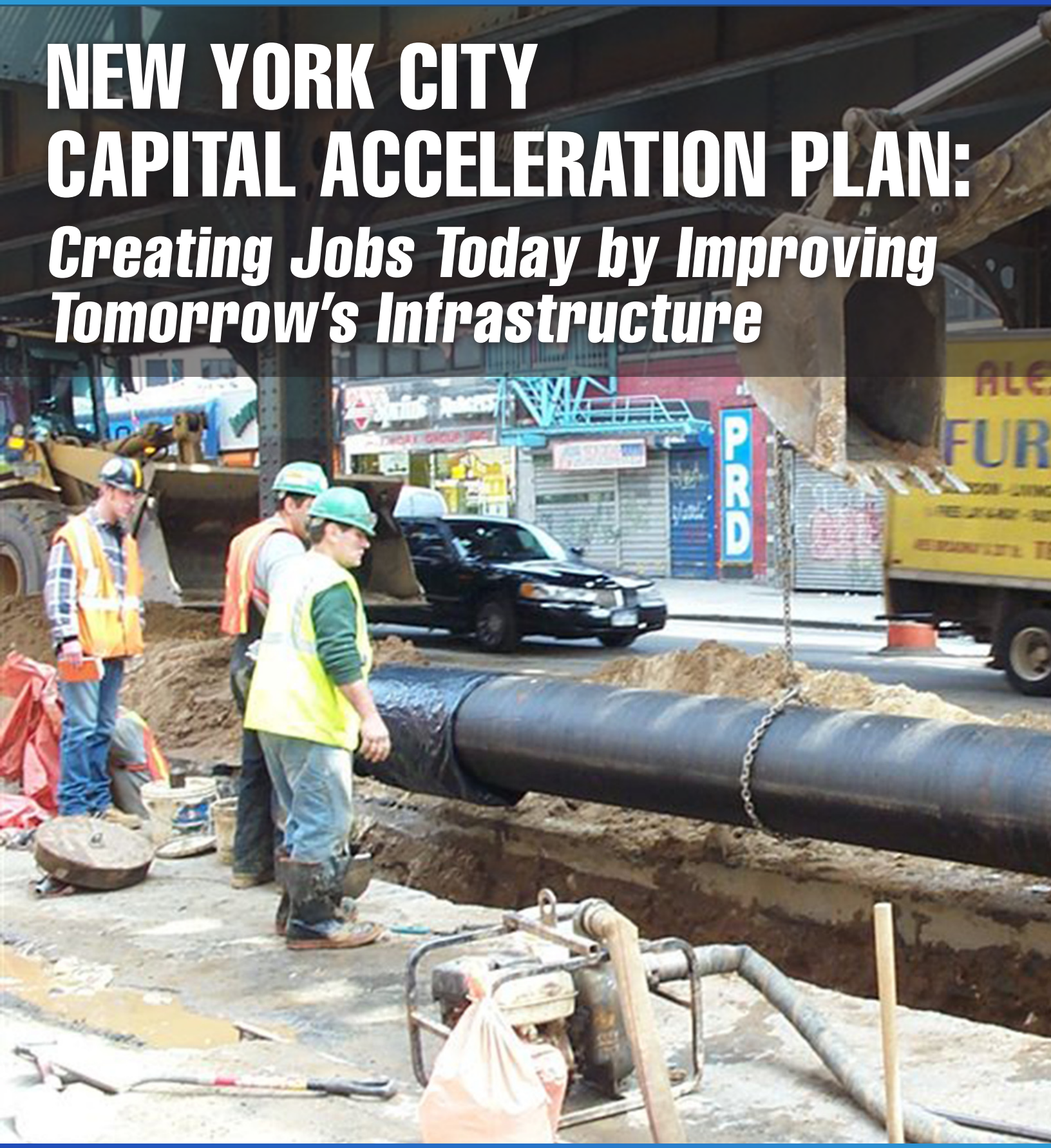
NEW YORK CITY CAPITAL ACCELERATION PLAN:

Creating Jobs Today by Improving Tomorrow's Infrastructure



NEW YORK CITY COMPTROLLER
JOHN C. LIU

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About the New York City Comptroller's Office

