



Planning for the Long Term: Capital Spending Reform in New York State

November 2010

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Executive Summary

Over the past ten years, New York has spent \$63.2 billion to support its capital program.¹ Despite this significant investment, there are many critical capital needs across the State that remain unmet, calling into question the adequacy and effectiveness of the current capital planning and financing process. This report analyzes ten years of capital spending in New York State, covering the period from State Fiscal Year (SFY) 2000-01 through SFY 2009-10, and compares historical trends to projections in the current Five-Year Capital Program and Financing Plan (Capital Plan). Major findings include:

- The State's current capital planning and financing process is not integrated or coordinated. There is an insufficient link between the capital planning undertaken at the State agency level and the actual financing for capital projects. Furthermore, the Capital Plan lacks sufficient detail to support a determination of how the level of financing being proposed will affect the State's current capital asset condition.
- Approximately 54.4 percent of the \$63.2 billion spent for capital purposes since SFY 2000-01, or \$34.4 billion, was used for transportation purposes. This is more than all other categories of capital spending combined. However, New York still has a significantly higher percentage of roads and bridges that are deemed deficient, obsolete, poor or mediocre than the national average.
- The State has significant funding needs for wastewater and drinking water infrastructure as well. Yet spending for environmental capital purposes has declined from 11.2 percent of total capital spending between SFY 2000-01 and SFY 2004-05 to 7.4 percent over the past five years, and is projected to fall further, to 6.0 percent, over the next five years.
- Funds for maintenance of capital assets are often included within funds budgeted for other capital purposes, such as new construction. The failure to identify this information separately makes it impossible to know exactly how much will be spent by individual agencies on maintenance, or how maintenance will be financed.²

¹ The *Enacted Budget Five-Year Capital Program and Financing Plans*, from SFY 2000-01 through SFY 2010-11, were used to provide data for this report.

² Section 27 of the State Finance Law requires that each fiscal year, the budget submitted by the Executive shall contain separate and distinct appropriations, which may be lump sum appropriations, for scheduled maintenance activities. On or before the first day of December, nineteen hundred ninety-three, the Comptroller, in consultation with the Division of the Budget, shall provide a summary report to the Director of the Budget and the chairs of the Senate Finance Committee and Assembly Ways and Means Committee describing enhancements, costs and capabilities necessary to implement the reporting of actual scheduled maintenance disbursements of State agencies, by State agency, in sufficient detail to monitor implementation of the agency's scheduled maintenance plan. Commencing fiscal year 1994-95, the Comptroller shall provide the Director of the Budget and the chairs of the Senate Finance Committee and the Assembly Ways and Means Committee with monthly reports of the actual scheduled maintenance disbursements. Such reports cannot be provided due to the manner in which State capital projects are appropriated.

- New York has relied heavily on the use of debt for non-capital purposes as well as to finance its capital program. This decreases the State's debt capacity available to meet critical infrastructure needs and increases the debt service burden on New Yorkers without capital assets or improvements to show for it. As of March 31, 2010, New York had nearly \$10 billion in State-Funded debt outstanding that was not issued for capital purposes.

Given the limited availability of resources and the high level of unmet needs, it is critical that the State prioritize its capital needs more effectively and spend its capital dollars more efficiently. To accomplish this, Comptroller DiNapoli has advanced comprehensive reforms to the State's debt and financing practices, as well as specific recommendations to improve New York's capital planning process. These reforms are necessary to ensure the State properly maintains and improves its infrastructure and capital asset base to meet both current and future needs. These recommendations and reforms are as follows:

- Restrict the use of public authority debt,
- Impose a strict, effective debt cap,
- Impose constitutional controls on debt,
- Restore control over State debt to voters,
- Create a New York State Capital Asset and Infrastructure Council,
- Establish a statewide capital needs assessment,
- End off-budget capital spending,
- Enhance agency reporting, including prioritizing existing capital needs,³
- Establish criteria for new capital initiatives,
- Demonstrate connection between funding and infrastructure improvements,
- Integrate Legislative capital budget changes to the Capital Plan, and
- Re-examine existing capital appropriations and reappropriations.

³ Agency Capital projects and maintenance statements are required by State Finance Law § 14-b.

Introduction

Capital assets and infrastructure (including land, buildings, equipment, roads, bridges and dams) preservation is important to the economic future of the state and is integral to the State's ability to attract and retain business. Infrastructure is a critical capital asset category, and weak or inadequate infrastructure can place citizens' safety at risk, compromise communities' quality of life, jeopardize the State's capital investments and undermine the ability of the State to attract and retain jobs.

There are several components to effective capital asset planning, including:

- Maintaining consistent and updated information on the status of all capital assets;
- Establishing formal policies on asset maintenance, replacement cycles, and future capital needs;
- Instituting policies on prioritization, funding and affordability that are based on appropriate economic analyses.

These components should be integrated to provide the foundation for both a long-term strategic capital plan and an ongoing, annually updated capital plan. Under current law, New York State publishes a proposed Five-Year Capital Program and Financing Plan (Capital Plan) with the Executive Budget.⁴ The Capital Plan, which is updated annually, is required to include a comprehensive assessment of the capital assets and program needs of all State agencies, and an analysis identifying how such requirements would be financed. The Capital Plan must also include a summary of maintenance activities that are anticipated to be undertaken and a summary of scheduled maintenance requirements.

However, under the process now in place, the Capital Plan does not provide sufficient information to enable projects to be prioritized effectively by policy makers, and inconsistencies in policy and practice across State agencies further undermine the Plan's usefulness. Moreover, there is no provision in the current process for coordinated, comprehensive long-term strategic planning with a 20 or 30-year horizon, which would help the State assess its risks, needs and opportunities more effectively.

In New York State, each State agency annually prepares a five-year assessment of its capital asset and maintenance needs, which is incorporated into the Capital Plan.⁵ However, inconsistent information, such as varying degrees of specificity, is provided in the Capital Plan because agencies lack a standardized approach to assess the

⁴ Section 22-c, State Finance Law. The Law requires the Executive to submit the Plan concurrent with the Executive Budget and with an update of the Plan by the later of July 30 or 90 days after the enactment of all budget bills that constitute the budget by the Legislature. Note that Section 23 of the State Finance Law states that "[n]ot later than thirty days after the legislature has completed action on the budget bills submitted by the governor and the period for the governor's review has elapsed, the Executive shall cause to be submitted to the Legislature the revisions to the financial plans and the capital plan required by subdivisions one, two, four and five of section twenty-two of this article as are necessary to account for all enactments affecting the financial plans and the capital plan."

⁵ Required pursuant to State Finance Law § 14-b.

condition of their capital assets. Agencies do not use consistent policies or guidelines in developing their annual assessment, and do not have commitment standards that define and identify how to achieve a state of good repair.

