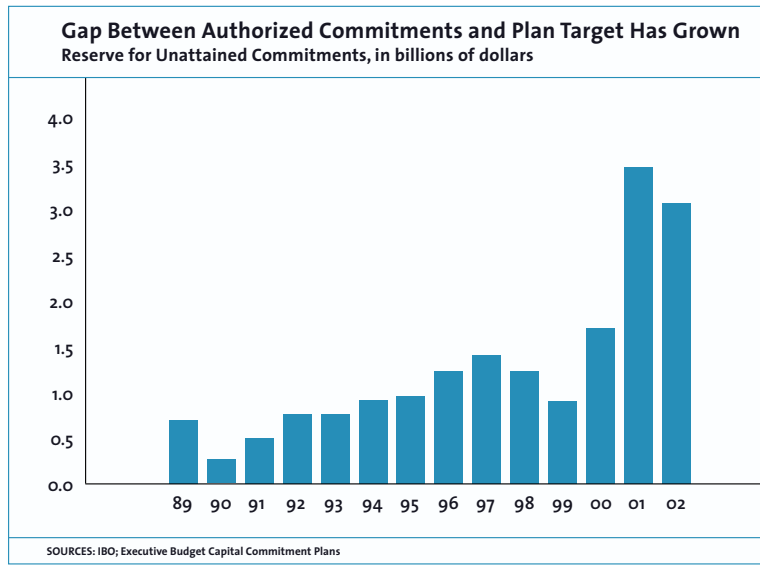
	2002	2003	2004	2005	2006
Authorized Commitments	\$8,740	\$6,510	\$6,317	\$5,099	\$5,847
Reserve for Unattained Commitments	(3,059)	(291)	(34)	414	(116)
Commitment Targets	\$5,681	\$6,219	\$6,283	\$5,513	\$5,731

SOURCES: IBO; April 2002 Capital Commitment Plan

NOTE: In Section II of the Capital Commitment Plan, the authorized commitment level is referred to as “Total Commitments,” and the target level is referred to as the “Commitment Plan.”

Although the gap between authorized commitments and the targets is presented in the Capital Commitment Plan as diminishing over the course of the four-year plan (and even as positive in some years), in practice many of the “unattained commitments” will be rolled over into the next year’s plan, so that the current-year gap will remain large. The gap has grown in recent years, exceeding \$3 billion in the last two executive capital plans.

In other words, one out of three dollars authorized for a given year will not actually be committed. This suggests that either the commitment plan contains projects the city no longer expects to implement or that the process for planning and prioritizing projects is not producing a realistic schedule—or a combination of the two.

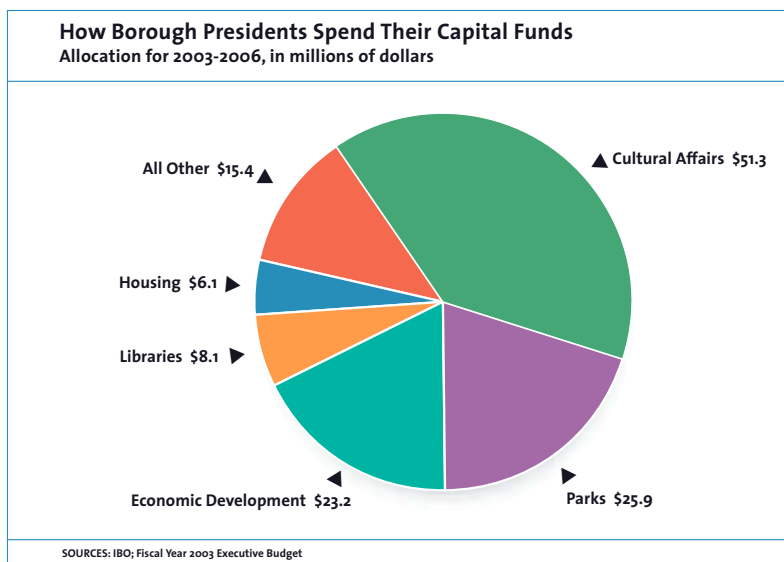


Borough President Capital Spending

Each year the Borough Presidents together receive an amount equal to 5 percent of the capital appropriations that are funded by city debt or by state and federal funds, and over which the city has “substantial discretion,” which they may use to fund particular capital projects. For fiscal year 2003 this amounted to \$87.9 million. The 5 percent allocation is distributed among the Borough Presidents by a formula equally weighing population

and total geographic area of each borough. In 2003, the allocation equaled \$13.4 million for the Bronx, \$23.7 million for Brooklyn, \$11.8 million for Manhattan, \$28.1 million for Queens, and \$10.9 million for Staten Island.

