

Bridges and road repairs. School buildings and libraries. Buses and fire trucks. This is just a partial list of New York City's capital spending. Each year, the city spends more than \$4.5 billion for new and replacement items. In New York City, a capital project is defined as the construction, reconstruction, acquisition, or installation of a physical public improvement. The value must exceed \$35,000 and the project should have a useful life of at least five years. Some of the city's capital spending is shown below.

The day-to-day operating expenses of the city are funded by taxes, general obligation municipal bonds, and other government revenue sources. Many capital projects are financed by another type of municipal bond, the revenue bond. Repayment of these bonds occurs using the revenue from the specific project, such as a toll bridge or a sports stadium. In addition, a city may receive a state, federal, or private grant to help finance capital projects that provide public benefits.

A city as large as New York will always have more needs than funding. To best serve the people, a capital budget priority process is used. The procedure starts with public hearings held by the city's 59 Community Boards. Then, various city agencies submit estimates of their capital needs. After the mayor presents the preliminary capital budget, additional public hearings are held. Next, the city council holds hearings to develop recommendations on the mayor's proposal. After revisions, the capital budget is adopted by the city council.

What \$10 Million in Capital Spending Buys	
Housing	100 units of housing for the homeless mentally ill
Transit	6 high technology subway cars/25 hybrid diesel-electric buses
Sanitation	54 dual-bin recycling trucks
Fire	11 ladder trucks
Education	7 classrooms
Transportation	Resurfacing 100 lane-miles of city streets
Environment	8,000 feet of water mains (new construction)

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. Describe examples of business and government capital projects in your community.
2. What are potential difficulties faced by organizations that do not spend adequate amounts on capital projects?
3. Create a list of items that would be in the city's (a) operating budget and (b) capital budget.
4. In the 1970s, New York City was in a difficult financial situation and was unable to make debt payments on time. How would this problem affect the city's ability to sell municipal bonds? What effect would this problem have on the rate paid on the bonds?