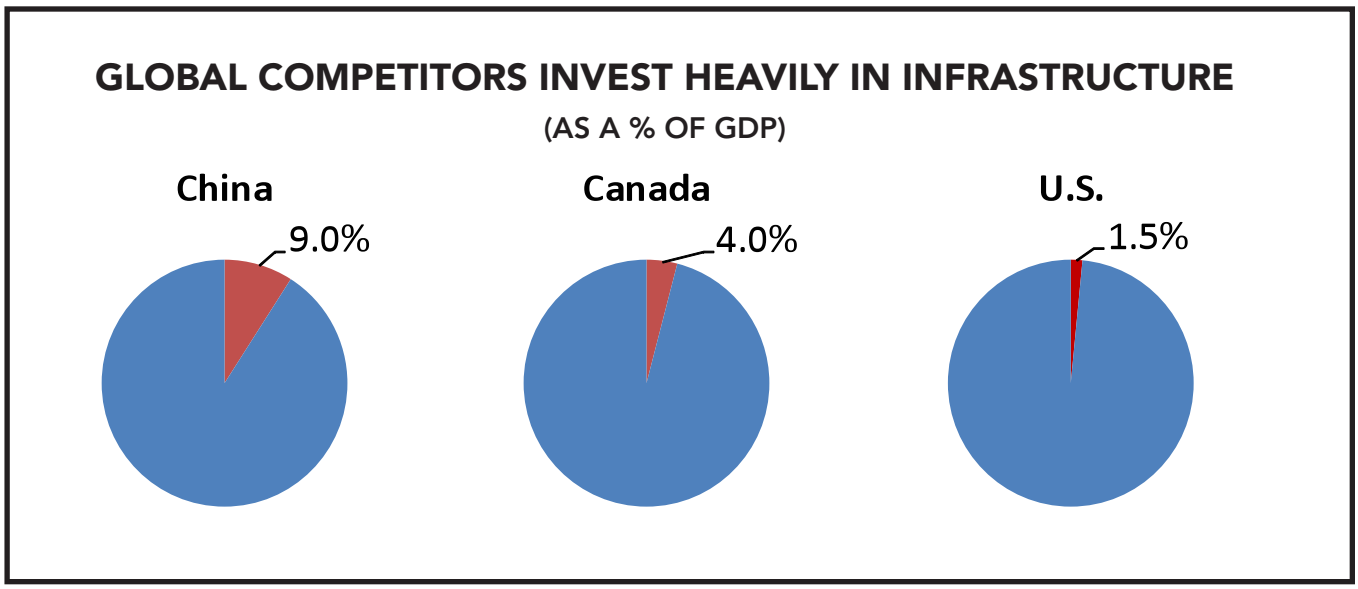
The New York City Comptroller, an independently elected official, is the Chief Financial Officer of the City of New York. The mission of the office is to ensure the financial health of New York City by advising the Mayor, the City Council, and the public of the City's financial condition. The Comptroller also makes recommendations on City programs and operations, fiscal policies, and financial transactions. In addition, the Comptroller manages the assets of the five New York City Pension Funds, performs budgetary analysis, keeps the City's accounts, audits City agencies, manages the City's debt issuance, and registers proposed contracts. His office employs a workforce of more than 700 professional staff members. These employees include accountants, attorneys, computer analysts, economists, engineers, budget, financial and investment analysts, claim specialists, and researchers in addition to clerical and administrative support staff.

THE CHALLENGES

Maintaining NYC's Competitive Position

Infrastructure typically refers to the built environment that allows a City to function: the subways, roads, and bridges that allow for the movement of people and goods; the treatment plants, mains, and sewers that manage water supply; the system of transmission lines, substations, and wiring that supply the City with electricity; the facilities that process and recycle waste; the transmission towers and wiring that supply telephone, cable, and internet service, and the buildings where people live, work, and play.

In recent years, while global competitors invested heavily in infrastructure, New York as well as other U.S. cities have struggled to find ways to maintain what has already been built. Finding the financial resources to add to or replace aging infrastructure has been difficult. Evidence of the challenges facing infrastructure maintenance and replacement can be seen in congestion at airports, in train stations, and in driving commutes.[1] In the U.S., total combined highway and transit spending represent a 1.5 percent share of Gross Domestic Product (GDP).[2] In contrast, Canada and China invest 4 percent and 9 percent, respectively, of their GDP, in these areas.



