



Capital Improvements: Planning and Budgeting in the District of Columbia

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Capital Improvements Program

- The District of Columbia's Capital Improvements Program (CIP) comprises the finance, acquisition, development, and implementation of permanent improvement projects for the District's fixed assets over a six (6) years planning period. Capital-eligible projects:
 - Useful life of more than five (5) years
 - Cost more than \$250,000
 - Typically require large amounts of capital funding
 - Often extend over a multi-year period



Capital Improvements Program

- Overall goal of the CIP is to preserve the District's Capital Infrastructure
 - Provide for the health, safety and welfare needs of residents;
 - Continually improve educational and public transportation systems;
 - Adequately improve public facilities;
 - Support economic and revitalizations efforts;
 - Retain and expand business and industry and
 - Increase employment opportunities



Intergovernmental Investments

- Federal government investments are funded both
 - Directly (e.g., systems of defense, federal government facilities, national parks, monuments and museums); and
 - Indirectly via grants to state governments (e.g., Highway Trust Fund, project-specific federal payments)
- State-level capital investments include highways, state facilities, state parks, public universities
- Municipal-level capital investments include roads, parks, schools, community and recreation centers,
- Regional authorities often created by multiple governments to build and maintain regional facilities (e.g., transportation, public works, utilities)

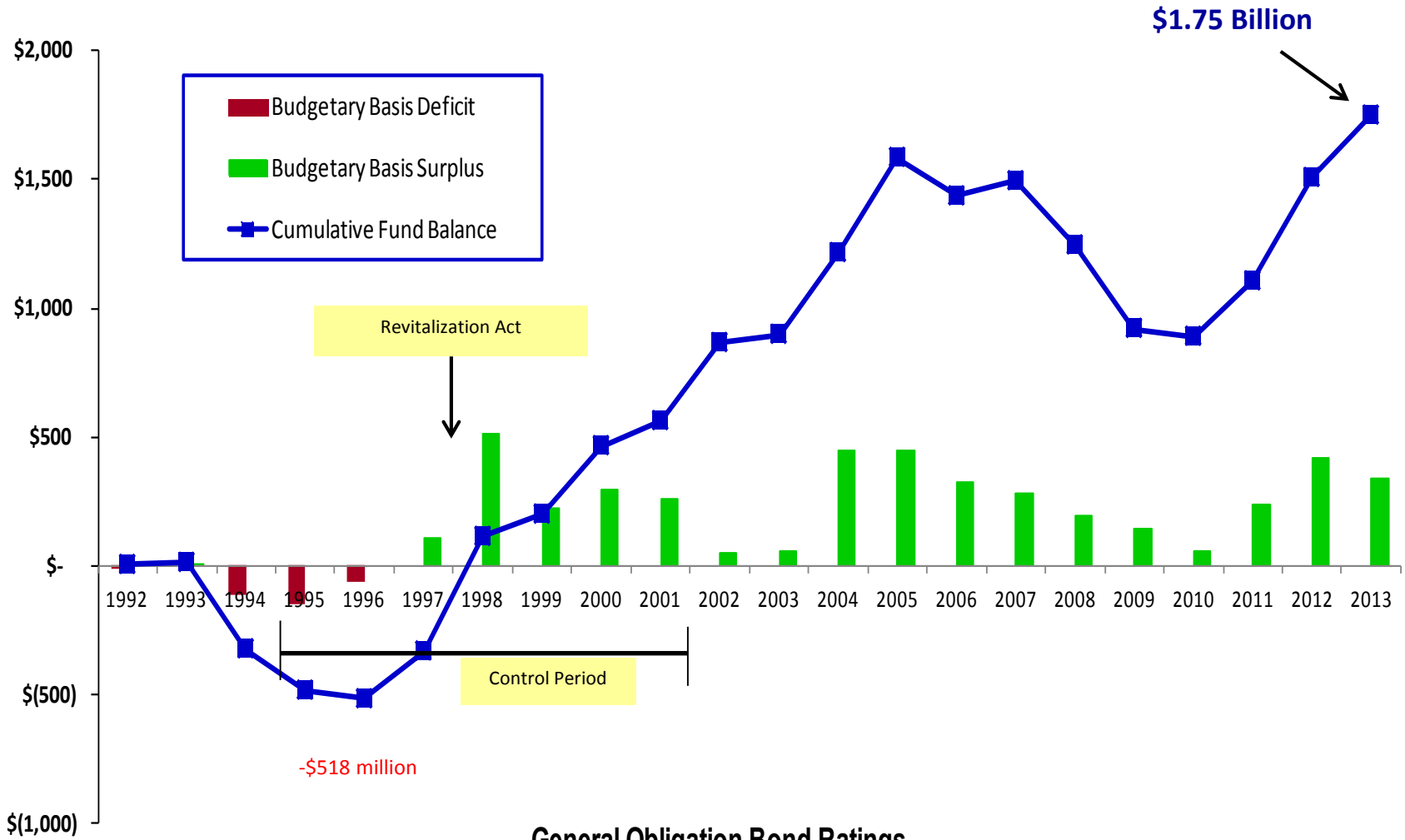


Budget Overview

- The District operates as a State, a County, and a Municipality
- FY 2016 Operating Budget includes \$12.9B in Gross Funds
 - \$7.0B in Local Funds
 - \$3.1B in Federal Funds
 - \$2.8B in Other Funds
- FY 2016 – 2021 Capital Improvement Plan totals \$6.3B
- Planned Capital Expenditures in FY2016 total \$1.2B
- District Fund Balance is \$1.87B for FY2016
- District Income Tax Secured Revenue Bonds are rated AAA



Fund Balance and Bond Rating History



General Obligation Bond Ratings

S&P:	A-	A-	A-	B	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A-	A	A+	A+	A+	A+	A+	A+	AA-	
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1	A1	Aa2	Aa2	Aa2	Aa2
Fitch:		A-	A-	BB	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A	A+	A+	A+	AA-	AA-	AA-	AA-

Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+

FY2016 Sources of Capital Funding

- \$921M General Obligation and Income Tax Revenue Bonds -- Tax Exempt (77%)
- \$26M Pay-As-You-Go capital (2%)
- \$168M Federal grants, including Federal Highway Trust Fund (14%)
- \$83M Short-term Borrowing & Sale of Public Assets (7%)



Impact of Debt on Operating Budget

DC law limits annual debt service to 12% of budget expenditures