The Mayor’s budget office determines the basis upon which the Borough Presidents’ 5 percent allocation is calculated. Several capital program areas are excluded from the calculation either because they are not funded by debt supported by city tax dollars or state and federal grants, or because the city does not have substantial discretion over them. For example, the city’s capital plan for environmental protection, which typically represents about 30 percent of all capital commitments, is excluded because it is financed by debt issued by the Water Authority and repaid by charges levied on water and sewer system users (moreover, the city does not have substantial discretion over environmental spending because much of it is mandated by the federal Safe Drinking Water and Clean Water Acts). Likewise, capital expenditures on school construction, transit, East River bridge repair, and court maintenance are not counted towards the Borough Presidents’ allocation.



Tracking the Progress of Capital Projects

There are various ways the city records the progress of capital projects. In general, they measure financial transaction, spending and obligation, rather than what most citizens care about—the status of work on a particular project. Although information is publicly available on annual capital spending by budget line, no information is currently made publicly available that provides detailed project-level information on the status of capital projects.

The Capital Commitment Plan lays out the anticipated implementation schedule for capital projects, and is one source of information on how far along projects are—although not a

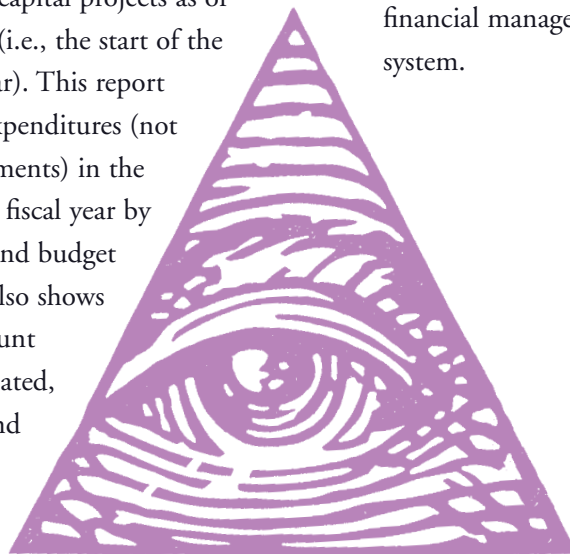
consistent or always useful one. The adopted commitment plan is usually published in September, and then updated in January and April.

OMB also produces two copies of a detailed geographic version of the commitment plan. One copy is divided up and distributed to the Community Boards, the other is maintained by the Mayor's Office of Community Board Relations. In general, however, the commitment plan is better as a guide to future plans than as a current status report.

The City Comptroller publishes a report by December 1st each year in the *City Record* on the status of existing capital projects as of July 1st (i.e., the start of the fiscal year). This report shows expenditures (not commitments) in the previous fiscal year by agency and budget line. It also shows the amount appropriated, spent, and

currently encumbered (funds set aside because a purchase order or contract has been signed) since the project's inception, and the balance of remaining appropriations.

Until January 1999, the city also published a detailed, multi-volume report on capital projects. The Capital Project Detail Data report enabled users to track a project's status. Although many fields were often left blank, the report was designed to present information on cost, budget, scope and milestones, and the Community Board in which the project was located, if applicable. The report has not been published recently due to limitations of the city's new financial management computer system.



Main Types of Capital Financing

Why Borrowing?

Why is the capital program primarily financed by issuing long-term debt?

There are two main reasons:

▲ As a matter of equity, it seems fair that current taxpayers should help pay for the use of facilities that may have been built before they were citizens of the jurisdiction. Why should taxpayers who happen to be city residents for the one or two years required for construction of a public library pay all the cost of a facility which their children, grandchildren, and even more distant generations would then enjoy the use of for free?

▲ Because capital projects vary considerably in size, complexity, and cost, the stream of expenditures can be considerably “lumpier” than it is for Expense Budget items. To pay for a capital program as part of the general budget would require erratic changes in tax rates from year to year—an undue and unpredictable burden on taxpayers.

