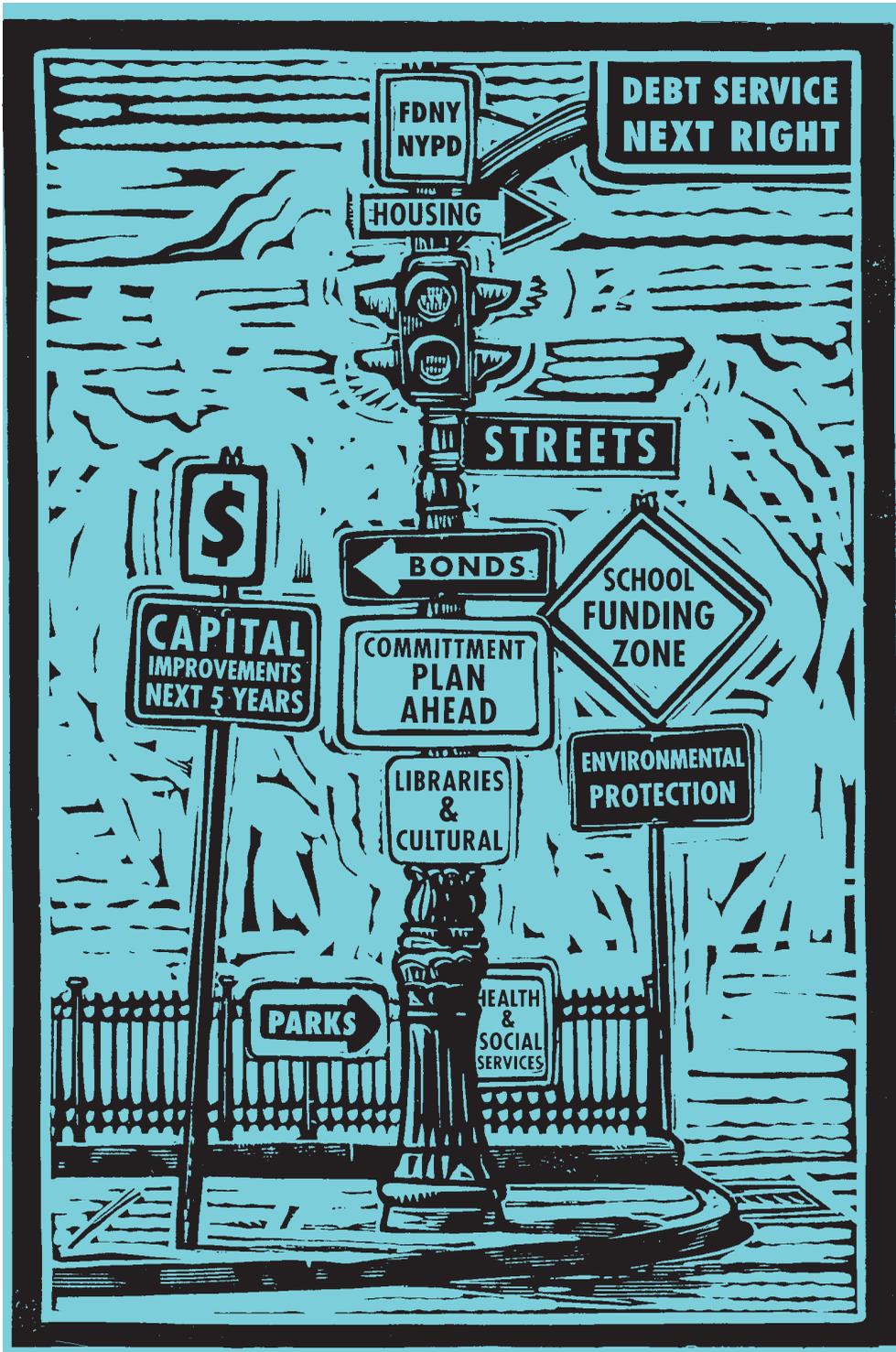


Understanding New York City's Budget

A Guide to The Capital Budget



This guide is designed to help interested New Yorkers understand and participate in the city's budget process. It outlines the components of the city's Capital Budget, the time lines and processes for adopting it, and provides an overview of how the city raises capital funds and how those funds are spent.