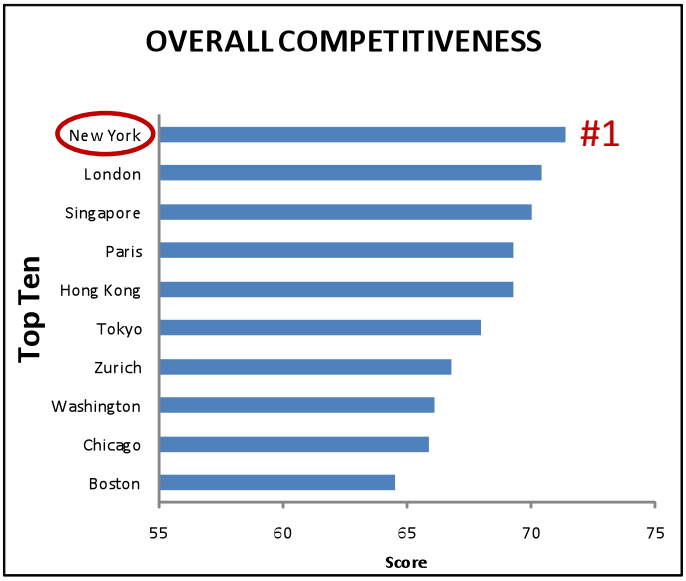
Sources: U.S. Congressional Budget Office, November 2010; Infrastructure Canada and Transport Canada, 2010; and "Economic Reforms and Infrastructure Spending: Evidence from China and India," Pinaki Chakraborty and Yan Zhang, United Nations University World Institute for Development Economics Research, August 2009

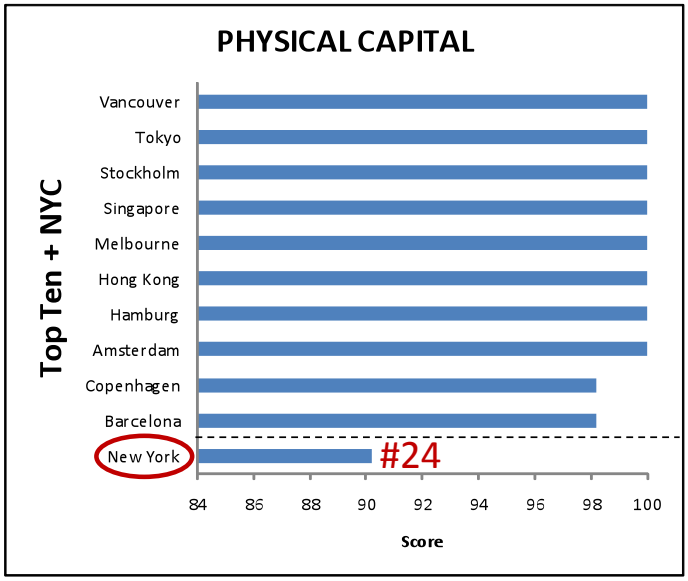
1 "Urban Mobility Report," Texas Transportation Institute, September 2011, http://mobility.tamu.edu/files/2011/09/newyo.pdf; "The High Cost of Airport Congestion," Partnership for NYC, February 25, 2009, http://www.pfnyc.org/reports/2009_0225_airport_congestion.pdf

2 Sources: U.S. Congressional Budget Office, November 2010; Infrastructure Canada and Transport Canada, 2010; and "Economic Reforms and Infrastructure Spending: Evidence from China and India," Pinaki Chakraborty and Yan Zhang, United Nations University World Institute for Development Economics Research, August 2009

In New York City, despite the commitment of substantial resources to capital needs—$46.2 billion over the past five fiscal years, including $37 billion in City funds—the City's annual Asset Information Management Reports show substantial shortfalls between budgeted funds and the amounts needed to bring all City assets into a state of good repair.

And yet, New York City came in first in competitiveness of 120 of the world's major cities, according to a January 2012 ranking by the Economist Intelligence Unit (EIU).[3] The report credited the City's top ranking to its financial maturity and economic strength, as well as its cultural and social appeal, and its diverse talent pool. However, the same study ranked New York 24th in terms of physical capital. While U.S. and European cities are the world's most competitive today, their aging infrastructure is a source of serious concern for the future. In a 2010 World Economic Forum assessment, United States' infrastructure ranked 24th in the world, behind Malaysia's.[4] The U.S. was first on that same list in 2005.[5]





Source: "Hot Spots: Benchmarking Global City Competitiveness," Economist Intelligence Unit, January 2012