Capital assets, when purchased, have an expected useful life that can be reasonably reached if all routine maintenance and needed repairs are performed. The State can avoid more costly repairs, early replacement of assets, and associated adverse financial impacts when capital assets are maintained in a state of good repair. The State must ensure that all capital assets are actually maintained in good condition and that formal capital asset replacement cycles have been adopted. However, there are no comprehensive standards to guide a determination of the state of good repair of all New York's capital assets.

Capital Spending

The Capital Plan provides a broad overview of capital spending and financing sources. While the Capital Plan, and to a certain extent the Financial Plan, provide some detail on how funds are spent to meet the State's capital needs, neither document provides comprehensive information on existing assets, maintenance needs, planned replacements or expansion, financing decisions or prioritization strategies. Indeed, the Capital Plan provides little information on the State's capital assets, or on how the proposed or enacted Capital Plan would affect those assets.

To support the forecasting of capital maintenance needs and to establish goals that are related to State assets, legislation was enacted in 1992 requiring the development of a comprehensive Capital Planning and Maintenance System for all capital assets under the jurisdiction of State agencies. This law required separate appropriations for each agency's capital maintenance activities.⁶

However, provisions related to separate appropriations have never been fully implemented, and moneys for maintenance are often included along with moneys budgeted for other capital appropriations, such as new construction. The failure to identify this information separately makes it impossible to know exactly how much will be spent by individual agencies on maintenance, or how maintenance it will be financed.

Since the Capital Plan does not provide this level of detail, it is unclear how the proposed expenditure of billions of dollars as well as the \$1.6 billion Capital Reduction Program proposed by the Division of the Budget (DOB) will affect the State's asset base.

History: SFY 2000-01 through SFY 2009-10

Between SFY 2000-01 through SFY 2009-10, capital spending increased by 97.2 percent. This represents an average annual increase of 7.8 percent. In comparison, All Governmental Funds spending increased a total of \$47.1 billion, or 59.1 percent, in the same period, which represents an annual average increase of 5.3 percent. Between SFY 2005-06 and SFY 2009-10, New York spent \$38.7 billion for new capital assets, as

⁶ Pursuant to § 27 of the State Finance Law.

well as replacement and maintenance of existing capital assets, representing an average of approximately 6.3 percent of All Governmental Funds spending annually. This represents an increase of \$14.3 billion, or 58.4 percent, in spending as compared to the period from SFY 2000-01 and SFY 2004-05.

Between SFY 2000-01 and SFY 2004-05, the State spent \$24.5 billion on capital purposes, representing an average of approximately 5.4 percent of All Governmental Funds spending annually. Of that \$24.5 billion, 60.6 percent was spent on transportation projects (over \$14.8 billion) with the next highest share used for parks and environmental projects. However, over the five-year period between SFY 2005-06 and SFY 2009-10, the share of capital spending for transportation declined to 50.6 percent.

Spending for parks and environmental purposes also declined, from 11.2 percent to 7.4 percent of the total. Meanwhile, when comparing the same two periods, the overall share of capital spending increased for higher education from 7.9 percent to 14.0 percent, and for economic development from 2.9 percent to 6.8 percent.

The share of capital spending for lower education also increased, from 1.8 percent of total spending to 5.5 percent, largely because of the \$2.6 billion Expanding Our Children's Education and Learning (EXCEL) program enacted in SFY 2006-07. Since that time, nearly \$2.0 billion of the \$2.6 billion has been spent.

These figures do not include \$9.4 billion in education capital spending authorized by the Legislature for New York City's Transitional Finance Authority funded with State Building Aid, which is included in New York City's budget and financial documents.⁷

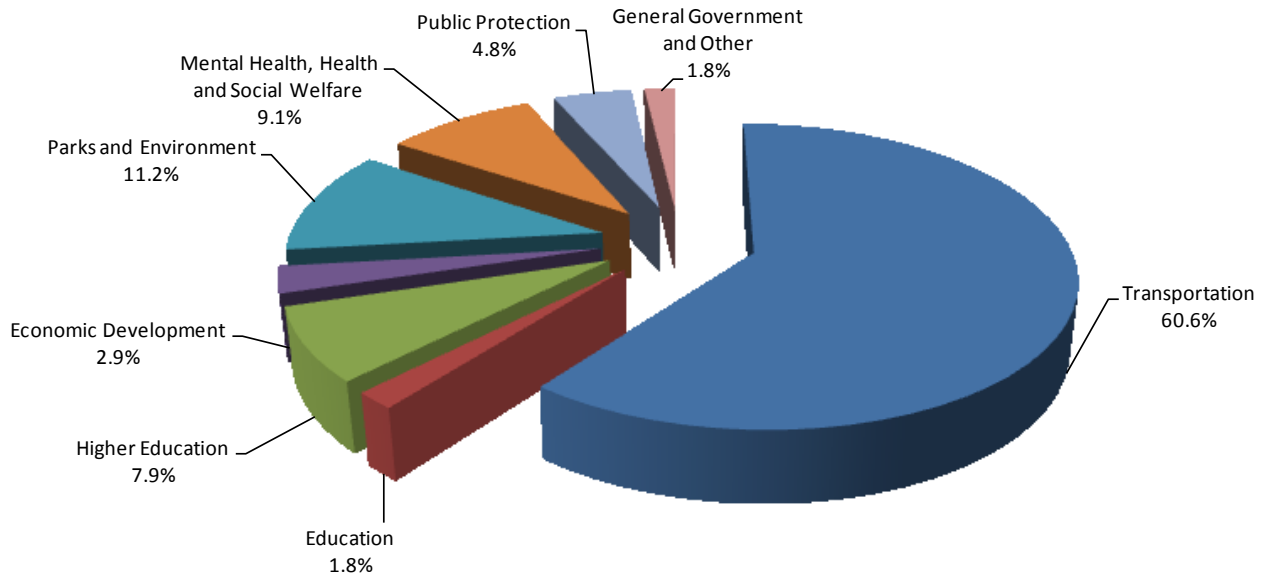
The following charts and table show that capital spending for education, higher education and economic development are receiving increased shares of total capital spending, while the shares allotted to other categories decline or remain relatively flat.

