ISSUED OCTOBER 2023

District of Columbia

LONG-RANGE CAPITAL FINANCIAL PLAN REPORT

2023 Updates

Produced by the Office of the Chief Financial Officer

GOVERNMENT OF THE DISTRICT OF COLUMBIA

PART I: 2023 UPDATES

1. Key Highlights

The Office of the Chief Financial Officer's 2023 Long-Range Capital Financial Plan Report assesses the condition of the District of Columbia's (the "District") current assets, future capital needs, and funding availability. The plan then optimizes resources to address all identified capital needs in the shortest possible time.

The District's asset management system, the Capital Asset Replacement Scheduling System (CARSS), contains a detailed inventory of all District-owned assets, including land, buildings, roads and streets, vehicles, and equipment. This system provides the basis for developing the District's capital improvements plan (CIP) as part of the annual budget process and determines the cost of deferred maintenance for current assets.

Key highlights of this year's report include:

- $14.08 billion of total capital needs identified; approximately $10.51 billion of those needs are funded in the FY 2024 - 2029 CIP.
- $3.57 billion of unfunded capital needs remain during the 6-year CIP period, up from $3.54 billion last year, of which approximately $1.40 billion is deferred maintenance.
- Reasons for the slight increase in unmet capital needs include a net decrease in the size of the capital budget due to lower revenue estimates in the out-years of the financial plan.
- Analysis shows that unmet capital needs can be funded as early as FY 2033, if the District commits 16.8% of its general fund budget to capital projects (12% to support debt service on borrowings and an average of approximately 4.8% on pay-as-you-go cash funding) and no additional capital projects are added before addressing currently identified unmet needs. If additional capital projects are added, the timeline to catch up with unmet needs could be extended significantly.
- The District has a comparatively lower cost of borrowing compared to its peers due to strong bond ratings: Aaa/AA+/AA+ by Moody's, S&P and Fitch, respectively. However, continued high interest rates, due to macroeconomic factors and current Federal Reserve policy, could impact future borrowing capacity.
- Challenges to executing this plan include a potential US recession triggered by continuously tight monetary policy by the Federal Reserve, a federal government shutdown with disruptions to the local economy and persistently elevated borrowing costs due to 'higher-for-longer' interest rates. District-specific risks include continued high rates of remote work, especially amongst the federal workforce, an accelerated decline in federal employment, a stalled population recovery, and additional funding requirements from the District to address WMATA's projected operational funding deficit.
- The nation's capital remains in an enviable position compared to its peers to navigate these challenges and address its infrastructure needs due to prudent financial management policies *(including very strong reserves and highly funded pension and OPEB liabilities)*, a state-of-the-art asset management system, and a resilient local economy.

2. Executive Summary

Introduction

Like most other state and local governments throughout the country, the District of Columbia, the nation's capital, faces significant challenges in maintaining its critical infrastructure. Investing in existing, and building new infrastructure are crucial to the quality of life and economic prosperity of any jurisdiction. To that end, the District plans to fund approximately $10.51 billion of its highest-priority capital projects over the FY 2024-2029 capital planning period, with approximately $6.09 billion funded by selling municipal bonds (debt financing). However, the overall need for new facilities or asset maintenance in the District far exceeds this funding level. The District has limits on its borrowing capacity and other available resources and must strike an appropriate balance between funding its on-going operations and investing in capital assets.

Funding of Unmet Needs

This Long-Range Capital Financial Plan report shows that the District can address all deferred maintenance and unmet capital needs as early as 2033. To achieve this ambitious goal, the District must commit to borrowing up to its statutory maximum level of debt service, which is 12% of general fund expenditures and to increase pay-as-you-go (or cash) funding for capital to an amount averaging roughly 4.8% or more of general fund expenditures. Additionally, the plan commits to prioritizing funding of existing unmet capital needs over any additional new capital projects.

CARSS

The District is unique in that it functions as a city, state, county, and school district and has the responsibility to fund infrastructure for all these functions. A team of subject matter experts throughout the District developed a comprehensive asset management planning system to better understand the costs to maintain its assets in a state of good repair. The Capital Asset Replacement Scheduling System (CARSS) is an asset management planning solution that delivers a comprehensive view of the District's capital asset health and provides information on each project or asset. CARSS, coupled with the District's long-range financial forecasting model, was designed to answer 4 fundamental questions:

1. *What assets does the District own?*
2. *What is the condition of those assets?*
3. *How should the District prioritize its capital needs?*
4. *How much funding is available to address those needs?*

CARSS is now generally recognized as the most comprehensive and detailed capital asset management system of any city or state government in the country.