IBO

New York City
Independent Budget Office

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capital budget basics

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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 \$7.9 billion in annual expenditures.

Most of this capital spending is paid for with money the city borrows. The city has roughly \$68 billion in debt outstanding—more than \$8,300 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 funds are 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 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 interested New Yorkers understand and participate in the city's budget process. For more information about this or other IBO publications, visit our Web site at www.ibo.nyc.ny.us or call IBO at (212) 442-0632.

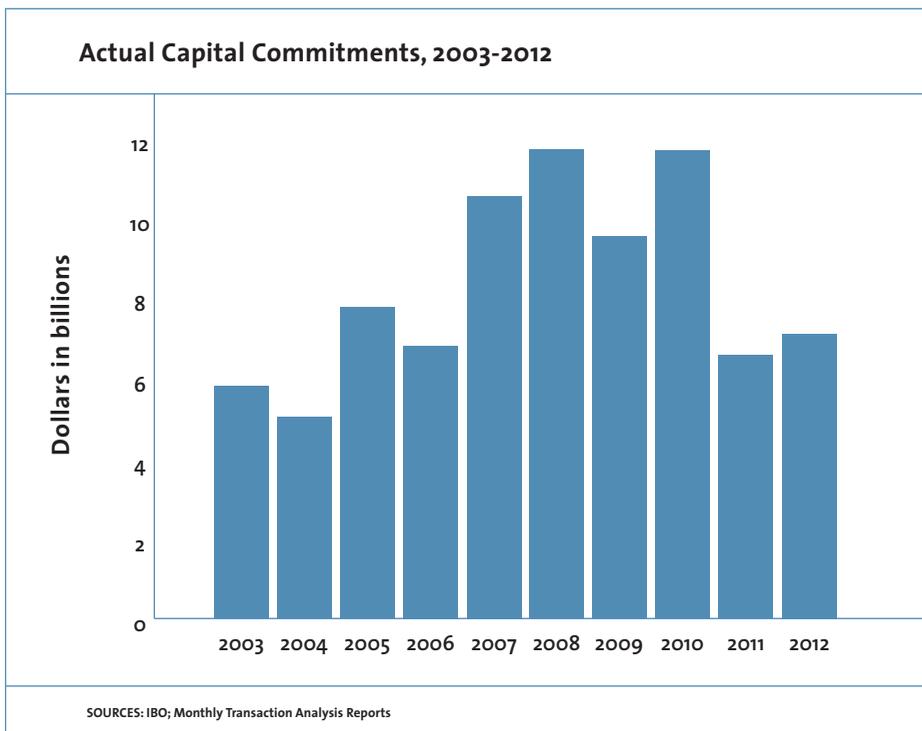
What Is The Capital Budget?

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. In fiscal year 2012, over 75 percent of the capital program was city funded, and the rest was supported by state, federal, and private grants.

Total capital commitments have been rising, from \$5.8 billion in 2003 to a peak of \$11.7 billion in 2008, and then falling to \$7.1 billion in 2012. This represents an average annual increase in actual commitments for capital projects of 2.3 percent.



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 Mayor’s Office of Management and Budget (OMB) and the Department of City Planning jointly prepare a draft Ten-Year Capital Strategy. The strategy presents the goals, policy constraints, assumptions, and 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 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. Approval from OMB, in the form of a “certificate to proceed,” is required before an agency can commit capital funds for a project. Funds that are not committed in the fiscal year in which they are appropriated are either reappropriated in the subsequent Capital Budget or withdrawn.

Capital Commitment Plan. The commitment plan, issued by OMB three times each year, presents an agency’s capital program and provides the anticipated implementation schedule for projects in 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	40 new units of supportive housing for low-income, special needs populations (6 percent of the city’s average annual capital spending on new affordable housing)
Sanitation	33 dual-bin recycling trucks
Parks	6,891 sidewalk trees
Fire	9 ladder trucks
Education	3 classrooms
Transportation	65 lane-miles of city streets (about 7 percent of total lane miles resurfaced each year)
Environment	9,006 feet of new or reconstructed sewers
Correction	26 jail beds
Parks	7 reconstructed playgrounds or 4 new playgrounds of about one acre
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.

