

PUBLIC BRIEFING
ON THE
CAPITAL IMPROVEMENTS PROGRAM

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Linda W. Cropp, Chairman

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Room 412



Testimony of
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Good morning, Chairman Cropp and members of the committee. My name is Dallas Allen, and I am the director of budget formulation in the Office of Budget and Planning (OBP). I am pleased to appear before you today to present testimony on the status of the District of Columbia's Capital Improvements Program (CIP). In my testimony today, I will provide an update on the Capital Improvement Program, discuss ongoing challenges and briefly outline plans for the future.

Current Status of the Capital Improvement Program

At the committee's last CIP hearing in October 2001, District agencies had made substantial improvements in the implementation of their capital projects. These improvements were also reflected in an increased rate of spending.

I am pleased to report today that agencies are continuing to make progress in implementing their programs. Evidence of this progress can be seen throughout the District, as the D.C. Public Schools makes progress in their modernization program, the Department of Parks and Recreations opens newly renovated recreation centers, and the D.C. Public Library continues aggressive efforts to improve the infrastructure of our library system. As of September 30, 2003, total expenditures for District agencies were \$655 million, or 97 percent of the allotment of \$673 million. Although this number is slightly less than the \$732 million for the same period last year, spending continues to exceed the low of \$282 million in FY 1999 and \$278 million in FY 2000.

Because of the leadership and commitment this committee has shown in demanding accountability, improvements such as these can be seen throughout the District. However, there still remain many challenges to overcome.

Continuing Challenges

Despite the recent success the District has experienced with our improved bond rating, we still have an extremely high debt-to-equity ratio relative to other jurisdictions of comparable size. The debt per capita, at approximately \$5,700, is one of the highest two in the country (New York City is the other) and is approximately twice the average of other major cities. Based on this fact, the bond rating agencies consider the District's debt burden to be high and factor this into their rating decisions on the District's bonds. Our current capital needs far exceed our available resources to finance and to pay debt service on the financing of such needs. To help address and correct these systemic problems, the CIP budget was reduced by \$250 million and \$99 million, respectively, in the development of the FY 2003 and FY 2004 budgets.

Current estimates put the District's capital improvement needs at around \$600 million. To maintain our current financial position without jeopardizing our bond ratings and standings in the financial markets, the capital program will have to further reduce spending by approximately \$250-300 million over the next year. To maintain the District's debt burden at manageable levels in terms of debt service cost to operating revenues and debt per capita, annual borrowings will have to be limited to \$300 million, which will provide a stable long-term investment without adversely impacting the program.

We continue to experience programmatic challenges, and, as a result, opportunities for program integration between agencies are missed in many cases. The assessment of capital programs that began in FY 2002 was halted because of limited resources. Consequently, little progress has been made in the areas of benchmarking and performance management of the capital program against best practices from other jurisdictions.

Plans for the Future

As you know, Chairman Cropp, one of our greatest challenges in the capital program is bringing into alignment our future demands and our projected resources. The demands of our largest capital consumers, namely WMATA and D.C. Public Schools, have created a major imbalance between projected expenditures and borrowing capacity. For example, WMATA has requested an additional \$150 million for rail car and bus replacement in FY 2005, and DCPS has prepared a 10-year modernization plan that will require over \$300 million per year over the next decade. Given that the District's entire borrowing capacity is only \$300 million per year, we are facing a major conflict between resource demand and resource availability.

To address this issue, the Mayor and Council have taken the wise step of creating the Master Facility and Program Integration planning process. This project will conduct a comprehensive assessment of District facilities and develop an integration plan that will not only improve service delivery at the neighborhood level, but will also propose an allocation of scarce capital dollars according to our highest priorities. The complete assessment will be done for the FY 2006 budget proposal.

As we begin to develop the FY 2005 budget, however, this will begin to assist development of the capital budget baseline recommendation. To begin balancing capital needs and resources, agencies have been instructed to only request funding for health and safety projects or mission critical initiatives. Agencies are required to demonstrate their ability to implement their existing capital projects prior to any consideration of new funding. In addition, they were instructed to have condition assessments completed and submitted prior to their capital budget.

Furthermore, through improvements related to Performance-Based Budgeting and the development of a new District-wide budget system, the District will be in a better position to develop clear objectives, assess performance, and measure results as they relate to its capital projects.

As always, the Office of Budget and Planning is committed to working collaboratively with you, Madam Chairman, this committee and the Council, stakeholders, and agencies to improve the effective and efficient operations of the capital program.

Madam Chairman, thank you for the opportunity to testify today. I will be happy to respond to any questions that you may have.

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