Capital Spending Between SFY 2000-01 and SFY 2009-10: Percentage of Total Spending and Growth

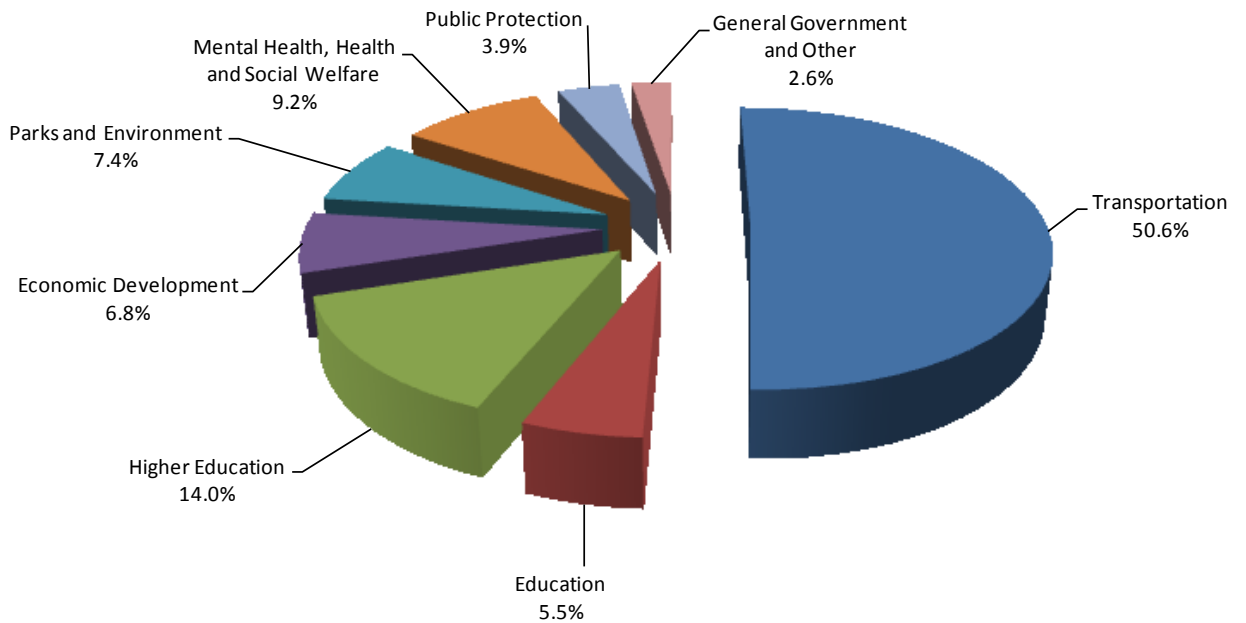
	Total Spending From SFY 2000-01 to SFY 2004-05 <small>(in millions of dollars)</small>	Percentage of Total Spending	Total Spending From SFY 2005-06 to SFY 2009-10 <small>(in millions of dollars)</small>	Percentage of Total Spending	Growth from Previous Five Year Period
Transportation	14,814	60.6%	19,614	50.6%	32.4%
Education	448	1.8%	2,119	5.5%	373.0%
Higher Education	1,927	7.9%	5,429	14.0%	181.7%
Economic Development	699	2.9%	2,641	6.8%	277.6%
Parks and Environment	2,733	11.2%	2,848	7.4%	4.2%
Mental Health, Health and Social Welfare	2,223	9.1%	3,569	9.2%	60.5%
Public Protection	1,162	4.8%	1,527	3.9%	31.5%
General Government and Other	448	1.8%	994	2.6%	122.1%
Total	24,453	100.0%	38,740	100.0%	58.4%

⁷ New York City's Transitional Finance Authority (TFA) was authorized to issue bonds to finance the spending with a cap on bonds outstanding of \$9.4 billion. In the implementing language, the State authorizes New York City to pledge and assign TFA all or a portion of the Building Aid received from the State as reimbursement for capital spending. The City assigned 100 percent of its future Building Aid to the new Building Aid Revenue Bonds (BARBs). Note that because of this pledge and assignment, outstanding BARBs are included in the Office of the State Comptroller's definition of State-Funded debt.

**Capital Spending Between SFY 2000-01 and SFY 2004-05:
Shares of Total Spending of \$24.5 Billion**



**Capital Spending Between SFY 2005-06 and SFY 2009-10:
Shares of Total Spending of \$38.7 Billion**



Projections: SFY 2010-11 through SFY 2014-15

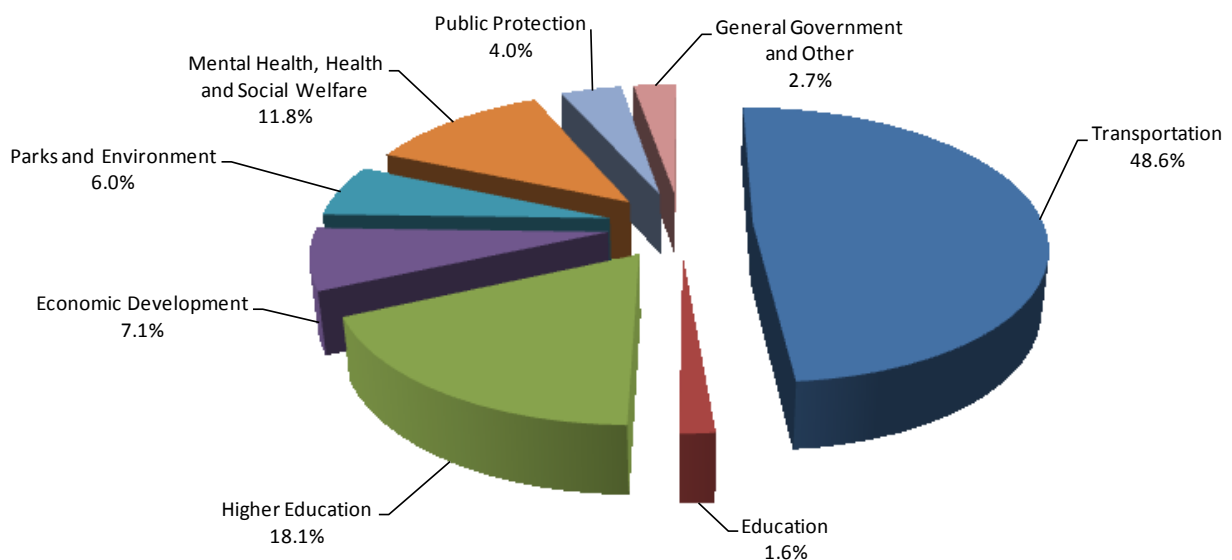
The Capital Plan projects that annual capital spending will decline slightly, from \$8.8 billion in SFY 2009-10 to \$8.4 billion in SFY 2014-15, reflecting DOB's \$1.6 billion Capital Reduction Program. However, total capital spending over the next five years of \$46.6 billion represents an increase of \$7.9 billion or 20.3 percent over the previous five-year period.

The majority of the increase is projected for higher education and transportation. The overall proportion of capital spending for economic development is expected to increase over the next five-year period. Spending for EXCEL is projected to end in SFY 2012-13, with capital spending for lower education declining to just 0.2 percent of total capital spending by SFY 2014-15 and just 1.6 percent of total spending between SFY 2010-11 and SFY 2014-15.

Total spending for transportation is projected to increase slightly over the next five years, though transportation's share of total spending is projected to decline. Further, the Capital Plan does not address many transportation infrastructure projects that are in need of rehabilitation and repair. For example, despite that fact that the Tappan Zee Bridge in the Hudson Valley is structurally obsolete, with a replacement cost estimated at over \$16 billion, planned funding for its replacement is not included in the Capital Plan.

The share of capital spending allotted to parks and environmental purposes is projected to continue to decline to 6.0 percent of total capital spending over the next five years, down from 11.2 percent between SFY 2000-01 and SFY 2004-05 and 7.4 percent in the last five years.