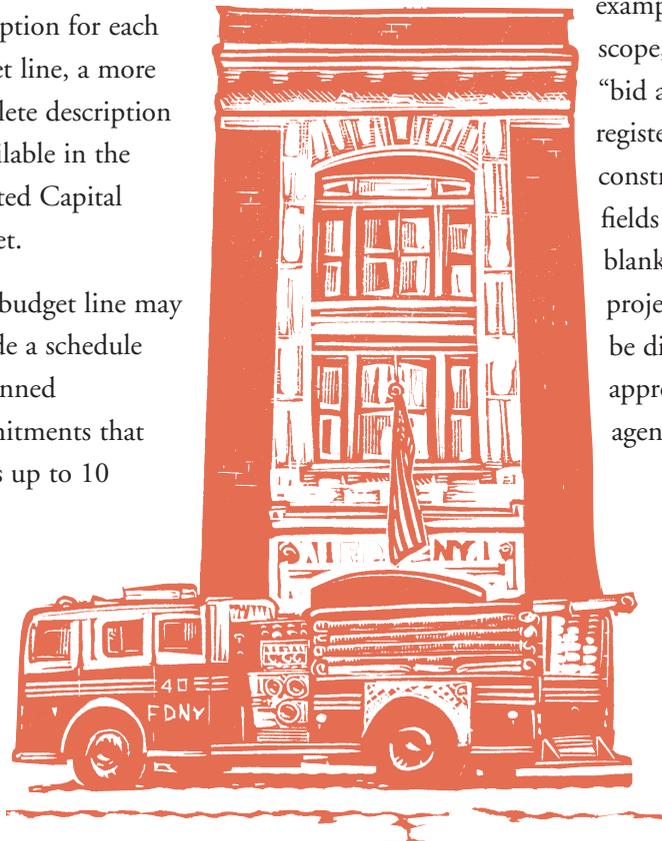
The Capital Commitment Plan authorizes new and on-going projects to be implemented within the appropriated levels and definitions by budget line as set forth in the Adopted Capital Budget. Budget lines may be either for discrete projects, for example, “Reconstruction of 1st Avenue, Brooklyn,” or they may be lump-sum projects that provide funds for similar types of work at multiple locations, for example, “Improvements to Highway Bridges and Structures, Citywide.” While the commitment plan only provides a short description for each budget line, a more complete description is available in the Adopted Capital Budget.

Each budget line may include a schedule of planned commitments that covers 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 Fund to the General Fund as reimbursement for costs related to any capital planning and design work, and project supervision performed by city employees. Under city rules, IFA expenditures may be financed with proceeds from 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 — for

example, “develop scope,” “final design,” “bid award and register,” or “begin construction.” These fields are generally left blank, which means project inquiries must be directed to the appropriate city agency.



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, borough, and citywide needs (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

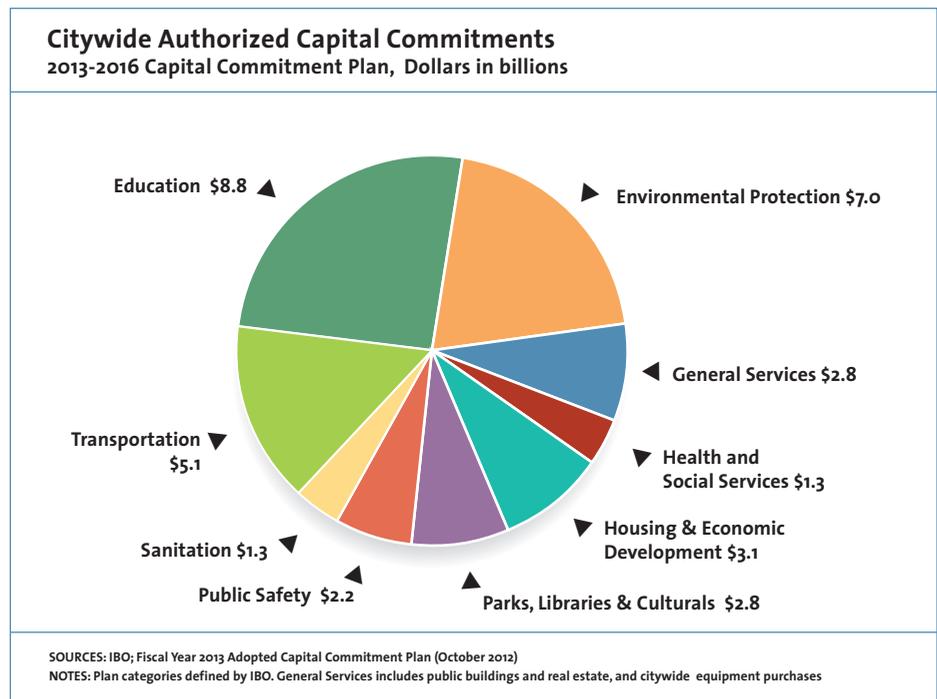
and City Council for modifying the capital proposals.

