



CENTER FOR LOCAL GOVERNMENT

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Local Capital Planning in New York: Practices and Prospects for a Revitalized Future

Infrastructure Investment in New York State

Public infrastructure is a key element for a sustainable community and a prosperous regional economy. For many communities in New York State, economic and community revitalization is dependent upon an integrated and well maintained public infrastructure that includes a modern intermodal transportation network, clean and abundant water, and desirable downtowns or community centers.

Economic revitalization and investment for broader community sustainability go hand in hand. Ongoing and prioritized infrastructure investment is needed for sustainable, attractive communities where investment decisions are aligned with community needs. Increasingly, many communities are adding environmental and energy concerns as priority investments. These “smart growth” approaches can help local governments achieve fiscal and environmental sustainability by developing and revitalizing existing communities, thus conserving open space and natural resources while strengthening the tax base.

As recently highlighted in a report released by the Office of the State Comptrollerⁱⁱ, New York State’s infrastructure is currently in a state of disrepair and requires significant investment. Recent studies have estimated investment needs total *\$250.1 billion* to maintain transportation (\$175.2 billion), municipal wastewater (\$36.2 billion) and clean water (\$38.7 billion) infrastructure across New York State over the next twenty yearsⁱⁱⁱ.

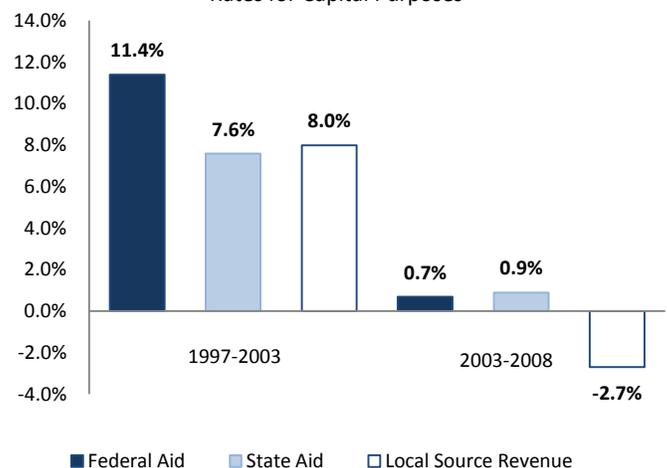
New York State and its local governments’ ability to address these needs will require a sustained and coordinated commitment by all levels of government to

rebuilding and maintaining local infrastructure systems. Better long range capital planning that prioritizes projects and intersects with regional needs and plans is also essential.

The Decline in Federal Aid, State Aid and Local Investment Rates

The \$250.1 billion in accumulated infrastructure needs are largely the result of decelerating investments by all levels of government. As shown in Figure 1, between 1997 and 2003, federal aid for capital purposes grew by over \$127 million, an average annual increase of about 11 percent. From 2003 to 2008 however, this growth slowed dramatically to 0.7 percent on an average annual basis. State aid to local governments for capital purposes decelerated almost as quickly, from a 7.6 average annual growth rate between 1997 and 2003 to 0.9 percent between 2003 and 2008. Moreover, local revenues dedicated for capital purposes actually declined at an average rate of 2.7 percent on an annual basis between 2003 and 2008.

Figure 1: Federal Aid, State Aid and Local Investment Rates for Capital Purposes



As a result, the average annual growth in capital expenditures for New York’s local governments (excluding New York City and school districts) remained relatively flat, as shown in Table 1, decreasing slightly from 5.6 percent (1997-2003) to 3.4 percent (2003-2008). However, in certain cases, differences in the rates of growth during these time periods are more significant. In cities, the rate of growth fell from 7.3

percent to 2.3 percent. In fire districts, the rate of growth declined from 6.5 percent to 4.4 percent. In villages, growth fell from 7.9 percent to 3.1 percent, and in towns, growth declined from 5.8 percent to 2.6 percent. Counties are the only class of government that marginally increased capital spending over these periods – from 4.1 percent to 4.4 percent.