**Capital Spending Between SFY 2010-11 and SFY 2014-15:
Shares of Total Spending of \$46.6 Billion**



Capital Spending Between SFY 2005-06 and SFY 2014-15: Percentage of Total Spending and Growth

	Total Spending From SFY 2005-06 to SFY 2009-10 <small>(in millions of dollars)</small>	Percentage of Total Spending	Total Spending From SFY 2010-11 to SFY 2014-15 <small>(in millions of dollars)</small>	Percentage of Total Spending	Growth from Previous Five Year Period
Transportation	19,614	50.6%	22,657	48.6%	15.5%
Education	2,119	5.5%	734	1.6%	-65.3%
Higher Education	5,429	14.0%	8,445	18.1%	55.6%
Economic Development	2,641	6.8%	3,332	7.1%	26.2%
Parks and Environment	2,848	7.4%	2,806	6.0%	-1.5%
Mental Health, Health and Social Welfare	3,569	9.2%	5,518	11.8%	54.6%
Public Protection	1,527	3.9%	1,852	4.0%	21.2%
General Government and Other	994	2.6%	1,269	2.7%	27.7%
Total	38,740	100.0%	46,613	100.0%	20.3%

Capital Plan Financing

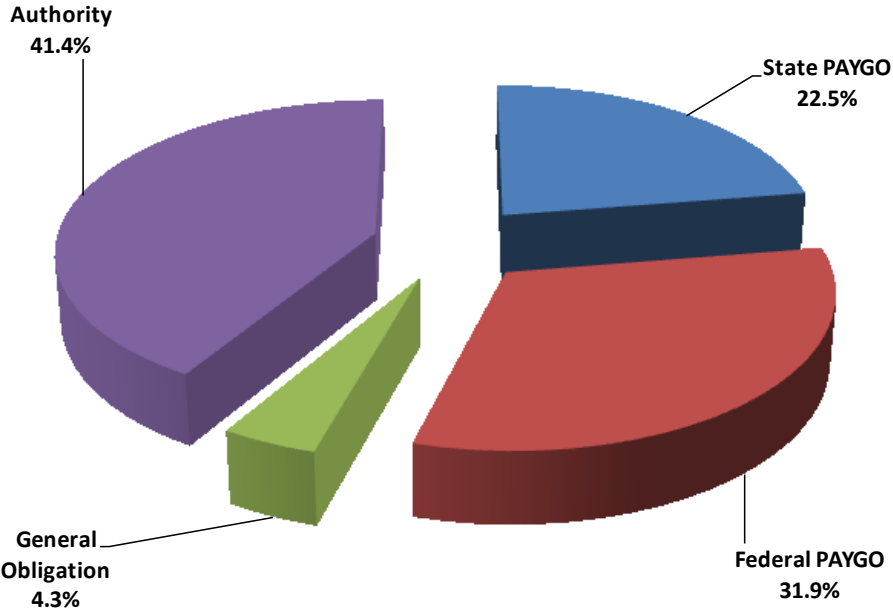
As capital spending generally supports an asset with a *useful life*, meaning it provides a benefit over an extended period of time (such as a bridge), funding for capital spending is often financed using long-term debt. In total, there are four major sources of funds to support New York's capital spending: voter-approved General Obligation bonds; non-voter-approved bonds issued on behalf of the State by public authorities (commonly referred to as backdoor borrowing); State-sourced current resources (cash), otherwise referred to as pay-as-you-go (State PAYGO); and federally sourced current resources (federal PAYGO). The allocation of financing sources used can fluctuate dramatically depending on economic conditions and priorities.

History: SFY 2000-01 through SFY 2009-10

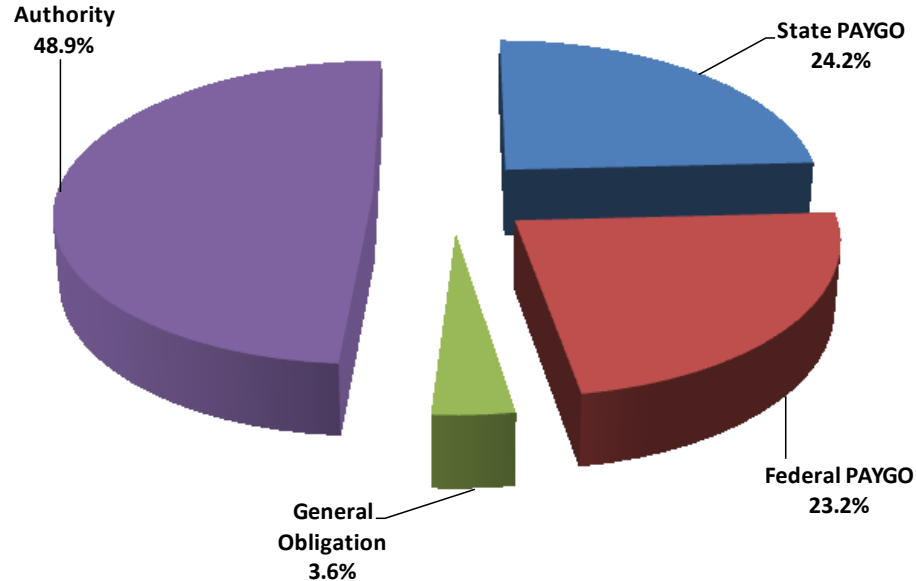
Since SFY 2000-01, financing for capital purposes has increasingly come from bonds, especially from bonds issued by public authorities. Between SFY 2000-01 and SFY 2004-05, approximately 41.4 percent of the \$24.5 billion in capital spending was financed with authority bonds. That proportion increased to 48.9 percent of the \$38.7 billion in capital spending from the last five years. (More than 81 percent of the increase in authority bond financing is attributable to education, higher education and economic development programs.)

However, as the following charts also illustrate, while spending financed with authority bonds increased as a percentage of the whole, the share of federal PAYGO financing declined. Within this financing source, federal PAYGO funding for transportation spending increased, but federal PAYGO overall did not grow as fast as total capital spending. Federal PAYGO spending increased only 34.0 percent between SFY 2000-01 and SFY 2009-10, even considering spending associated with federal stimulus funding, compared to an increase of 97.2 percent in total capital spending. Conversely, capital spending financed with public authority debt increased 167.4 percent. Within this financing category, the majority of the spending increase is attributable to higher education purposes.