The City Council holds hearings on the Mayor’s Preliminary Budget proposals in March and sends its recommendations to the Mayor.

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 again holds 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 “statement of debt affordability” issued with the Executive Budget, which sets forth the city’s capital financing needs and sources of funding for its four-year capital program.

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 as fulfilling this requirement.



Managing Capital Projects

Twenty-eight city agencies have a capital program. For some of these agencies, particularly those with small capital budgets, managing their programs would be difficult and inefficient. Two primary agencies—the Departments of Design and Construction and Citywide Administrative Services—provide capital program management services for many of these smaller agencies. Other agencies such as the Department of Small Business Services occasionally oversee capital projects for the benefit of other agencies.

The Capital Commitment Plan translates the appropriations authorized under the Adopted Capital Budget into a schedule for implementing individual projects. The fact that funds are appropriated for a project in the Adopted 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.

The city's Adopted 2013 Capital Commitment Plan, which covers fiscal years 2013 through 2016, totals \$34.4 billion. Education, environmental protection, and transportation projects are expected to receive 61 percent or \$20.9 billion of planned capital commitments. Education projects

represent the largest share, 25.6 percent or \$8.8 billion of planned commitments. Environmental protection accounts for 20.3 percent or \$7.0 billion followed by 14.8 percent or \$5.1 billion for transportation projects.

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—these expectations are referred to as the commitment targets. Subject to Mayoral and Council approval, uncommitted funds are rolled over, or transferred, into the subsequent year; in practice, almost all uncommitted funds are rolled over.

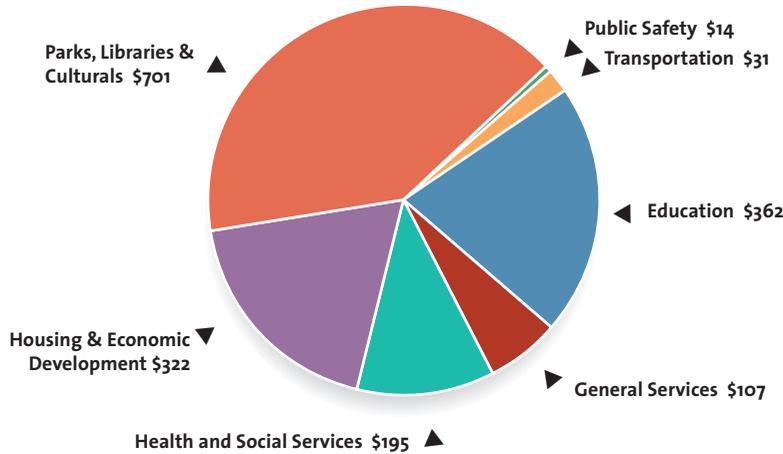
The difference between authorized commitments and the target amount is referred to as the “reserve for unattained commitments.” The reserve is simply the difference between the sum of all projects authorized for the year, and the target set by OMB. Having a spending target that is below the plan level allows flexibility for delays, changes in project scope, and other adjustments to capital projects.