The city generates long-term debt by issuing bonds to build, maintain, and improve the city’s infrastructure and other capital assets.

Every year, a portion of the city’s Expense Budget must be used to fund debt service—the payment of interest and principal on debt outstanding. The more the city spends on debt service, the less there are funds available for other city programs. Thus there is an important relationship between the Capital and Expense Budgets.

IBO estimates that the city will pay an estimated \$3.7 billion in debt service in 2003 (almost 18 percent of tax revenues), growing to \$5.2 billion by 2006 (nearly 20 percent of tax revenues).

In 2002, the city had over \$40.2 billion in debt outstanding—about \$5,025 per resident. This includes:

- ▲ GO debt: \$26.0 billion
- ▲ TFA debt: \$8.3 billion (not including World Trade Center-related debt)
- ▲ MAC debt: \$2.9 billion
- ▲ Capital Lease Obligations: \$2.4 billion (2001)
- ▲ TSASC debt: \$600 million

General Obligation (GO) debt is backed by the general revenues (full faith and credit) of the city. That is, the city promises to use in good faith its general powers to collect sufficient revenues to make principal and interest payments on the debt as they become due—in particular, property tax revenues are pledged to GO debt service before they are available for other city spending. The amount of outstanding GO debt is limited by the state Constitution to 10 percent of the five-year average of the full value of taxable real property in the city, as determined by the state. In 2002, the GO limit was \$32.9 billion.

Transitional Finance Authority (TFA)

issues debt backed by personal income tax revenue. When New York City’s debt neared the constitutional limit in the late 1990s, it received approval from the state legislature to create this entity to issue debt backed by personal income tax revenues. This allowed the city to continue funding its capital program with debt that is not subject to the constitutional debt limit.

Tobacco Settlement Asset Securitization Corporation (TSASC) was created in 1999 to issue debt secured by a portion of the city’s share of revenues from the settlement of claims against

tobacco companies. Like TFA debt, TSASC debt is not subject to the constitutional debt limit.

Municipal Assistance Corporation

(MAC) debt is backed by sales tax revenue. During the fiscal crisis of the mid-1970s, the city was unable to sell its bonds to investors. New York State created MAC to issue bonds and exchange MAC bonds for outstanding city notes. MAC no longer issues new debt. The last MAC bonds are scheduled to be paid off in 2008.

Capital Lease Obligations are an alternative to long-term debt financing. These obligations occur

when the city enters into long-term lease agreements where another entity (such as a private company, quasi-public authority, or state agency) finances construction of a building or other capital asset. The city then makes annual lease payments that cover the debt service. Because the city does not issue the debt for the project, the city is able to meet capital needs while bypassing the constitutional debt limit. The annual lease payments are included in total debt outstanding, but not in calculations of the general debt limit.

Pay-As-You-Go capital is another alternative to debt financing. Some capital projects are funded not by long-term debt but by current revenues, appropriated annually out of the Expense Budget. This is called Pay-As-You-Go, or PAYGO, capital spending. When the city has enjoyed substantial budget surpluses the City Comptroller and others have advocated using a portion of the surpluses to supplement the debt-financed capital program with PAYGO capital. Using PAYGO to supplement the capital program helps the city meet its capital needs without adding to total debt outstanding.