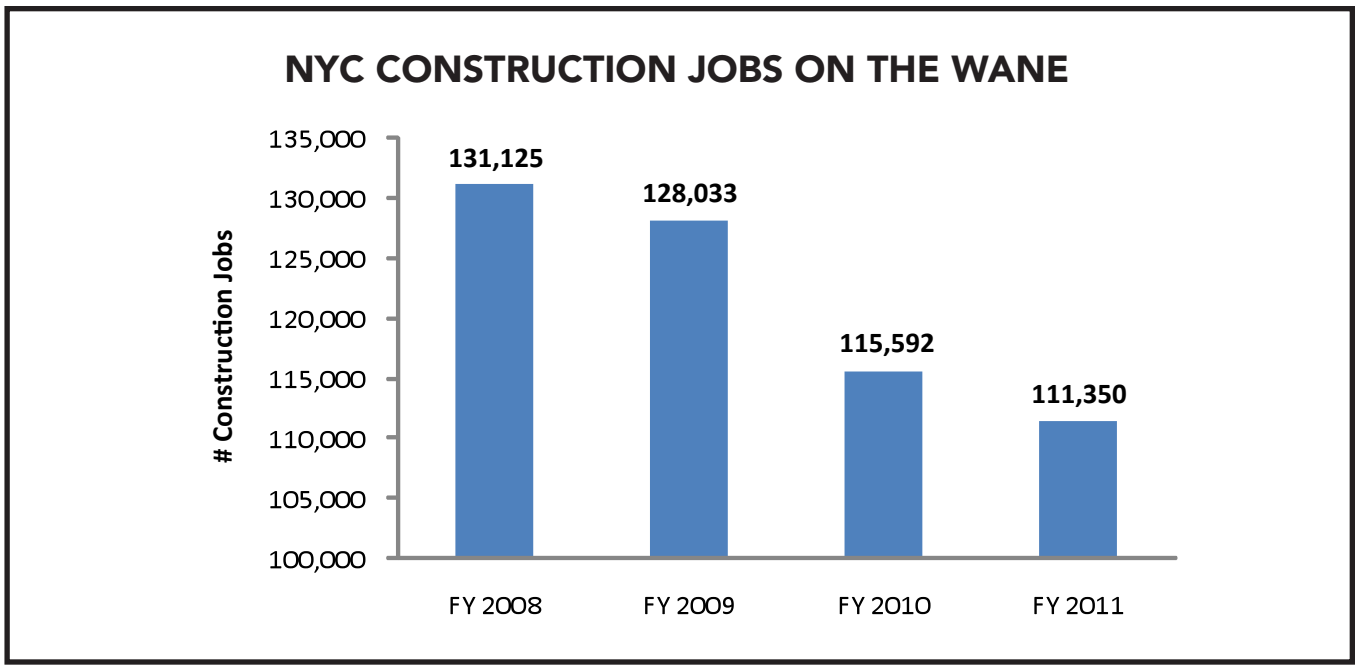
"There is a clear correlation between overall city competitiveness and physical capital," the EIU report noted. "Physical capital is a prerequisite for competitiveness."

With more than half of the world's population currently living in cities and urban areas generating at least 80 percent of global GDP, businesses have begun to think and plan on a city, rather than a country, level. This means that the competition between cities—for talent, investment, and corporate locations—is only going to get stronger.

3 "Hot Spots: Benchmarking Global City Competitiveness," Economist Intelligence Unit, January 2012, http://www.citigroup.com/citi/citiforcities/pdfs/hotspots.pdf
4 "The Global Competitiveness Report 2011-2012," World Economic Forum, December 2012, http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf
5 "Building America's Future – Fact Sheet – Falling Apart and Falling Behind," Building America's Future Educational Fund, August 8, 2011, http://www.bafuture.com/sites/default/files/ReportFactSheet.pdf

Generating Construction Jobs

As is widely known, the recent financial recession hit the construction industry especially hard. According to the New York State Department of Labor, between Fiscal Year 2008 and Fiscal Year 2011, NYC construction jobs decreased from 131,125 jobs to about 111,350, a 15 percent decline.[6] As is the case with many sectors in New York City, there is excess capacity in the construction sector and the demand for work is high.



Source: New York State Department of Labor, Division of Research and Statistics, consolidated from monthly reports, "Employed, Unemployed and Rate of Unemployment by Place of Residence."

6 New York State Department of Labor, Division of Research and Statistics, consolidated from monthly reports, "Employed, Unemployed and Rate of Unemployment by Place of Residence."