- Every \$13M in borrowing increases annual debt service by approximately \$1M annually
- Total Projected Annual Debt Service
 - FY 2016 \$ 799M (9.9%)
 - FY 2017 \$ 845M (10.3%)
 - FY 2018 \$ 945M (11.3%)
 - FY 2019 \$1,021M (11.8%)
 - FY 2020 \$1,051M (11.8%)
 - FY 2021 \$1,082M (11.8%)



Major Capital Efforts

Transportation Infrastructure \$3.35B

- \$796M Metrorail and Metrobus (Regional Transit)
- \$610M Local Bus and Streetcar service
- \$587M South Capitol Street Bridge replacement and street improvements

Education \$1.60B

- \$1.27B Public Schools Modernization (\$3.38B to date)
- \$261M Libraries Modernization
- \$55M University Facilities



Major Capital Efforts (cont.)

Economic Development \$223M

- \$44M Low-income housing development
- \$69M Redevelopment of 25-acre public property into residential, retail, office and hotel uses

Public Safety \$145M

- \$81M Fire and Emergency Vehicles
- \$33M Police Vehicles



Capital Program Formulation

Step 1: Budget Call. District agencies provide budget officials with updated information on existing projects and requests for new projects:

- Expenditure requirements and spending plan
- Physical attributes
- Implementation timeframe
- Justification and feasibility
- Community impact
- Project milestones
- Staffing requirements
- Operating budget impacts



Capital Program Formulation

Step 2: Budget Analysis. Determination of the merits for inclusion in the CIP following three functions

- ***Function 1: Project Justification.*** Does the project support the agency mission, is it capital-eligible, is there an existing need, and does it meet at least one of the following factors:
 - Health/Safety
 - Legal compliance
 - Efficiency improvement
 - Facility improvement
 - Revenue initiative
 - Economic development
 - Project close-out



Capital Program Formulation

Step 2: Budget Analysis. Determination of the merits for inclusion in the CIP following three functions

- ***Function 2: Cost Analysis.*** All agency-submitted cost estimates are validated and developed by budget officials:
 - Facilities costs are developed in conjunction with the Department of General Services
 - Technology costs are reviewed by the Office of the Chief Technology Officer
 - Future operating costs are estimated to provide out-year operating budget requirements



Capital Program Formulation

Step 2: Budget Analysis. Determination of the merits for inclusion in the CIP following three functions

- ***Function 3: Financing Analysis.*** The Office of the Chief Financial Officer is committed to finance capital projects in a manner which:
 - Funding is committed for the entire CIP (six years);
 - The District receives the lowest cost of funding available;
 - The useful life of the capital projects matches and does not exceed the average maturity of the liability used to finance the assets;
 - The debt-cap is not compromised; and
 - Exemplary bond ratings are secured.