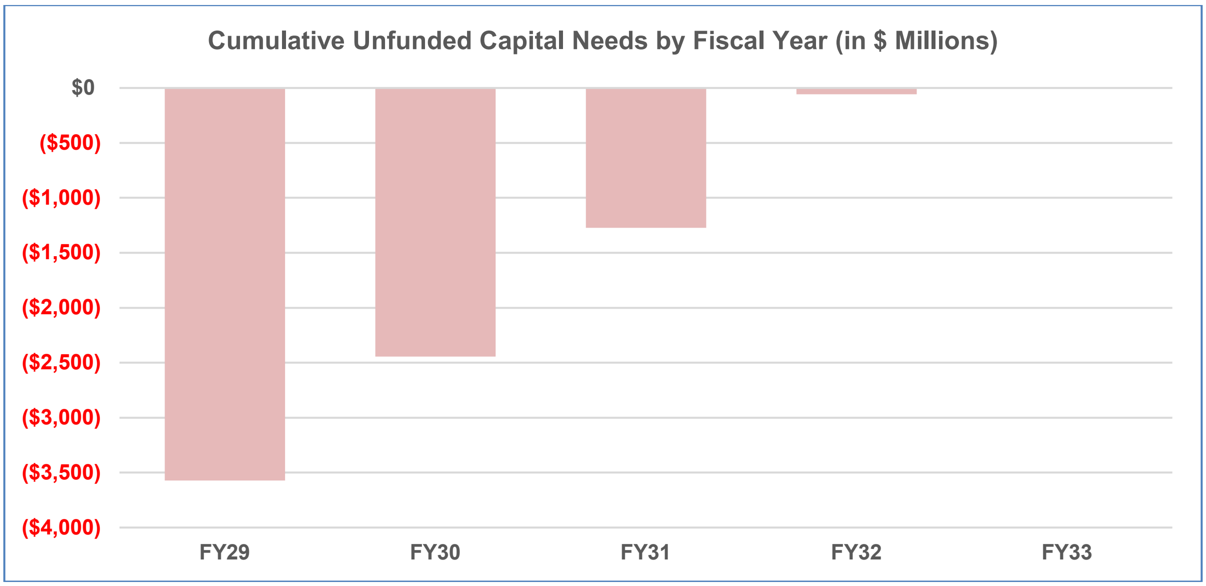
Total Capital Funding Gap

In addition to CARSS, the District developed a long-range financial forecasting model. This model can determine the optimal capital funding mix, within certain financial constraints, including debt capacity, pay-as-you-go (paygo) or cash funding, as well as federal or other grant funding. The model determines the amount of available funding for the 6-year Capital Improvements Plan (CIP) and helps to determine which capital projects the District cannot afford during that timeframe. In addition to analyzing available traditional methods of funding, capital projects were also analyzed to determine where the private sector may assist in addressing future infrastructure challenges through non-traditional funding, such as public-private partnerships.

The District can fund roughly $10.51 billion of its highest-priority capital needs in its FY 2024-2029 CIP. However, the CARSS analysis identified approximately $3.57 billion of unmet capital needs during that same period, which is slightly higher than reported in the 2022 report. The $3.57 billion equates to approximately $595 million per year on average, or roughly 5.6% of the District's FY 2024 Local Fund revenues.

Over the last several years, the District has made significant progress in addressing its unmet capital needs and deferred maintenance for several reasons, key amongst them is the District's rapid recovery from the economic contraction caused by the Covid-19 pandemic. Additionally, the District received significant funding from federal COVID relief programs, a large portion of which has and will be used to fund capital projects.

Long-Term Funding Solutions
In Fiscal Year 2017, the District Council adopted legislation to increase the amount of paygo provided to support capital program needs as part of the FY 2018 Budget Support Act. Under this law, the amount of additional paygo funding for capital increases annually from a base year in 2020, until it eventually reaches a level equal to annual additions to total accumulated depreciation as reported in the District's Annual Comprehensive Financial Report. Over the 15-year period studied in this report, paygo transfers for capital, including those amounts dedicated to WMATA, would average approximately $561 million annually. Total Infrastructure Investment and Jobs Act (IIJA) funds received amount to $2.1 billion in aggregate between FY2024 and FY2026, an average of $687 million per year. Given the substantially higher projected paygo funding and the full utilization of its borrowing capacity, coupled with significant federal funds, the District could fund all existing unmet capital needs and address all its deferred maintenance as early as 2033.