THE SOLUTION

The NYC Capital Acceleration Plan

There is an immediate opportunity to address the City's long-term competitive goals and at the same time tackle current economic development challenges. The City currently plans to commit $28.8 billion in capital projects for FY 2014–FY 2021 to build schools, fix roads and bridges, and upgrade other infrastructure. These are projects that have already been through the City capital planning process and are considered beneficial investments.

Under the NYC Capital Acceleration Plan, City agencies would evaluate these long-term pipelines and identify projects that would result in $2 billion in spending for FY 2013 and 2014. This is not new spending—it is frontloading capital budget commitments, which have the potential to lower long-term capital costs, tap unused capacity in the construction industry, and create needed jobs now.

Large capital projects involve planning and approvals and years to complete. The City's Office of Management and Budget (OMB) has a cash flow model that makes assumptions on the spending rates for capital projects. It assumes that for any given capital project, 18 percent of the budget is actually spent in the first year, 24 percent in the second year, and so on as shown in the table below. Using OMB's cash flow model as a basis, accelerating project commitments with a total cost of $4.76 billion would generate $2 billion in actual spending in FY 2013 and FY 2014.

$ (millions)

Estimated Spending Schedule for $4.76 Billion of City Commitments

	Flow Rates	Amount	Cumulative Estimated Borrowing
FY 2013	18%	$857	$857
FY 2014	24%	$1,143	$2,000
FY 2015	19%	$905	$2,905
FY 2016	12%	$571	$3,476
FY 2017	8%	$381	$3,857
FY 2018	7%	$333	$4,191
FY 2019 & Beyond	12%	$571	$4,762
	100%	$4,762	

Source: NYC Office of the Comptroller, Fiscal & Budget Studies

Individual agencies are the best judges of which of their respective projects to accelerate. Project sequencing and capacity are primary factors that must be considered, and those factors can only be properly understood at the agency level. Two of the City agencies with the largest capital infrastructure programs are the Department of Environmental Protection (DEP), and the Department of Education (DOE), with City-funded capital budgets for FY 2014–FY 2021 of $7.94 billion, and $7.89 billion, respectively. While by no means an exhaustive list, to start the process of identifying potential capital acceleration projects, we have highlighted the City-funded capital commitments for those two agencies and the rest of the City agencies collectively for FY 2014–FY 2021. If capital projects were accelerated, we would expect a corresponding decrease in projects in later years, subject to the ongoing capital planning process and debt affordability analyses.

$ (millions)

NYC Capital Commitment Plan
Data as of 05/03/2012

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
NYC DEP	$1,061	$1,250	$1,117	$976	$931	$869	$893	$843	$7,940
NYC DOE	$1,227	$891	$923	$951	$970	$977	$994	$954	$7,886
All Other	$3,170	$2,084	$1,519	$1,327	$1,200	$1,178	$1,206	$1,243	$12,928
Total Commitments	**$5,458**	**$4,225**	**$3,559**	**$3,254**	**$3,101**	**$3,024**	**$3,093**	**$3,040**	**$28,754**

Source: NYC Office of the Comptroller, analysis based on OMB documents

Taking Advantage of Historically Low Interest Rates

To fund capital projects, the City borrows money by selling bonds. Borrowing $2 billion now could save taxpayers up to $468 million in long-term capital costs. As of April 30, 2012 the estimated True Interest Cost (TIC) of a new money transaction was 3.37 percent, which represents a significant discount to the City's ten-year average TIC of 4.32 percent between FY 2002 and FY 2012.

Borrowing capital at current historically low rates, compared to borrowing at the historic average rate, has the potential to lower overall expenses in the long run.