Table 1: Trends in Capital Equipment Outlay for New York State’s Local Governments (Excluding New York City) 1997-2008

	1997-2008		1997-2003		2003-2008	
	Total Percent Change	Average Annual Percent Change	Total Percent Change	Average Annual Percent Change	Total Percent Change	Average Annual Percent Change
City	71.0%	5.0%	52.9%	7.3%	4.7%	2.3%
County	58.0%	4.2%	27.6%	4.1%	28.5%	4.4%
Fire District	80.9%	5.5%	46.1%	6.5%	17.5%	4.4%
Town	59.2%	4.3%	40.1%	5.8%	22.1%	2.6%
Village	83.4%	5.7%	57.4%	7.9%	30.1%	3.1%
Total	63.9%	4.6%	39.0%	5.6%	22.5%	3.4%

Capital Planning Practices: Survey Results for New York Local Governments

In charting a course for improved investment in the future, understanding current local capital planning practices is a pre-requisite. Local leaders are persistently faced with a variety of pressing concerns. Carving out time for investment planning and finding resources for infrastructure investments can be supplanted to address more urgent concerns and resource needs. The fiscal pressure to neglect capital investments has only heightened as localities have coped with the unfolding recession. The decline in local government infrastructure investment outlined above, does not mean that local elected leaders are not aware of the need to improve capital planning and address investment needs.

In this section we will review important survey findings about local government capital budgeting and planning practices in New York State. In the summer of 2009 the Center for Local Government at Binghamton University conducted a survey of New York State’s chief elected officials. The survey was sent to town supervisors, village and city mayors and the chairs of county governing boards. All 1,604 chief elected officials in

New York State were included in the survey. Five hundred and sixty-six responded resulting in a 35% response rate^{iv} (for more information about the survey and survey respondents see *2009 Survey of New York’s Local Chief Elected Officials: The Details*).

The survey was designed to collect information in four key areas: (1) the characteristics of local officials, (2) pressing local policy issues of importance to local elected leaders, (3) the training needs and preferences of these leaders, and (4) local government capital planning practices. The survey questions about local capital planning were developed cooperatively with staff from the New York State Comptroller’s Division of Local Government and School Accountability.

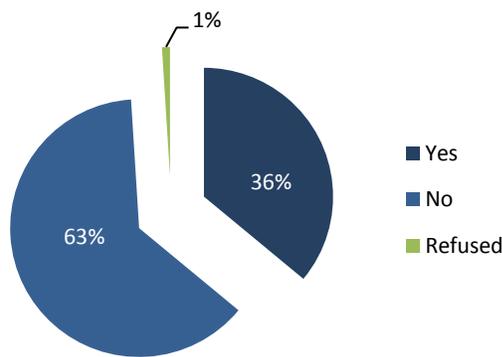
How Common is Capital Planning?

Chief elected officials were asked, “Has your government developed a formal multiyear capital plan or a multiyear capital planning process?” The data in Figure 2 indicate that just over a third (36%) of New York’s local governments said “yes” to this question. However, the patterns of different municipal classes and sizes of government vary substantially. About three quarters of cities and counties indicated that they have a capital plan or planning process, while about a third of town (32%) and village (38%) officials said “yes.”

The percentage of municipalities with a capital plan or process increases steadily with population size. The percentage grows from a low of 27% for municipalities with a population of less than 2,500, to a high of 70% for municipalities with a population of 50,000 or more^v.

A recent audit conducted by the Office of the State Comptroller in a limited region found very similar practices to the statewide survey^{vi}. Of ten municipalities audited, three (30%) had adopted a long-term capital plan.

Figure 2: Has Your Government Developed a Formal Multiyear Capital Plan or a Multiyear Capital Planning Process?



How Far Into the Future Do You Plan?

