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New York City Council

A Capital Mistake for NYC

An analysis of the costs to housing, jobs, and infrastructure of proposed cuts to capital spending

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Executive Summary

The de Blasio Administration's proposed $2.3 billion reduction in NYC's capital budget will delay financing for 20,000 affordable housing units, remove over $800 million from bridge, road, and waterfront pier repairs, eliminate as many as 15,000 jobs, take opportunities away from M/WBEs and communities of color, slow our city's recovery, and weaken our infrastructure for the longer term. And it won't even help us address our operating budget shortfall over the next two years.

Introduction

New York City faces a dire fiscal challenge. Even as we continue to mobilize our health care system to manage the COVID-19 pandemic, we must balance New York City's operating budget. Facing a decline in revenue of approximately $9 billion for FY20 and FY21, that will require painful choices.

The de Blasio Administration's Office of Management and Budget has thus far not relied on borrowing to cover cash flow or short-term operating deficits. Unlike the federal government, New York City cannot engage in deficit spending. Borrowing to cover operating expenses is like a family taking out a loan to pay for groceries. It might work for this week, but next week, you will still need to buy food, you still won't have the income to cover it, and now you will owe the debt service for last week's groceries in addition to this week's.

However, that logic does not extend to the City's Capital Budget. The de Blasio's administration's proposal to reduce the FY20-24 Capital Commitment Plan by $2.3 billion, with cuts to affordable housing, infrastructure, and economic development, is a profound mistake. Because the debt service savings will not be realized for several years, capital budget cuts will not help balance our operating budget in the short term. Moreover, with interest rates are at historic lows and the City's debt services expenses well below economically sound levels, capital budget investments would actually help strengthen our economic position.

Cutting the capital budget will cost us sorely:

- **Less Affordable Housing**: Delays in the capital budget for affordable housing will result in a reduction of over 5,000 new and 15,000 preserved affordable and supportive housing units in the next few years (based on analysis by the New York Housing Conference).
- **More dilapidated infrastructure**: Cuts of $376m for bridge maintenance, $160m in road resurfacing, and $280m for pier maintenance would leave our infrastructure in more precarious shape.
- **Fewer jobs:** The largest cuts are targeted at the City's job-creating economic development projects. Along with cuts in construction, these capital cuts would likely eliminate as many as 15,000 jobs at precisely the time when we are in need of economic recovery.
- **Reduced economic opportunity**: Hundreds of millions of dollars in contracting opportunities for minority and women-owned business enterprises (M/WBEs) will be lost. Proposed cuts would have a disparate impact on hard-hit communities of color.

Sherlock Holmes called it a "capital mistake" to theorize before one has data, and that's what the City risks doing here. Cutting the capital budget has little benefit for immediate budget savings and high opportunity costs for our City's recovery. It is a misguided application of austerity economics, when what we need is Keynesian stimulus. Long-term capital investments in affordable housing, infrastructure, and economic development are one of the City's few counter-cyclical strategies to create jobs, stimulate the economy, and strengthen New York City for the long term.

Background

New York City's Capital Budget is separate from its annual operating budget. While the operating budget covers annual expenses such as City employees, contracts, and supplies, the capital budget provides funding for long-term projects, including construction (e.g. schools, affordable housing), repairs (e.g. bridges and roads), and purchases of land, buildings, and durable equipment (e.g. garbage trucks). The City's capital program is financed through the sale of long-term bonds, which the City pays for through annual debt service payments that are part of the City's operating budget.

By several measures, the City is well below our debt limit threshold:

- New York City's debt limit, as established by the State Constitution, is 10% of the five-year rolling average of the full value of taxable real property in the City. According to the NYC Comptroller's FY20 Annual Report on Capital Debt and Obligations, this establishes a limit of $116.3 billion.[1] The City's current outstanding debt is $74.71 billion, or 64.2% of the limit.

- Economists recommend keeping the City's annual debt service payments below 15% of the City's annual revenues, for the purposes of sound financial management and preserving the City's strong bond rating. As of the Executive Budget, debt service stands at 10.9% of the city's revenues, well below 15% (This is in contrast to the Great Recession, when it was 13.5%; after the budget shock of 9/11, when it hit 17%; and during the fiscal crisis of the 1970s, when it neared 25%).

[1] NYC Comptroller's FY2020 Annual Report on Capital Debt and Obligations, https://comptroller.nyc.gov/reports/annual-report-on-capital-debt-and-obligations/

As a result, New York City's bonds continue to be well received by the markets, and all of its issuing authorities have maintained AA ratings or better. Earlier this month, the Transitional Finance Authority sold over $1 billion in new bonds, with yields on 20-year bonds below 3%. Given these factors, the City would actually have some room to increase capital budget investments, in an effort to stimulate economic activity and promote recovery over the next few years. We certainly do not need to cut it by over $2 billion.