Challenges
The District faces several challenges in addressing its unmet capital needs within the timeline outlined in this plan. Several of these challenges are outside of the District's control, including the prospects of an economic recession, continuously elevated levels of inflation, persistently high interest rates due to tight monetary policy by the Federal Reserve, and a potential federal government shutdown that could disrupt the local economy. District-specific risks include continued high levels of remote work, especially amongst the federal workforce, an accelerated decline in federal employment and a stalled population recovery. Additionally, WMATA ridership and related revenues have significantly decreased which has impacted WMATA's ability to balance its budget and maintain current service levels. Requests for significant additional subsidies to support their operations, as well as recently proposed service reductions, could result in negative repercussions for the local economy. These challenges also could create the need to provide additional programs and services to impacted residents. As budgets become more constrained due to slower growth in revenues, the District will have to carefully balance its commitment to annually increase paygo funding levels with increasing needs for funding operational requirements.

Conclusion
Although the District faces significant challenges in addressing its capital infrastructure needs, it is in an enviable position compared to most of its peers. This report outlines a plan, that if executed, would allow the District to meet all its unmet capital needs and deferred maintenance within a decade. Simply stated, if the District commits approximately 16.8% of its general fund revenues to its capital needs (12% for debt service and 4.8% for paygo), and the remaining 83.2% to operations and programs, its infrastructure will be amongst the best maintained of any city or state in America.

3. Capital Funding Gap during the CIP Period

The CARSS model determined that the total capital infrastructure needs of the District, as identified in the FY 2024-2029 CIP budget formulation, is approximately $14.08 billion. The District has identified approximately $10.51 billion of funding over the next 6 years, a mix of debt, paygo capital, federal loans and grants, and other resources, in its capital budget for the highest-priority capital projects. The remaining capital infrastructure funding shortfall of approximately $3.57 billion over the 6-year CIP period includes both capital projects as well as capital maintenance projects for existing assets.

The chart below shows the annual estimated funding needed, beyond what the District can afford during the current 6-year CIP, broken into the 2 categories of capital projects: capital maintenance projects (deferred maintenance) and new capital projects. The 6-year funding gap for capital maintenance projects averages $234 million annually and the funding gap for new capital projects is on average $361 million annually. Combined, the annual funding gap is approximately $595 million, equivalent to roughly 5.6% of total FY 2024 local fund revenues.

Table 1

Total Unfunded Capital Needs During the 6-Year CIP Period
(in $ Millions)

Fiscal Year	FY24	FY25	FY26	FY27	FY28	FY29	6-Year Total
Unfunded Capital Maintenance Projects	$266.4	$270.7	$224.5	$187.9	$168.1	$284.7	**$1,402.4**
Unfunded New Capital Projects	$355.3	$337.7	$414.3	$493.7	$375.2	$192.4	**$2,168.5**
Total Unfunded Capital Needs	**$621.7**	**$608.5**	**$638.7**	**$681.6**	**$543.3**	**$477.1**	**$3,570.9**

As shown in the following chart, the total capital funding gap represents projects across key sectors of the District's capital infrastructure program. These amounts represent actual capital projects that cannot be delivered during the current 6-year CIP with current funding levels and sources. For example, the approximately $2 billion in unfunded new facilities projects includes two very significant capital projects for the District: a replacement of the Henry J. Daly building, which serves as the headquarters of the Metropolitan Police Department, and a replacement for the District's correctional facility. Even though the scope of the correctional facility project has been downsized, the estimated additional funding needed, above what is already in the capital budget for those two large projects, is approximately $925 million.

Table 2

Annual Capital Funding Gap by Asset Type
(in $ millions)

Fiscal Year	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
IT Projects & Systems							
Capital Maintenance Projects	8.2	22.4	19.1	13.0	12.5	11.1	**86.1**
New Capital Projects	26.6	25.5	16.6	13.0	5.3	2.7	**89.7**
Total	**34.8**	**47.8**	**35.7**	**26.0**	**17.8**	**13.7**	**175.9**
Equipment & Regulatory							
Capital Maintenance Projects	0	9.9	10.0	10.0	9.9	9.9	**49.8**
New Capital Projects	0.3	0.3	0.3	0.3	0.3	0.3	**2.0**
Total	**0.3**	**10.2**	**10.4**	**10.4**	**10.2**	**10.2**	**51.7**
Fleet							
Capital Maintenance Projects	24.3	41.3	43.8	49.5	42.0	43.8	**244.8**
New Capital Projects	-	-	-	-	-	-	**-**
Total	**24.3**	**41.3**	**43.8**	**49.5**	**42.0**	**43.8**	**244.8**
Horizontal Infrastructure							
Capital Maintenance Projects	138.0	70.8	64.6	36.7	14.9	126.7	**451.6**
New Capital Projects	13.3	1.4	-	-	-	-	**14.8**
Total	**151.4**	**72.2**	**64.6**	**36.7**	**14.9**	**126.7**	**466.4**
Facilities							
Capital Maintenance Projects	95.8	126.4	87.0	78.7	88.9	93.3	**570.1**
New Capital Projects	315.0	310.5	397.3	480.3	369.5	189.4	**2,062.1**
Total	**410.9**	**436.9**	**484.3**	**559.0**	**458.4**	**282.6**	**2,632.2**
Grand Total	**621.7**	**608.5**	**638.7**	**681.6**	**543.3**	**477.1**	**3,570.9**