**Financing Sources Between SFY 2000-01 and SFY 2004-05:
Shares of Total Spending of \$24.5 Billion**



**Financing Sources Between SFY 2005-06 and SFY 2009-10:
Shares of Total Spending of \$38.7 billion**

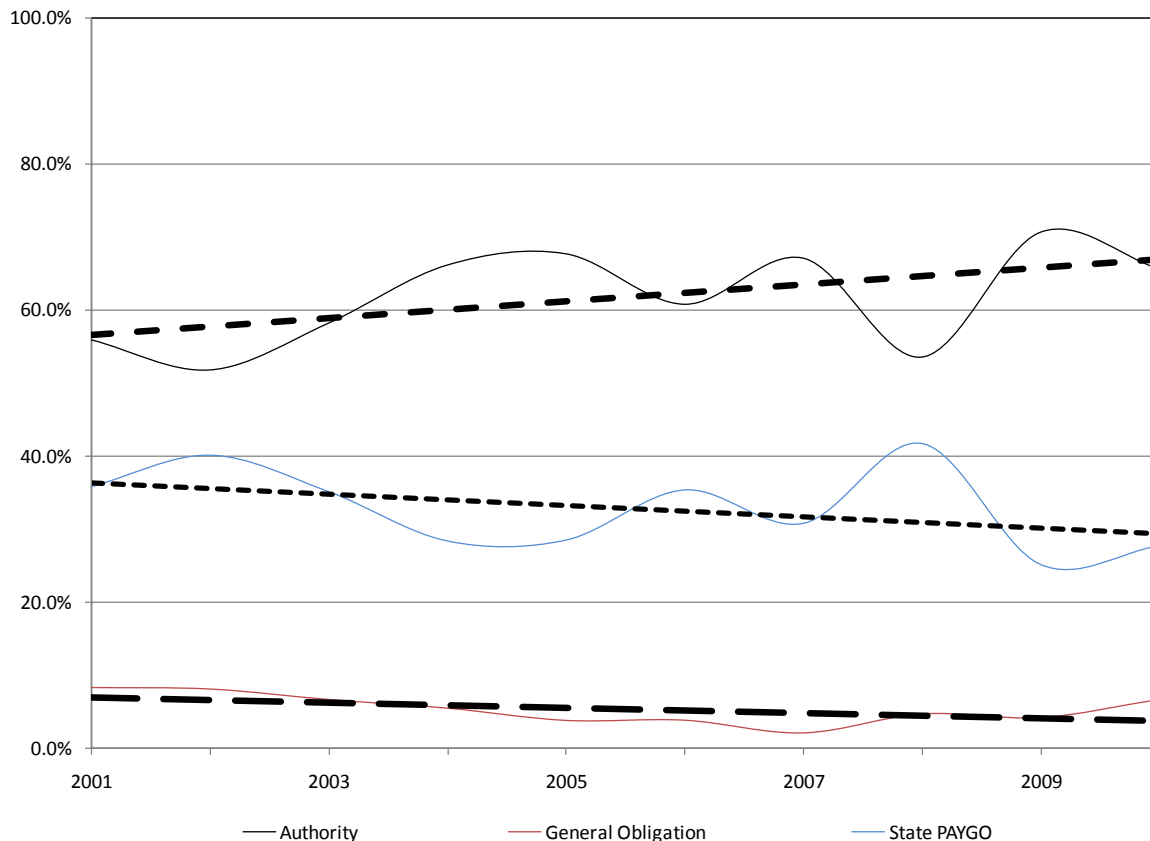


Over the past ten years, the shares of capital spending as a percentage of total spending financed through State PAYGO and General Obligation debt did not change significantly. However, as capital spending overall increased 97.2 percent over the 10 year period, spending in both financing areas increased proportionately.

Spending financed with General Obligation bonds increased nearly 83.3 percent, primarily reflecting the \$2.9 billion Rebuild and Renew Transportation Bond Act of 2005. State PAYGO has increased approximately 76.6 percent, with most of the increase occurring in transportation. The use of authority-issued bonds to finance State capital spending has increased significantly faster (167.4 percent) than other types of financing. Growth within this financing source is primarily attributable to higher education.

While all four sources of financing play an integral role in funding capital spending, it is also important to consider State-only funding trends by removing federal grants from the analysis. The following chart illustrates funding trends over the last decade. The lighter lines illustrate the proportion of voter-approved General Obligation bonds, State PAYGO and Authority-issued bonds as a percentage of State-only funding sources and the dark broken lines representing the trend.

**Funding Sources as a Percentage of Total Non-Federal Funding:
SFY 2000-01 through SFY 2009-10**



The data indicates that the proportion of State-only financed spending from authority-issued bonds has trended up between SFY 2000-01 and SFY 2009-10, whereas the proportion of State-only spending financed with State PAYGO is generally declining.

The amount of State PAYGO can be indicative of available resources. During economic slowdowns, more resources may be directed toward current needs by increasing the amount of debt that is used to finance capital needs. However, since 1985, the share of State PAYGO as a percentage of State-only financing has declined, despite the fact that the State benefitted from several years of multi-billion dollar surpluses during that time period.

Utilizing current revenues for capital projects reduces the need to issue debt, thereby reducing future debt service, and is considered an indicator of fiscal strength by rating agencies. Increasing the use of PAYGO conserves debt capacity and reduces the burden passed to future generations. Furthermore, the increased debt capacity that results from increased use of PAYGO creates a buffer for those years when spending capacity is limited due to a downturn in the economy or other constraining circumstances.

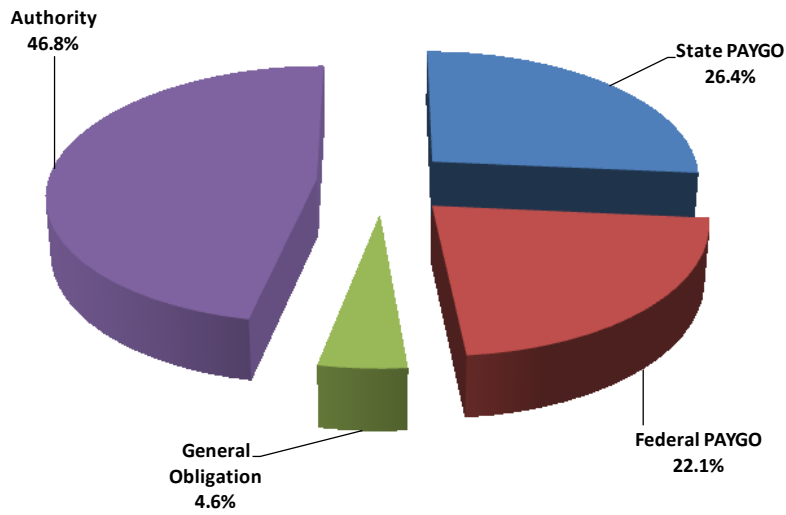
Projections: SFY 2010-11 through SFY 2014-15 and the Capital Reduction Plan

The SFY 2010-11 Capital Plan states that estimated debt-financed capital spending was reduced by approximately \$1.6 billion, reflecting DOB's Capital Reduction Plan, from current services projections. According to the Capital Plan, this was done to maintain debt affordability. The majority of the reduction is expected in education and higher education.

The Financing Sources chart that follows illustrates the plan to reduce debt-financed spending (including voter-approved debt) and increase State PAYGO. According to the Capital Plan, the increase in State PAYGO is driven by transportation spending (42.5 percent of the growth) and economic development (40.1 percent of the growth).