Local governments with a capital plan or planning process were asked about the length of the planning horizon. In Table 2, below, we find a summary of survey responses regarding the length of local capital plans in years. About half (49%) of local governments maintain a 5 year planning horizon for capital projects. A smaller percentage (27%) of local governments plan for capital projects over four or fewer years. Finally, about a quarter of local governments with capital planning processes plan for more than five years, with 9% of those planning for 10 years or more. In looking at detailed data by municipal population size, we find that local

governments with larger populations tend to develop longer range capital plans than local governments with smaller populations.

Table 2: How many years does your multiyear capital plan cover?	
One year	4%
Two to four years	23%
Five years	49%
More than five but no more than ten years	14%
Ten years or more	9%
Refused	2%

A Formal Capital Planning Process

Planning for capital projects can vary on a continuum from an official’s rough list of project needs “in the hip pocket” to a computerized database of capital project information that is connected to an annual calendar and a municipal process for adjusting and prioritizing projects. When asked to simplify the options to a simple “yes” or “no”, a quarter of local officials in the survey indicated that their capital planning process was formalized (see Table 3). This contrasts with 36% of those officials that indicated, above (see Figure 1) that their municipality had a capital plan or process. Looking in more detail at responses to this question, we find that the larger the municipal population size the higher the percentage of local governments that indicate their capital planning process is formalized. The percentage of municipalities indicating the development of a formalized plan grew with size, from a low of 16% (for those with a population of less than 2,500) to a high of 57%

Table 3: Has your government developed a formal multiyear capital planning process?	
Yes	25%
No	72%
Refused	3%

(for those with a population of 50,000 or more). About half of all cities (50%) and counties (55%) and roughly a quarter of towns (22%) and villages (24%) indicated that their capital plan was formalized.

A Link Between the Multi-Year Plan and the Annual Budget

An essential part of the planning process is an effective implementation strategy for the funding and construction of capital projects. One important implementation step is translation to the annual capital and annual operating budget. Of the 25% of local governments with a formal multiyear capital planning process, 86% indicated that they use the plan in developing their annual operating and capital budget.

Prioritizing Capital Projects

A second key element in capital planning is the approach used to prioritize capital projects in the capital plan. Almost all (94%) of local governments with a formal capital planning process use a standardized process to prioritize capital planning projects. In the survey, chief elected officials were asked to rank in the priority order of how important four different factors are in prioritizing capital projects.

Table 4 contains a summary of responses regarding priority factors in prioritizing capital projects. The final column on combined rank indicates that: *urgency of the project* was the overall highest factor in prioritizing capital projects followed by *project affordability*, *staff*

expertise, and *program priorities*, respectively. Looking at differences in the population size of municipalities, respondents from larger local governments rank staff expertise somewhat higher among the four factors than the percentages in Table 4 reflect.

How are Projects Prioritized	Priority Rank (%)				
Please indicate how capital projects are prioritized from most relevant (1) to least relevant (4):	1	2	3	4	Combined Rank
Priorities are established by staff with the expertise to best understand the asset(s)	23%	19%	32%	27%	3
Priorities are established based on the urgency of the project	40%	35%	15%	10%	1
Priorities reflect the affordability of the project in relation to the operating budget/multiyear financial plan	32%	35%	24%	10%	2
Priorities are established consistent with certain program priorities	6%	11%	31%	52%	4
Total (due to rounding, column totals do not equal 100)	100%	100%	100%	100%	

Capital Planning for our Future Needs: Encouraging Improvement

The survey results indicate that, depending on the measure used, somewhere between a quarter and a third of New York’s local governments are currently planning for capital improvements. A much higher percent (75%) of cities and counties (and larger towns and villages) plan for capital improvements. Three quarters of those who plan for capital improvements have a timeframe of five years or less. Project affordability and urgency are the factors most influential in the local prioritization of capital projects, with staff expertise and program priorities playing a lesser role.