Proposed Cuts to the Capital Program in the Executive Budget

Despite the data showing that the City is in safe territory in its capital spending, OMB has proposed to reduce the City's Capital Commitment Plan for Fiscal Years 20-24 from $85.2 billion (per the Preliminary Budget issued in January) to $83.2 billion (per the Executive Budget issued in April), a reduction of $2.3 billion, or 2.7%.[2]

This reflects substantial reductions in FY20 and FY21, increases in FY22 and FY23, and further reductions in FY24:

Figure 1.

Comparison of NYC Capital Commitment Plan, FY 20-24

	FY20	FY21	FY22	FY23	FY24	TOTAL
Prelim	$19.2	$17.8	$16.6	$15.7	$16.3	$85.5
Exec	$16.0	$16.7	$18.2	$16.9	$15.4	$83.2
Change	-$3.2	-$1.1	$1.6	$1.2	-$0.9	-$2.3
	-16.67%	-6.18%	9.64%	7.64%	-5.52%	-2.69%

Numbers in billions.

The following agencies face cuts of particular concern:

- **NYC Department of Housing Preservation and Development** (HPD) would see a reduction of $583 million in FY20 and $457 million in FY21, nearly 40% of HPD's capital budget. While the subsequent three years are projected to offset these losses, they are beyond the term of the de Blasio Administration.

- **NYC Economic Development Corporation**'s capital program is projected for a cut of $1.262 billion, eliminating job-creation, neighborhood development, industrial, commercial, and waterfront projects.

- **NYC Department of Transportation**'s capital program is reduced by $480 million for bridge repairs and road reconstruction.

- **NYC Department of Corrections**' borough-based jails program, part of the de Blasio administration's plan to close Rikers Island, would see $472 million total moved from the FY20-24 capital plan to FY25-29, pushing the projected date for the closure of Rikers Island long past the 2026 date promised by Mayor de Blasio and the City Council.

[2] The City's Capital Commitment Plan (as opposed to the Capital Budget itself) presents the City's capital program and provides the anticipated implementation schedule for projects in the current fiscal year and the next three years.

Proposed Capital Cuts Don't Make Sound Fiscal Sense

New York City put many of its capital projects on hold in March as a result of the COVID-19 crisis. While most of the city's projects were considered essential work, many projects not considered urgent were put on pause. This was motivated in part by public health concerns, and in part by concerns about cash-flow management.

However, the FY20 and FY21 cuts go beyond public health or fiscal prudence. For example, as a result of the FY20 reduction, the NYC Department of Housing Preservation and Development cancelled project closings which had been scheduled to take place prior to June 30, 2020. These projects are not yet in construction, so this was not a matter of construction delays; and they would only draw down the financing slowly, so it was not necessary for cash-flow management.

As New York City Comptroller Scott Stringer wrote in a letter addressed to the Mayor dated May 21, 2020, "[T]here is little justification for stopping the capital program on the basis of our current cash position. The City's cash balances are below the level they were a year ago, but there is no immediate danger of a cash crunch. The City's Central Treasury cash balance was $5.0 billion as of Monday."[3]

Debt service savings from the proposed cuts will not help New York City close the budget gap created by the projected loss of $7.4 billion for FY20 and FY21. Capital projects take several years to complete, and new debt is issued only as those projects proceed. The savings from the proposed cuts to the capital budget will not be achieved until approximately FY 2027. Even then, they will likely yield less than $100 million in annual debt service savings (at OMB's assumed interest rate of 5.78%, they might yield closer to $150 million; however, the City's most recent bond offering yielded a rate closer to 3%). In FY20 and FY21, as the City is facing it's operating budget shortfall, the capital cuts will provide *de minimis* relief. Meanwhile, the cost of halting investment will be felt immediately as a loss of jobs and economic activity.

Cuts to Affordable Housing as the Housing Crisis Grows

New York City has long had the most ambitious program for affordable housing construction and preservation of any city in the country. This program was launched by Mayor Koch in the 1980s, as New York City sought to emerge from the fiscal crisis, to renovate abandoned buildings and create affordable housing. The Koch housing plan showed the wisdom of using capital investment as a tool for economic development, rather than falling victim to a cycle of disinvestment and austerity. It has been continued by every mayor since then. Mayor de Blasio's Housing New York plan, launched in 2014 and increased in 2017, is the largest of these plans, with the goal of creating or preserving 300,000 homes. Unfortunately, the projected cuts to the capital budget will severely diminish this legacy.