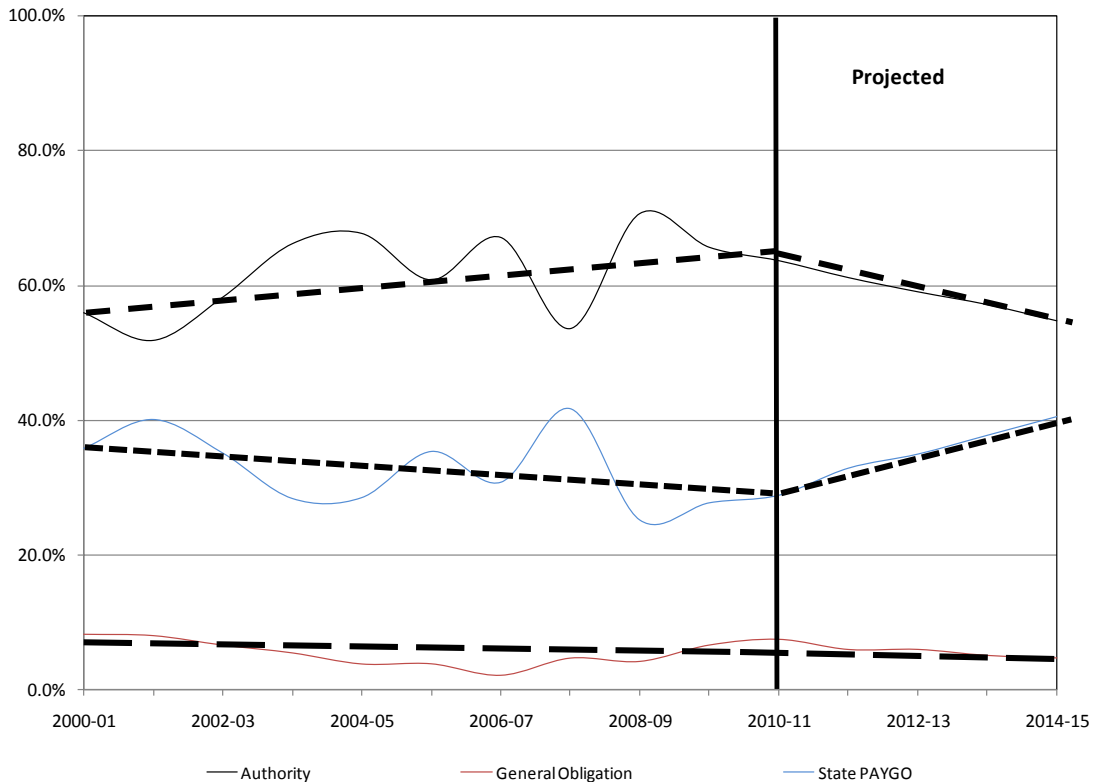
The expected decline in spending financed with authority debt is primarily in economic development (expected to be replaced with State PAYGO spending), education and higher education. Of the \$821 million decline in authority debt-financed spending, \$203 million is expected to come from education, primarily reflecting the end of the EXCEL program.

**Financing Sources Between SFY 2010-11 and SFY 2014-15:
Shares of Total Spending of \$46.6 Billion**



The following chart further illustrates that the planned course of financing is significantly different from historical trends. State PAYGO and authority debt basically mirror each other, so when one increases the other generally decreases proportionately.

**Funding Sources as a Percentage of Total Non-Federal Funding:
SFY 2000-01 through SFY 2014-15**



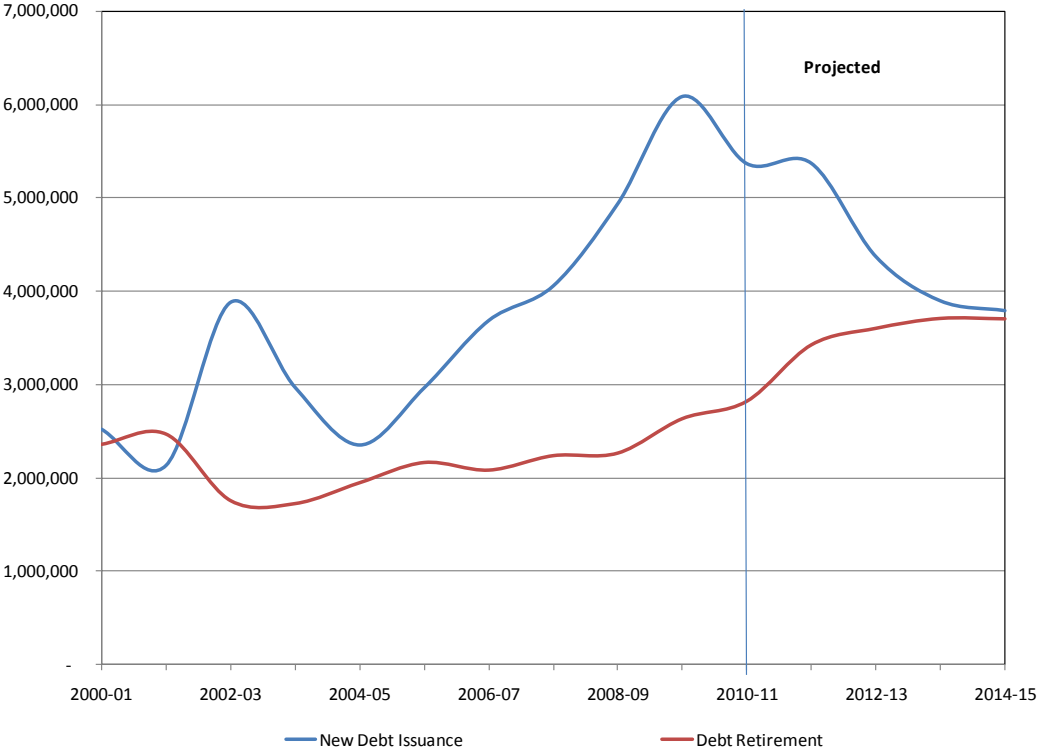
Financing with Debt

As the previous tables illustrate, the State frequently utilizes significantly more public authority debt and less State PAYGO financing for capital purposes than it initially projects in its Capital Plan. In effect, the Capital Plan uses a recurring strategy which projects growth in State PAYGO and reduced reliance on debt in the out-years of the Capital Plan. However, the planned State PAYGO is then frequently replaced with debt, thus contributing to the State’s increased debt burden. This, in combination with rapidly increasing capital spending, has caused significantly increased debt levels since SFY 2000-01.⁸

The use of debt to finance capital spending has increased from 43.2 percent of total spending to 56.2 percent. While the SFY 2010-11 Capital Plan projects that the use of bonds will decline over the next five years, historically, actual bond financing has generally been higher than initially projected. If future debt issuances continue the historical pattern of exceeding projections, the State may once again find itself bumping up against its debt caps. Absent statutory change to circumvent the existing cap, this would undermine the State’s ability to meet even the most critical infrastructure needs.