Over time, the city has determined that in order to achieve a targeted level of commitments (maximum productivity) it needs to approve approximately 35 percent more in authorizations. Planning for slippage, such as redesigns due to unforeseen construction issues, helps ensure that the city will be able to maintain the targeted level of commitments.



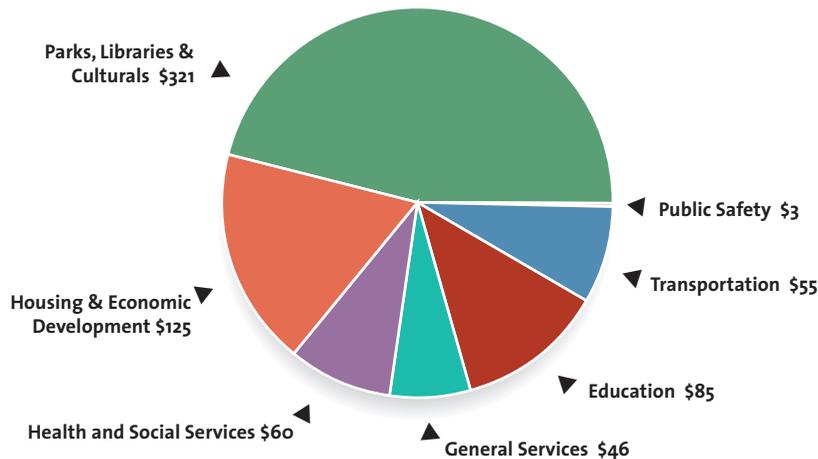
City Council and Borough President Capital Allocations

Where do Council Members Allocate Their Capital Funds?
2013-2016 Capital Commitment Plan, Dollars in millions



SOURCES: IBO; Fiscal Year 2013 Adopted Capital Commitment Plan (October 2012)
NOTES: Plan categories defined by IBO. General Services includes public buildings and real estate, and citywide equipment purchases. Roughly \$342,000 was allocated to Environmental Protection and \$553,000 allocated to Sanitation are too small to appear in chart.

Where do Borough Presidents Allocate Their Capital Funds?
2013-2016 Capital Commitment Plan, Dollars in millions



SOURCES: IBO; Fiscal Year 2013 Adopted Capital Commitment Plan (October 2012)
NOTES: Plan categories defined by IBO. General Services includes public buildings and real estate, and citywide equipment purchases. Roughly \$100,000 allocated to Environmental Protection is too small to appear in chart.

Each year City Council members and Borough Presidents provide discretionary city funds for capital projects that benefit one or more communities in their respective districts, boroughs or city as a whole. These projects may also receive funding from other sources, including other city funds, and state, federal, and private grants.

The Borough Presidents collectively receive 5 percent of the discretionary portion of the capital budget as set forth in the City Charter, which is allocated to each borough based on a formula that takes into consideration the borough's population and total geographic area. The Mayor's budget office determines the amount of discretionary capital funds from which the 5 percent is allocated; 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. In practice, however, the Borough Presidents negotiate with OMB on the amount of discretionary capital funds available in the capital budget.

Tracking the Progress of Capital Projects

City Council. The Adopted 2013 Capital Commitment Plan, covering fiscal years 2013-2016, includes a total of \$1.7 billion for City Council-sponsored projects. Roughly 40 percent or \$701 million of the Council's capital funds are allocated to parks, libraries, and cultural institutions. Other capital areas receiving a large share of Council support include education (21 percent or \$362 million), housing and economic development (19 percent or \$322 million), and health and social services (11 percent or \$195 million).