Capital Budget Timetable

Not Later Than

October 1	Mayor's submission of the amounts necessary to meet the city's capital needs.
November 1 (even-numbered years)	The Directors of the Mayor's Office of Management and Budget and the Department of City Planning submit a draft 10-year capital strategy.
November 15	The Mayor submits a citywide Statement of Needs concerning city facilities.
Thirty days prior to submission of departmental estimates	Each Community Board submits a statement of its Capital Budget priorities to the Mayor and the appropriate Borough President.
Set by Mayor	Each agency submits a detailed estimate of its need for capital funds to the Mayor.
December 1	The Comptroller submits a report providing the amount and nature of all payment obligations for each pending capital project.
January 16	The Mayor submits a preliminary certificate on capital debt and obligations and sets date for Borough Presidents to propose how they will spend their allocations.
January 16 (odd-numbered years)	The City Planning Commission responds to the draft Ten-Year Capital Strategy.
January 16	The Mayor issues the Preliminary Budget for the ensuing fiscal year.
February 15	Each Community Board presents an assessment of the responsiveness of the Preliminary Budget to the district's statement of budget priorities.
February 25	Each Borough Board submits a comprehensive statement on the budget priorities of the borough.
March 10	Each Borough President submits any proposed modifications of the Preliminary Budget to the Mayor and the Council.
March 15	The Independent Budget Office publishes a report analyzing the Preliminary Budget for the ensuing fiscal year.
March 25	The Council, through its committees, holds hearings on the program objectives and fiscal implications of the Preliminary Budget, the statements of budget priorities of the Community Boards and Borough Boards, the draft Ten-Year Capital Strategy and the report of the City Planning Commission on such strategy, the Borough Presidents recommendations, and the status of capital projects previously authorized.
April 26 (odd-numbered years)	The Mayor issues the Ten-Year Capital Strategy.
April 26	The Mayor submits a proposed Executive Capital Budget to the Council.
May 6	Each Borough President submits a response to the Mayor's Executive Budget to the Mayor and the Council.
May 15	The Independent Budget Office publishes a report analyzing the Executive Budget for the ensuing fiscal year.
Between May 6 and May 25	The Council holds public hearings on the budget as presented by the Mayor.
June 5	Adoption of the budget by the Council.
The fifth day after adoption of the budget by the Council	Date by which Mayor must exercise veto.
Within 10 days of the Mayor's veto	Date by which Council must act to override Mayor's veto.
The day after the budget is adopted	The budget as finally adopted is certified by the Mayor, the Comptroller and the City Clerk as the budget for the ensuing fiscal year.
Thirty days after the budget is adopted	The Mayor prepares a statement of how the Capital Budget and Program as adopted vary from the Ten-Year Capital Strategy.

NOTES: Timetable based on City Charter provisions; dates may be changed by annual legislation.

Glossary of Common Capital Budget Terms

Advice of Award Notification sent by managing agency to Comptroller that a contract has been awarded. This allows the Comptroller to register the contract.

Appropriation The amount of money allocated to a budget line in the Adopted Capital Budget.

Budget Amendment A change in the Capital Budget. It can be made for a change in appropriation, title, or addition of a new project and/or appropriation.

Commitment In general, a capital commitment is a contract awarded by the managing agency and registered by the City Comptroller.

Debt Limit A limit on long-term borrowing imposed by the state Constitution and the Local Finance Law. The total amount of outstanding city debt cannot exceed 10 percent of the five-year average full value of the city's taxable real estate as calculated by the state. City capital funds are either exempt from the debt limit or non-exempt (see Exempt below).

Debt Service Funds budgeted in the Expense Budget for the payment of principal and interest on debt.

Encumbered Funds that are contractually obligated, but have not yet been spent.

Exempt Certain city capital funds may be exempt from—i.e., not charged to—the debt limit (see above), and are designated in capital budget documents as CX. Exempt debt includes debt issued by the Municipal Water Finance Authority for water supply and treatment facilities and by the state for court buildings. All capital funds financed by debt issued by New York City itself are “non-exempt” (designated CN).

Expenditures Also “liquidated expenditures.” Actual cash outlays, as opposed to commitments, which represent future obligations.

Inter-Fund Agreement (IFA) An internal contract that allows the capital projects fund to reimburse the general fund (Expense Budget) for the cost of city employees who work on capital projects.

Line Project A site-specific or activity-specific construction, equipment, or land acquisition project that is identified as a separate project in the Capital Budget.

Local Finance Law The types of improvements or construction projects that may be funded in the Capital Budget are determined by the state Legislature in the Local Finance Law.

Lump Sum Project A grouping of related projects or purchases to be carried out or made at various locations or facilities. Lump sum projects are classified as construction and reconstruction, equipment purchase, land acquisition, or design.

Managing Agency Agency responsible for implementation of a capital project. See also Project Type.

Period of Probable Usefulness The number of years established in the state Local Finance Law as the useful life of a particular type of capital expenditure. This period is the maximum term of the bond that may be sold to finance the capital expenditure.

Project Type A two-letter code indicating which city agency will own and maintain the capital asset to be acquired, built, or reconstructed.

Registration Process by which the City Comptroller legally binds the city to an awarded contract.