The following chart illustrates new debt issuances and debt retirements from SFY 2000-01 through the end of the current Capital Plan in SFY 2014-15.

**State-Supported Debt Issuance and Retirement:
SFY 2000-01 through SFY 2014-15**

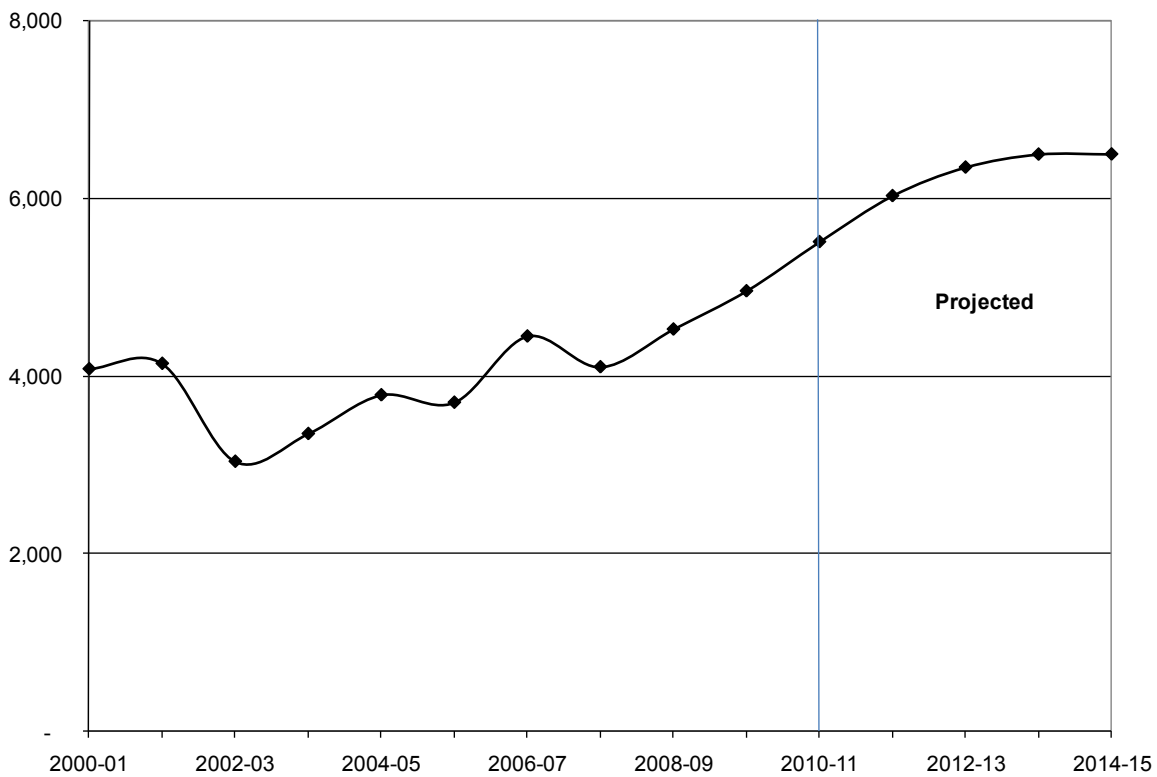


⁸ Note that the State has authorized \$17 billion in new State-Funded debt that is not part of the State’s Capital Program and Financing Plan and is not counted under the State’s debt caps as established in the Debt Reform Act of 2000. For more information on State-Funded debt, see the Comptroller’s *Debt Impact Study*, March 2010.

Largely as a result of significant increases in debt issuance, spending for debt service is also increasing and is currently among the fastest growing major categories of spending in the State's Financial Plan. New bond issuances have increased 10.3 percent on average annually since SFY 2000-01. As the chart below illustrates, average annual debt retirement has historically been nearly half of average annual issuance.

Furthermore, as illustrated below, while the State realized significant near-term savings beginning in SFY 2002-03, much of the saving was temporary and actually created additional costs in later years. A good example of this was the restructuring of existing Dedicated Highway and Bridge Trust Fund bonds in 2005. The final structure of the bonds deferred approximately \$1.3 billion in principal payments over five years. Combined with the use of reserves, this created an additional \$1.1 billion in new costs beginning in SFY 2010-11.

State-Supported Debt Service Actual and Projected
SFY 2000-01 through SFY 2014-15
(in millions of dollars)



Infrastructure in New York Compared to Other States

According to the American Society of Civil Engineers (ASCE) 2009 *Report Card for America's Infrastructure*, New York has a number of areas with significant need. New York has a significantly higher percentage of roads and bridges that are deemed deficient, obsolete, poor or mediocre than the national averages, but spending for transportation needs has declined from over 60 percent of total capital spending to approximately 48.6 percent.

Furthermore, the *Report Card* illustrates that the State has over \$36 billion in needs for wastewater and drinking water infrastructure needs. Yet spending for environmental capital needs has declined from 11.2 percent of total capital needs for the first five years of the decade to 7.4 percent for the last five years, and is projected to fall further (to 6.0 percent) over the next five years.

Infrastructure Conditions New York and the 10 Other Largest States

	Bridges % Deficient or Obsolete	Roads % Poor or Mediocre	Wastewater Needs	Drinking Water Needs	Rank of Hazardous Waste Produced
California	30%	66%	\$18.20 billion	\$27.87 billion	11th
Florida	18%	13%	\$9.05 billion	\$15.04 billion	21st
Georgia	21%	n.a.	\$2.35 billion	\$9.02 billion	26th
Illinois	18%	34%	\$13.41 billion	\$13.50 billion	7th
Michigan	30%	37%	\$6.02 billion	\$11.31 billion	3rd
New Jersey	36%	78%	\$9.15 billion	\$6.92 billion	12th
New York	42%	46%	\$21.82 billion	\$14.81 billion	6th
North Carolina	30%	27%	\$5.05 billion	\$10.98 billion	28th
Ohio	27%	25%	\$11.16 billion	\$9.68 billion	5th
Pennsylvania	50%	44%	\$7.18 billion	\$10.99 billion	16th
Texas	22%	32%	\$5.64 billion	\$28.17 billion	2nd
<i>Nation</i>	26%	33%	\$202.5 billion	\$255 billion	-

Source: 2009 *Report Card for America's Infrastructure*. American Society of Civil Engineers

Compounding this problem is the fact that the State's capital financing habits have been based more on current economics than on the useful life of assets. As of March 31, 2010, New York had nearly \$10 billion in State-Funded debt outstanding that was not issued to purchase or maintain an asset, but instead to provide deficit financing or some other form of budget relief.⁹ Ideally, borrowing is used to spread the cost of an asset over the same period as its useful life to maintain intergenerational equity.

⁹ Although a large portion of this non-capital debt was issued in the aftermath of the September 11, 2001 attacks in conjunction with a broader recovery plan, State decisions regarding the use of debt relative to using current tax dollars must be balanced so that when extraordinary circumstances arise, needs can be accommodated.