The NYC Department of Housing Preservation and Development is projected for a reduction of over $1 billion in FY20 and FY21 from the Capital Commitment Plan, a reduction of nearly 40%, with that money rolled into the subsequent three fiscal years. As a result of the FY20 reduction, the NYC Department of Housing Preservation and Development cancelled project closings which had been scheduled to take place prior to June 30, 2020. These projects are not yet in construction, so this was

[3] Letter from NYC Comptroller Scott Stringer to Mayor Bill de Blasio, https://comptroller.nyc.gov/wp-content/uploads/2020/05/5.21.20-Letter-to-Mayor-de-Blasio-1.pdf

not a matter of construction delays. Further, as these projects would only draw down the financing slowly, delaying them does not help appreciably with cash-flow management.

Cuts to FY20 and FY21 mean 20,000 fewer affordable housing units financed.
According to analysis by the New York Housing Conference, the cuts to HPD's capital budget for FY20 and FY21 will lead to 5,200 fewer new construction units and 15,600 fewer preservation units. These cuts will be especially devastating in the wake of the COVID-19 crisis, which is certain to lead to many more families facing housing insecurity and homelessness.

Figure 2.

Effects of HPD Capital Budget Cuts on Housing Production					
	FY 2020		**FY 2021**		**Total Fewer Units**
	Budget Cut	**Fewer Units**	**Budget Cut**	**Fewer Units**	
New Construction	-17%	-1,700	-36%	-3,600	**-5,300**
Preservation	-55%	-8,200	-50%	-7,500	**-15,700**
Total		**-9,900**		**-11,100**	**-21,000**

Source: New York Housing Conference analysis of New York City Office of Management and Budget Preliminary and Executive Budget Capital Commitment Plans

Half-a-billion dollars removed from supportive, assisted, and very-low-income housing.
In addition, shifts reflected within the Executive Budget's Capital Commitment Plan also ring alarm bells: Over the five-year period of the FY20-24 Capital Commitment Plan, $515 million has been taken out of very-low and extremely-low income housing ($258m), supportive housing ($141m), and assisted living ($107m). This money has been reallocated to HPD's mixed-income rental program and low-income rental program, which while still valuable, serve a meaningfully higher range of incomes. In other words, subsidy has been re-allocated away from the households who have the most dire need, at precisely a time when more households are likely to enter these categories.

Cuts to NYC's housing programs have a disparate impact on communities of color
Just as the COVID-19 crisis has disproportionately hit Black and Latino communities, so does New York City's affordable housing crisis. Black and Latino New Yorkers are far more likely than their white or Asian counterparts to be severely rent-burdened, to suffer poor housing conditions, to have access to homeownership, to face eviction, and to become homeless. HPD's affordable housing projects create opportunities that help to counter these inequities. Eliminating financing for 21,000 affordable housing units further contributes to racial inequities that are so visible in our city and society during this pandemic.

Cuts to Transportation and Essential Infrastructure

Cuts to the capital program for the NYC Department of Transportation and the NYC Economic Development Corporation significantly reduce the City's program for maintaining essential infrastructure, including:

- $376 million reduction in bridge maintenance, repair, painting, and reconstruction
- $160 million reduction in road resurfacing, street and highway reconstruction
- $280 million reduction in modernization and reconstruction of waterfront piers, whose stability is threatened by marine borers

The longer we wait to make these necessary investments, the more they will cost, as infrastructure deteriorates further each year, additional unmet needs emerge, and it becomes more challenging to choose among competing priorities. We have seen the long-term cost of infrastructure neglect in our subways, our roads, and our energy grid. As Comptroller Stringer notes: "[O]ur present infrastructure needs are enormous: everything from reconstructing parks, schools, hospitals, museums, theaters and courts to building affordable housing to buying fire engines and garbage trucks. We can't afford to fall behind. The cost of deferred maintenance will make itself felt down the road, when antiquated equipment fails, schools are overcrowded, and housing is dilapidated and unsafe. We can pay for it today, or we can pay for it later – when it will be much more expensive to fix or replace."[4]

Cuts to Economic Development Programs

The largest capital cuts to any agency, by far, are to the NYC Economic Development Corporation, which sees a reduction of $1.262 billion in the FY20-24 capital commitment plan, more than double the cuts to any other agency, and more than one quarter of its total. These cuts include:

- $533 million reduction for acquisition, site development, and construction of projects designed to create jobs and stimulate economic activity.
- $252 million reduction in neighborhood redevelopment funds, eliminating resources that were promised to neighborhoods racing rezoning, making those projects more likely to result in gentrification rather than equity of opportunity.
- $87 million reduction for the Brooklyn Army Terminal, and another $31 million for manufacturing and commercial space.

The mission of EDC's projects is job creation, neighborhood development, and equitable economic development. EDC's investments enable small businesses to find commercial spaces at affordable rents, and create space for manufacturing businesses who might otherwise not be able to operate in New York City. Eliminating these projects will therefore negatively impact job creation and economic stimulus even beyond the loss of construction jobs. During the COVID-19 crisis, we have seen the value of manufacturing in the rapid pivot at the Brooklyn Navy Yard to create personal protective equipment (PPE) for New York City's hospitals and nursing homes. Our city's future requires investing more in precisely this kind of economic development.