Capital Program Formulation

Step 3: Recommendations. The Mayor's budget team prepares the collective CIP recommendations based on:

- Evaluation of projects' physical attributes, implementing feasibility, and physical/economic impact on the community; and
- Results of a scoring model used by Deputy Mayors and the City Administrator to measure their capital priorities given limited resources.
- Qualitative vs. quantitative metrics used decentralized planning system



Capital Program Formulation

Step 4: Approval. The proposed CIP is then submitted to the Mayor for approval and inclusion in the proposed budget, with subsequent submission to the Council (legislature) for revisions and approval.



Non-Capital Investment Tools

Private-sector (non-capital eligible) economic development projects in the District can be subsidized using a variety of financing tools:

- **Tax Increment Financing (TIF).** Allows the District of Columbia to sell bonds backed by a development's future taxes, with the bond money helping to pay the developer's construction costs. TIFs are designed by earmarking the new real property and sales taxes generated by redevelopment through the establishment of a TIF area
- **Payments-in-Lieu-of-Taxes Financing (PILOT).** Authorizes the District to issue bonds financing development projects, to enter into PILOT agreements with developers, and allows the District to pledge such PILOT payments to repay the PILOT bonds. PILOT payments paid to the District in the same manner as real property tax payments.



Non-Capital Investment Tools

TIF and PILOT project financing typically require that a project meet a number of criteria:

- Financial feasibility — the project must meet the market test, i.e., be projected to generate future revenues that exceed costs during the financing period.
- Tax base expansion — will result in a net increase in taxes payable to the District
- Does not replace other available financing sources that have lower costs (the bond issue could be costly)
- Meets the “but-for” test — but for the government assistance, the project would not be built
- Does not result in District debt levels that exceed the 12% debt cap.



Non-Capital Investment Tools

Tax Abatement Financial Analysis (TAFA)

For properties that do not qualify for other subsidies, tax abatements may be awarded. In such cases a tax abatement financial analysis (TAFA) is required:

- **Financial:** can the project reasonably expected to meet its fiscal needs in the absence of the proposed exemption or abatement.
- **Estimated need:** what amount of tax exemption or abatement, if any, would be necessary for the project to be financed.

Operating Budget Subsidies

The operating budget is used in some cases to subsidize development, typically for affordable housing.

- Housing Production Trust Fund.
- Local Rent Subsidy Program.



Non-Capital Investments in the District of Columbia

Gallery Place

\$273.5M mixed-use development in an under-developed portion of downtown DC consisting of retail, dining, entertainment, and health and fitness facilities, including a multiplex cinema with 14 screens and 2,900 seats, 192 residential apartment units, commercial office space, and below-grade parking.

District Contribution = \$83.3M, including \$73.7M in TIF bonds

International Spy Museum

\$29.1M development consisting of museum, restaurant, café, retail, and special exhibit space.

District Contribution = \$6.9M TIF Note placed with developer



Non-Capital Investments in the District of Columbia

Department of Transportation

Federal Government transferred formerly tax-exempt land to developer to build new US DOT Headquarters.

District Contribution =

- \$112M in privately-placed PILOT bonds issued
- PILOT proceeds used to fund public projects along the Anacostia River, including \$40M for Southeast Federal Center waterfront park and public infrastructure

Southeast Federal Center

\$1.7B mixed-use project with 1.8M SF of commercial space, 200,000 – 400,000 SF of recreation, 2,700 residential units, retail, dining and community space.

District Contribution = \$90M PILOT note issued in phases



Lessons from the District Experience

- Maintaining balanced budgets can open up affordable options for debt-financing of capital improvements (low-risk, low-rate bonds);
- Debt service must be kept to a manageable level to protect fiscal stability and secure continued high bond ratings/low borrowing rates;
- Going forward, reliance on PAYGO rather than debt financing will be more important as rates rise and debt cap is reached;
- Project-based, non-capital financing can be used to stimulate otherwise infeasible private development under some circumstances.
- The market works – economic development projects that are financed primarily by private investment pass rigorous due diligence and market tests. Work in tandem with that process.

Lessons from the District Experience

- Planning and design matter.
 - Zoning & Comprehensive Plan
 - Community input at conception, design and completion
- Monitoring results
 - Capital Improvement Program – improved quality of life yields stability and growth in population. Typically not monitored quantitatively, but indirectly via economic and political systems.
 - PPP and Private Investment Subsidies – monitored closely by private investors; government monitors agreements closely, and builds lessons learned into future agreements.
 - Public and the Press – very active and vocal. They keep us honest.