Recommendations

Comptroller DiNapoli has long advocated specific improvements to New York's capital planning and financing processes. The Comptroller's *Debt Impact Study* proposed aggressive reforms in the way New York finances its capital investments.¹⁰ These reforms include:

- **Restrict the use of public authority debt.** Constitutionally ban backdoor borrowing and authorize new types of voter-approved debt to be issued by the State Comptroller, with the same legal protections and controls that apply to General Obligation debt. This would reign in the use of public authority debt and restore control over State debt levels to the voters.
- **Impose a strict, effective debt cap.** Limit all State-Funded debt to 5.0 percent of personal income, with a phase-in of the cap. This would ensure that affordable debt levels were maintained.
- **Impose constitutional controls on debt.** Amend the Constitution to restrict the use of long-term debt to capital purposes, with strict provisions allowing exceptions for emergencies only. This would prevent the State from being able to use debt to address budget deficits or finance local assistance payments, and would focus the use of debt on infrastructure needs.
- **Restore control over State debt to voters.** In addition to banning backdoor borrowing, multiple bond acts would be authorized to be presented to voters each year. This would provide voters with the opportunity to prioritize the funding of the State's infrastructure needs.

The Comptroller's comprehensive fiscal reform plan, included in the report *Ending New York's Chronic Budget Crisis: Strategy for Fiscal Reform*, advanced recommendations designed to address many of the long-standing deficiencies in the State's capital planning process.¹¹ These recommendations include:

- **Create a New York State Capital Asset and Infrastructure Council.** This Council would provide an inventory and report the status of all capital assets of the State and its public authorities, and of local governments with significant State investment.
- **Establish a statewide capital needs assessment.** Significant elements of the State's infrastructure are in need of repair and rehabilitation. Yet, no

¹⁰ See *Debt Impact Study*, released by the Office of the State Comptroller in March 2010. The report is available at www.osc.state.ny.us/reports/debt/debtimpact2010.pdf.

¹¹ See *Ending New York's Chronic Budget Crisis -- Strategy for Fiscal Reform*, released by the Office of the State Comptroller in March 2010, available at www.osc.state.ny.us/reports/budget/2010/fiscalreform_mar2010.pdf.

comprehensive planning structure exists to identify current needs across all areas, including transportation, education, environment and energy.

Such an assessment, to be undertaken by the Council, would allow policy makers to prioritize those capital projects most in need of repair and most critical to the economic recovery of New York. This assessment would lead to a Five-Year Capital Program adopted by the Legislature.

These broad recommendations provide a framework for improved capital planning. Other steps the State should take to strengthen and make the capital planning process more transparent and accountable to the public include:

- **End off-budget capital spending.** Although no new significant off-budget capital programs have been enacted since the EXCEL program in 2006, the State should take an affirmative step to prohibit the use of this practice in the future.

The Comptroller's Debt Reform proposals would ban bond-financed off-budget spending by eliminating the use of backdoor borrowing by public authorities. Until that reform is enacted, the State should take an interim step by requiring that all capital programs financed with State dollars (including State-Funded debt) must be budgeted and accounted for through traditional processes, involving State agency programmatic and fiscal review and State Comptroller oversight.¹²

- **Enhance agency reporting including establishing criteria for prioritizing existing capital needs.** The proposed Capital Asset and Infrastructure Council would coordinate the capital planning activities of all State agencies, working with them to develop capital project monitoring systems, prepare public capital plan documents in a consistent format, and ensure a holistic approach to the State's Capital Plan.

Each State agency should be required to develop and release a multiyear capital plan that includes an articulation of how its capital assets relate to its overall mission and goals, an inventory of its capital assets (at a minimum, in summary form suitable for public understanding), an assessment of the physical condition of these assets, and an articulation of prioritized major capital needs broken down by existing versus new assets. Agencies should also produce reports illustrating compliance with their capital plans.

¹² State-Funded debt includes debt supported by any financing arrangement whereby the State agrees to make payments which will be used, directly or indirectly, for the payment of principal, interest, or related payments on indebtedness incurred or contracted by the State itself for any purpose, or by any State agency, municipality, individual, public or private corporation or any other entity for State capital or operating purposes or to finance grants, loans or other assistance payments made or to be made by or on behalf of the State for any purpose. Among other provisions, the definition will apply (i) whether or not the obligation of the State to make payments is subject to appropriation, or (ii) whether or not debt service is to be paid from a revenue stream transferred by the State to another party that is responsible for making such payments.

The agency plan should also include an analysis of available financial resources and details on how those resources will be applied and how these investments will address its capital needs (how many bridges will be improved from poor condition to good, for instance). This planning process could be required annually or periodically, such as every three years, unless, as in the case of the Department of Transportation, existing law already prescribes a longer, more comprehensive planning process.

- **Establish criteria for new capital initiatives.** Every appropriation for new capital funding initiatives should be required to be justified as meeting one or more of several standardized criteria. Categories of criteria may include health and safety, preservation of facilities, legal or court mandate, economic development, quality of life, or enhancing mission effectiveness.
- **Demonstrate connection between funding and infrastructure improvements.** The Capital Program and Financing Plan should be revised to include summary information from the agencies' capital plans as recommended above. The critical element to be added would be the inclusion of a clear, demonstrated connection between proposed funding recommendations and the assets being funded.
- **Integrate Legislative changes.** Legislative additions to the capital budget would have to be accompanied by a report articulating how the additions mesh with the agency's capital plan, what planning criteria are being addressed, how the additional funding fits in with the affected agency's capital plan, and what the overall budget implications of the changes are.
- **Re-examine existing capital appropriations.** The current Capital Plan recommends or anticipates that \$82.7 billion in appropriations and re-appropriations will be available for capital projects through SFY 2014-15. Given the current lack of a comprehensive capital planning system and New York's existing debt burden, DOB should examine all existing appropriations and reappropriations. In making this effort, the State should embrace principles of rigorous capital planning as it works to revamp the capital planning process.

Conclusion

Recent history shows that capital spending in New York State ebbs and flows. It also shows a pattern of significant spending based on numerous separate and individual agency capital programs instead of a long-term, comprehensive assessment of the State's capital needs. The current system of capital planning is sporadic and uncoordinated, and insufficiently assesses and meets the maintenance, development and expansion needs of the State's capital assets. As a consequence, New York attempts to address its capital needs through a patchwork of funding resulting from disparate and incomplete agency capital planning processes.

The inadequacies of New York's capital planning process were illustrated when the State was recently forced to close and demolish a critical bridge, and had no real plan for its replacement until it was closed. Moreover, the obsolete Tappan Zee Bridge is not even included in the current Capital Plan. In order to provide future generations with capital assets that are safe and adequate—and that help promote rather than hinder economic growth—it is vital that the State implement a long-term capital planning process that effectively prioritizes capital project financing.