Capital Cuts Eliminate Construction and Related Jobs

The largest share of capital project dollars are spent on construction projects, which create jobs in construction and related industries. Eliminating capital projects eliminates those jobs. While it is

[4] Ibid.

difficult to make precise estimates (e.g. since some of the capital program goes for land and equipment acquisition), one of the standard tools for analyzing employment impact of capital spending is the Regional Impact Multipliers (RIMS) from the Bureau of Economic Analysis. Construction has a high multiplier, relative to other economic activity, around 4 jobs per million dollars spent in the industry and around 6.5 jobs overall per million spent dollars. Analysis based on RIMS multipliers projects 9,200 fewer construction jobs and 14,500 fewer jobs overall than if the capital commitment plan in the Preliminary Budget was implemented.

Figure 3.

Job Losses as a Result of Capital Budget Reductions to Construction

	Capital Budget Reduction	**Construction Industry**	**Total Economy**
RIMS job loss ratio per $1m		*3.952*	*6.259*
FY20	($3,151,000,000)	(12,454)	(19,722)
FY21	($1,036,000,000)	(4,095)	(6,484)
FY22	$1,579,000,000	6,241	9,883
FY23	$1,196,000,000	4,727	7,486
FY24	($906,000,000)	(3,581)	(5,671)
TOTAL	***($2,318,000,000)***	***(9,162)***	***(14,508)***

New York City's seasonally adjusted unemployment rate was 14.2 percent in April 2020, an increase of 10.1 percent from March and a rise of 10.0 percent from April 2019. Communities of color and low-wage workers in restaurants, retail, and the service industry have been among the hardest hit by the current job crisis. With the United States' unemployment rate the worst since the Depression era, New York City should be prioritizing job creation and equitable economic development, particularly within communities of color. Cuts to the capital budget irresponsibly eliminates jobs at a time when our City needs them most.

Cuts Diminish Opportunities for Minority and Women-Owned Businesses

Cuts to the capital budget will also harm New York City's minority and women-owned businesses (M/WBEs). While New York City has a long way to go toward equity in contracting, the New York Comptroller's office estimates that one out of every eight dollars of capital spending goes to an M/WBE firm. As Comptroller Stringer outlined, "Construction contracts are an economic lifeline to our City's M/WBEs, generating well-paid, much-needed opportunities for small businesses and laying a solid financial foundation upon which to rebuild."[5] Based on the Comptroller's estimate of 1 in 8 dollars, the proposed reduction of $2.3 billion would mean a loss of approximately $287 million in contracting opportunities for M/WBEs.

Efforts Underway to Improve Capital Projects Management

The office of Council Member Brad Lander has been a long-standing critic of New York City's management of capital projects, which too frequently come in behind schedule and over budget. Over the past 18 months, however, the City has begun taking measures to improve capital projects management. The City's new design-build authority, won just last year from the State Legislature, gives the City the ability to move projects along more quickly and efficiently. The NYC Department of Design and Construction (DDC), which manages capital projects for many City agencies, has taken significant steps under Commissioner Lorraine Grillo and First Deputy Commissioner Jamie Torres Springer to streamline operations. Pursuant to Local Law 37 of 2020, sponsored by Council Member Lander and passed by the City Council in February, the Mayor's Office of Operations and OMB are developing a new universal capital projects tracking system, which will make it possible for the first time to review all New York City capital projects in one database, strengthening accountability to goals and timelines. With these improvements, the City is poised to make good use of its capital budget.

Conclusion: A Time to Invest in a Just Recovery

To help get through the Great Depression, New York City made investments in public housing, mass transit, and CUNY that laid the groundwork for the New Deal, helping to drive recovery and build a fairer society. After World War II, a series of public investments helped to ensure several decades of broadly shared growth and prosperity. These were investments in a brighter future.

Even before the COVID crisis, New York City faced a growing housing affordability crisis, deteriorating infrastructure, and a deeply unequal economy structured largely along racial lines. In the midst of a pandemic that has exacerbated the existing fault lines in our society and that has already seen millions of people filing for unemployment and unable to pay rent or purchase groceries, we should be investing for our future by creating new jobs, building new affordable housing, repairing dilapidated infrastructure, and providing pathways for economic opportunity for our City's residents.

Cutting the capital budget now will not only hinder the City's ability to recover from the current crisis but will negatively impact economic development, job growth, M/WBE opportunities, and the affordable housing stock for decades to come. Restoring investment in the City's capital budget is a fiscally sound way to invest in a more just and broadly-shared recovery.

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[5] Ibid.