Long-term Debt Service Comparison

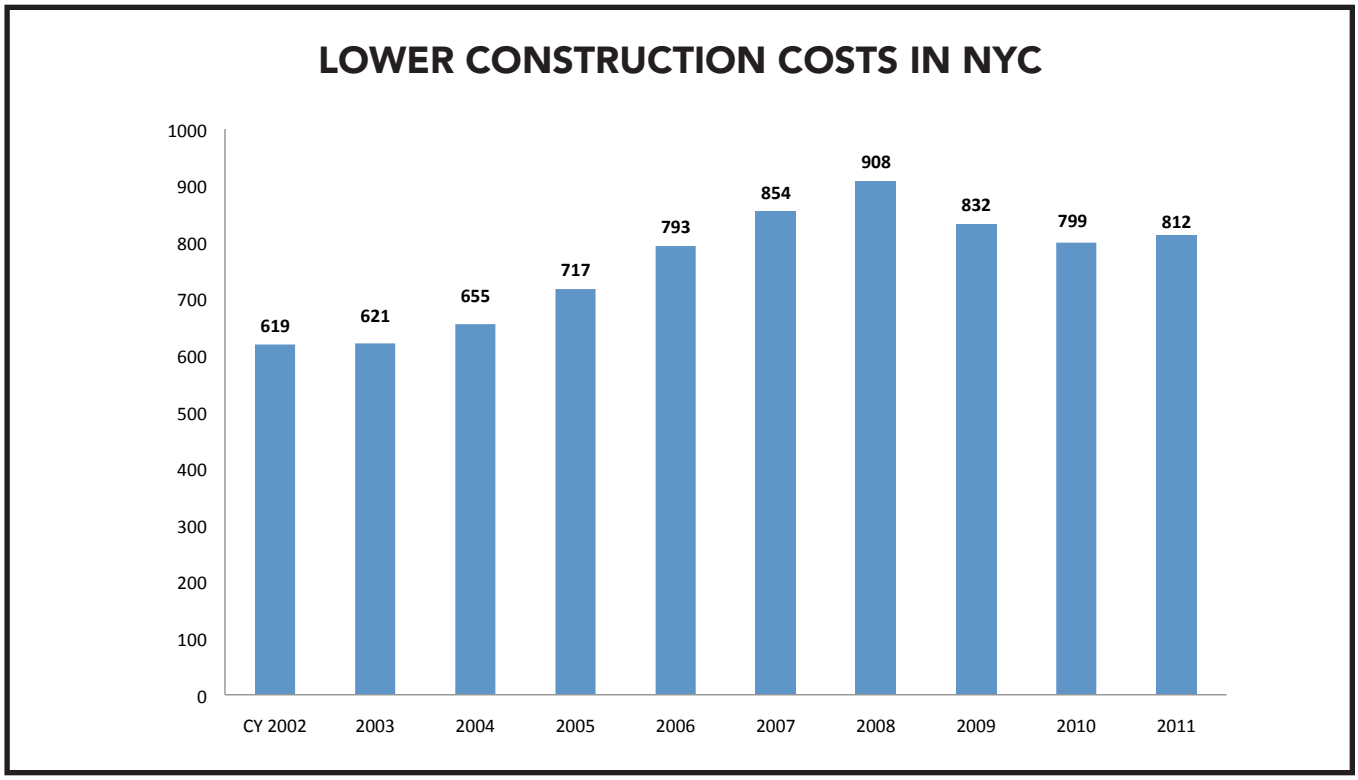
	Rates 04/30/12	5-Year Avg Rates	10-Year Avg Rates
Proceeds $ (millions)	$2,000	$2,000	$2,000
Average Life (years)	18	19	19
True Interest Cost (yield)	3.37%	4.28%	4.32%
Total Debt Service $ (millions)	$3,225	$3,675	$3,693
Debt Service increase from 3.37%		$450	$468

Source: NYC Office of the Comptroller, Bureau of Public Finance; True Interest Cost yields derived from NYC Financial Information Services Agency's Debt Management System

The cost of accelerating projects is an increase to the City's short-term debt service. The budgetary impact is approximately an additional $11 million in FY 2013 and $59 million in FY 2014. However, the City presently has the ability to mitigate the budgetary impact of accelerating debt issuance by refinancing existing high coupon debt and applying the budget savings in FY 2013 and FY 2014. Under current market conditions the City could refinance more than $1 billion of outstanding debt to generate more than $100 million of budget savings, with no increase in debt expense in any year. While it is the City's current practice to target budget savings to the following fiscal year, the City has the flexibility to spread savings over several years to alleviate budgetary pressure created by the accelerated debt issuance with no negative impact on refunding efficiency.

Low Construction Costs

Lower construction costs present an additional cost-saving opportunity. The Turner Building Cost Index takes into account labor rates and productivity, material prices, and the competitive condition of the marketplace. Accordingly, between Calendar Year 2008 and Calendar Year 2010 construction costs nationally were down an average of 12 percent.[7] While construction costs did creep up 1.6 percent in 2011, it is still a relatively affordable time to build.[8] As with interest rates, leveraging the current lower construction costs has the potential to save taxpayer dollars in the long run.