These results indicate that there is substantial room for improvement to: (1) increase the number of governments planning for capital investment, (2) lengthen the horizon of planning, and (3) enhance the process of prioritizing capital projects in the plan. While our current environment makes it difficult for local governments to change course fiscally and increase capital investment, it may be a prime time to change institutional practices in preparation for the future. The federal government and New York State have provided additional incentives for improved capital planning and management.

State and Federal Incentives to Plan

Passage of the American Recovery and Reinvestment Act (ARRA) was designed to provide a temporary boost to the economy through infrastructure investment. The ARRA provides New York with a substantial level of funding for capital improvements, including about \$500 million for water and sewer systems and \$1.1 billion for roads and highways.

The availability of ARRA funding will be accompanied by increased accountability and transparency requirements that will require more careful planning. Furthermore, the New York State Department of Environmental Conservation (DEC) recently announced that the agency will revise its scoring system of applications for clean water infrastructure funding to prioritize projects that utilize existing infrastructure, are consistent with local land use plans, demonstrate that asset management plans are in place, and are energy efficient. Those local governments that engage in comprehensive capital planning will have an advantage in competing for these additional funds.

Local Capacity and Needs for Improving Capital Planning

Changing local practices is difficult, but not impossible. Municipal finance experts have long encouraged multiyear financial and capital planning as a tool to improve local public works investment and management. Many manuals and guides have been developed to aid municipalities in adopting such practices. Yet, as our survey indicates, few municipalities, particularly those smaller, non-metropolitan governments, have adopted the practice as a systematic management tool. For nonmetropolitan governments in particular, multiyear financial and capital planning can be overwhelming if undertaken manually and/or without outside help. At least four local capacity areas are important in efforts to increase and improve the local capital planning: local leadership, management-administrative capacity, information management capacity, and financial capacity.

Local Leadership. The recognition of the need for capital planning and a willingness to invest in change is a pre-requisite. In another portion of the survey, training for “Planning and Budgeting for Capital Improvements” was ranked a moderate or great need by 71% of local chief elected leaders. This strongly suggests there is a recognition of both the need for capital planning and for training assistance to make progress in the area. Local leaders also expressed the need for increased resources for highway investment and local water and wastewater infrastructure. A valuable online tutorial on Capital Planning and Budgeting as well as a step-by-step guide on developing multiyear capital plans are available to local officials on from the Office of the State Comptroller^{vii}.

Management-Administrative Capacity. The initial development of a multiyear capital plan and process is, like many management tools, both time consuming and demanding. Creating effective linkages between the plan to the annual budget is rather complex. The initial development may be overwhelming without adequate internal management capacity. Once developed and in place, many smaller and medium sized organizations can then annually update and refine the process over time. As a consequence, the availability of quality training and materials by itself has proven to be simply inadequate to promote adoption of this important and valuable practice (particularly with many nonmetropolitan governments).

Several valuable approaches have been employed to bring needed capacity to local government organizations to enable the initial development and implementation of a capital plan and process. These would include the use of student interns, circuit riding or shared management assistance, and peer-to-peer pairings of local governments that have successfully adopted capital planning with those just starting. Local governments look to proven examples that work for other similar communities when they explore opportunities for change. In this environment, the investment of assistance to local leaders who desire to implement change and adopt capital planning can have a multiplier effect in local regional settings.

The survey indicates a lower incidence of capital planning among smaller governments, particularly nonmetropolitan towns and villages. The scale of capital needs is not as great among these governments. In addition, smaller villages in general have very different capital planning needs and concerns in comparison to towns in New York State. In many cases, the infrastructure needs of rural villages will be broader, including streets and public water and waste water systems. Rural towns, on the other hand, primarily have highway investment needs to address.