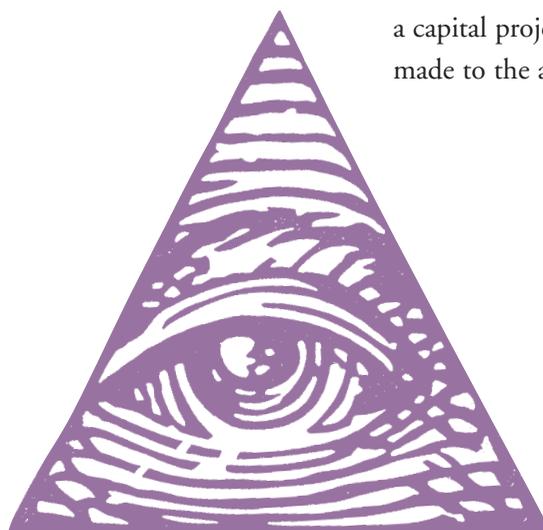
Borough Presidents. The Adopted 2013 Capital Commitment Plan, covering fiscal years 2013-2016, includes \$696 million for Borough President-sponsored projects. Roughly 46 percent or \$321 million of the Borough President's capital funds are allocated to parks, libraries, and cultural institutions. Other capital areas receiving a large share of capital funding are housing and economic development (18 percent or \$125 million) and education (12 percent or \$85 million).

The Capital Commitment Plan is not a project tracking document. To enable users to track a project's status, the city publishes a detailed, multivolume report — the Capital Project Detail Data report. This report is designed to present information on cost, budget, scope, and milestones, and, where applicable, the Community Board in which the project was located.

OMB also produces a detailed geographic version of the commitment plan that is divided up and distributed to the Community Boards.

In addition, 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 (that is, the start of the fiscal year). This report shows actual spending (as opposed to 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.

If these documents do not provide sufficient information on the status of a capital project, inquiries may be made to the appropriate city agency.



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 the full cost of a facility which their children, grandchildren, and even more distant generations would then enjoy 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 the entire 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 takes on 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. In 2012, debt service on general obligation, TFA, and capital lease obligations (adjusted for prepayments) accounted for \$5.5 billion of General Fund spending — about 13.0 percent of city tax revenues. Thus, there is an important relationship between the Capital and Expense Budgets.

In 2012 the city had over \$68 billion in debt outstanding, about \$8,300 per city resident. The debt is comprised of:

- General Obligation (GO) debt: \$42.3 billion
- Transitional Finance Authority (TFA) debt: \$19.6 billion (not including Building Aid Revenue Bonds and World Trade Center-Recovery Bonds)
- Conduit Debt: \$4.8 billion
- Tobacco Settlement Asset Securitization Corporation (TSASC) debt: \$1.3 billion

General Obligation debt is backed by the general revenues (full faith and credit) of the city. That is, the city promises in good faith to use 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. The city’s constitutional debt limit is \$76.8 billion in 2013 and \$78.1 billion in 2014.

Transitional Finance Authority issues debt backed by personal income tax revenue. When New York City's debt neared the constitutional limit in the late 1990s, the city received approval from the state legislature to create the TFA to issue debt backed by income tax revenues. This allowed the city to continue funding its capital program with debt that is not subject to the constitutional debt limit. Moreover, authority debt is less costly for the city. Until recently, the TFA was authorized to issue \$13.5 billion of bonds for general capital purposes and its issuing

capacity had been exhausted. In July 2009, the state authorized the city to issue additional bonds through the authority; however, any TFA debt exceeding the \$13.5 billion cap is now subject to the constitutional debt limit. The city is now able to finance up to half of its capital program with TFA bonds and the remainder with general obligation bonds.

Tobacco Settlement Asset Securitization Corporation 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.

Conduit Debt is 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, 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 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, elected officials and others have advocated using a portion of the surpluses to reduce the debt needed to fund the city's capital program. Using PAYGO 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 Ten-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 setting the maximum amount of capital debt, appropriations and expenditures. 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	Borough Presidents submit 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 City Planning Commission's response, 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 or appropriation, or both.

Certificate to Proceed. Approval from OMB that sets forth the terms and conditions under which the capital project shall proceed and informs the Comptroller of the amount of obligations to be used for financing the capital project.

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 New York State Constitution. 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.

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

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

Exempt Funds. Certain city capital funds may be exempt from — that is, not charged against — the debt limit, 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.

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

Inter-Fund Agreement. An internal contract that allows the Capital 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.

Non-Exempt Funds. All capital funds financed by debt issued by New York City itself are “non-exempt” (designated CN).

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. The maximum term of a bond sold to finance a capital expenditure may not exceed that asset's period of probable usefulness.

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.

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