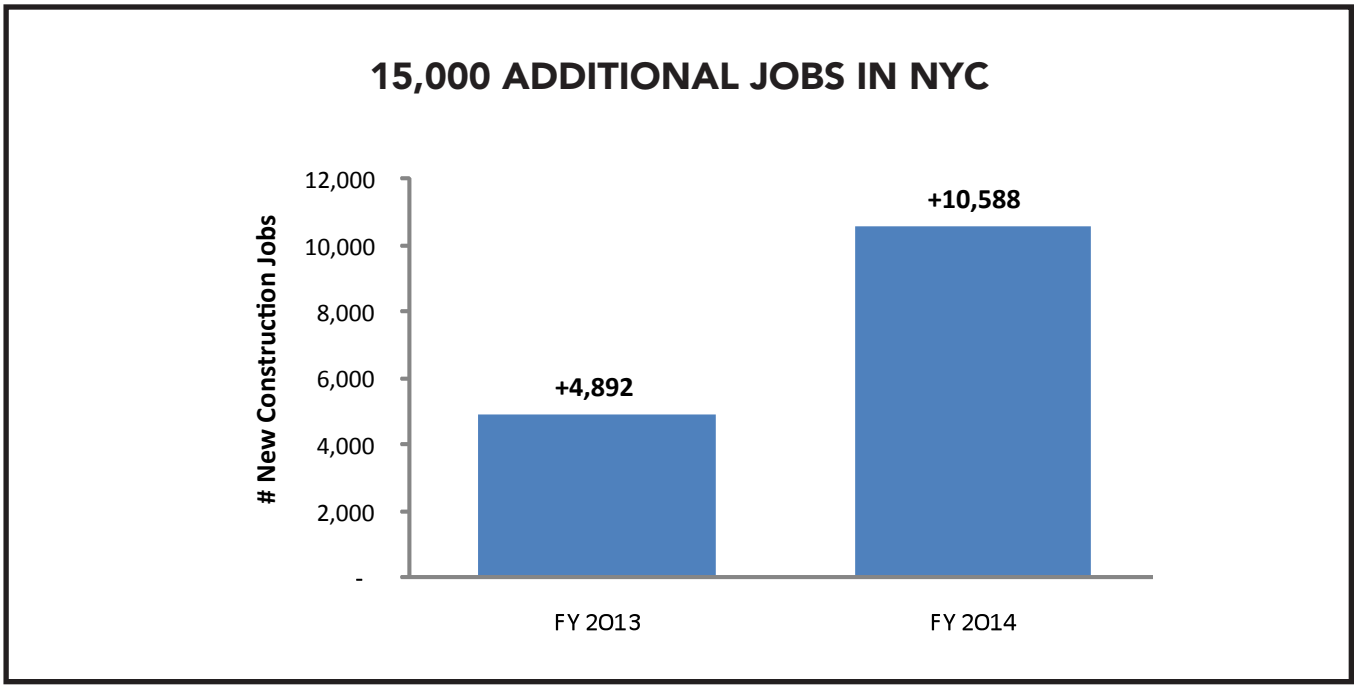


Source: Turner Building Cost Index

15,000 Jobs Sooner

Accelerating some capital projects also has the potential to create more than 15,000 related jobs in FY 2013 and FY 2014 combined. Conservative estimates indicate that 7.7 new jobs are created for every $1 million invested in construction.[9] Two billion dollars of investment would create close to 5,000 jobs in FY 2013 and about 10,500 in FY 2014.

7 Turner Building Cost Index, http://www.turnerconstruction.com/content/files/CostIndex2011Qrtr4.pdf
8 Ibid.
9 U.S. Department of Commerce, Bureau of Economic Analysis – Regional Input-Output Modeling System, 1997/2004, Table 1.4, "Total Multipliers for Output, Earnings, and Employment by Detailed Industry, New York City."



Source: U.S. Department of Commerce, Bureau of Economic Analysis – Regional Input-Output Modeling System

CONCLUSION

There is an opportunity to address New York City's long-term infrastructure goals and immediate economic development needs at the same time. By accelerating capital projects that are already planned the City can lower long-term capital costs, tap unused capacity in the construction industry, and create needed jobs now—all while ensuring New York City's infrastructure supports its ranking as the most competitive City in the world.

Comptroller of the City of New York

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