Information Management Capacity. Municipal capital planning requires care and detail in organizing and presenting financial information. Developing a suitable plan requires flexibility and recalculation to consider alternatives and make a variety of adjustments. After initial development, capital plans need to be modified and updated each year to be useful and successful over time. An appropriate computer software environment is a pre-requisite to facilitate annual updates, to answer what-if questions and to assess the impact on annual budgets. If adequate software is not used to develop a multi-year capital plan, it will likely become a static, paper-based report that is soon outdated. The Center for Local Government is in the process of developing a standardized software template for multi-year capital planning that can be used with off-the-shelf spreadsheet software. This tool will be linked to an annual budget template.

Financial Capacity. Most local governments in New York State are currently facing severe fiscal constraints, which are likely to continue for several years. However, future community and economic health requires that state, regional and local policymakers consider how to address the financing of current and future capital needs. Water and sewer fees or rents are one important area for local review. These fee structures should be reviewed for their ability to not only cover current operating expenses, but also to address future capital needs. In addition, now may be an opportune time to revisit the balance or tradeoff between state aid flows that address local capital needs and the revenue raising capacity of local governments.

The Office of the State Comptroller recently identified other policy approaches for addressing the growing infrastructure needs as well as approaches for beginning to move toward better planning. The Comptroller's office presents two options that policymakers could consider.

- **Other pooled financing vehicles similar to the revolving loan fund operated by the Environmental Facilities Corporation (EFC).** Creation of pooled financing vehicles such as EFC's revolving funds for municipal drinking and wastewater systems would offer municipalities low- or no- cost access to capital.
- **Regional structures for municipal cooperation on infrastructure investment.** To spur economic growth and address the issue of local government capacity in effectively engaging in comprehensive capital planning, the state should explore opportunities to expand regional planning and cooperation on capital investments. This approach could be modeled after the Metropolitan Planning Organizations used by the Department of Transportation to prioritize highway projects.

Such an approach could provide a number of important implementation benefits, such as savings generated through economies of scale, expanded and shared capacity to manage complex building projects, and elimination of duplicative efforts. A regional approach also lends itself to "smart growth" policies that can help avoid sprawl and promote sustainable growth. A partnership of Adirondack Associations has laid the groundwork for a multi-county regional approach with a regional water and wastewater infrastructure assessment (see <http://aatvny.org>). A similar county-wide assessment has been developed in Tompkins County (see <http://www.tcad.org>).

Summary

Local capital investment in New York State has been declining in recent years. Survey evidence from local officials indicates that there is significant room for improvement in local capital planning practices and a recognition of the need for training and improvement. A broad strategy to facilitate and improve multi-year capital planning and investment in New York State requires addressing important capacity needs among local governments.

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Notes

ⁱ Staff from the Office of the State Comptroller's Division of Local Government and School Accountability provided substantial assistance developing this policy brief.

ⁱⁱ *Cracks in the Foundation: Local Government Infrastructure and Capital Planning Needs.* New York State Office of the State Comptroller, August 2009.

ⁱⁱⁱ *Multimodal Investment Needs & Goals for the Future.* New York State Department of Transportation. *Wastewater Infrastructure Needs of New York State.* New York State Department of Environmental Conservation. March 2008. *Drinking Water Infrastructure Needs of New York State.* New York State Department of Health. November 2008.

^{iv} Polling results are often reported with a qualification noting the degree of accuracy or margin of error. Based on the respondent sample size of 566, the total percentage estimates reported in this policy brief have a margin of error of plus or minus 3.5% (at a 95% level of confidence) around the reported percent figure. The margin of error for reported subgroups (e.g. village mayors) are generally larger and depend on several factors including the size of the subgroup and the site of the subgroup total population.

^v The different municipal classes have an interesting relationship with population size in New York. Almost all (99%) of the state's municipalities with a population of less than 10,000 in the survey are towns and villages.

^{vi} *Capital Planning: Audit 2009-MS-5.* Office of the State Comptroller. Division of Local Government and School Accountability. December 2009.

^{vii} See the State Comptroller's website at:
<http://www.osc.state.ny.us/localgov/training/modules/capplan/index.htm>
<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#capplanning>.