It is important to note that the Long-Range Capital Financial Plan analysis incorporates inflation assumptions in line with market expectations, especially in the short- and medium-terms. The costs of deferred capital projects beyond the 6-year CIP period continue to grow in the long-run at 3% annually until those projects are funded. In addition, CARSS incorporates cost curves for various assets in the database to measure the cost of repair or replacement more accurately as these assets deteriorate. For example, if potholes are not filled on a particular street segment in a timely manner, the asset deterioration curve for street and roads may cause CARSS to accelerate the timing of a more expensive repair event, such as a complete street scraping. Similarly, if vehicles are not replaced pursuant to the schedule established in CARSS based on the established metrics of useful life of those assets, CARSS inflates the purchase price of those vehicles to reflect the likely higher cost of purchasing those assets later than is the time recommended in the model. Finally, operating costs are also incorporated into CARSS as part of the overall outlook of asset health. Hence, if capital maintenance or asset replacement is delayed beyond what is prescribed in CARSS, annual operating and maintenance costs for that asset are escalated in subsequent years until the repair or replacement is completed.

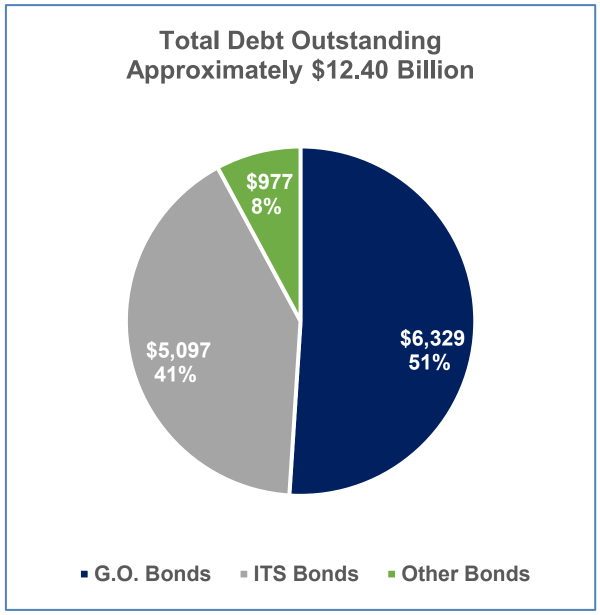
4. Funding Sources and Solutions

Although the District relies on a variety of sources to finance its capital infrastructure program, including paygo financing, federal grants, local highway trust fund monies, local transportation funds, Grant Anticipation Revenue Vehicles (GARVEE bonds) from the Federal Highway Administration, sale of assets and other typical municipal sources of revenue, like most other state and local governments throughout the nation, the District has traditionally relied on debt financing as the primary source of funding for capital infrastructure investments.

Outstanding Debt

The District has utilized debt financing, primarily General Obligation (G.O.) bonds and Income Tax Secured Revenue (ITS) bonds, as the primary sources of funds for capital infrastructure investments. As of September 30, 2023, the District has approximately $12.40 billion of total outstanding debt, of which roughly $11.43 billion (or approximately 92%) are either G.O. bonds or ITS bonds.

Figure 1



While G.O. and ITS bonds will remain a key source of funds for infrastructure investments into the future, the key challenges for the District will be to ensure that the total debt burden remains at a sustainable level and does not overburden the city's budget. The District's debt must be structured in such a way as to maintain our strong credit ratings, thereby keeping the overall cost of borrowing as low as possible. Although the District's revenues have rebounded from the Covid-19 pandemic, revenue growth is projected to slow because of the larger macroeconomic environment. At the same time, the District anticipates increasing its outstanding debt by over 49%, or approximately $6.09 billion in additional G.O. or ITS bonds over the next 6 years, to support its capital improvements plan. Along with slower projected revenue growth, elevated interest rates will make adding this amount of additional indebtedness even more challenging.

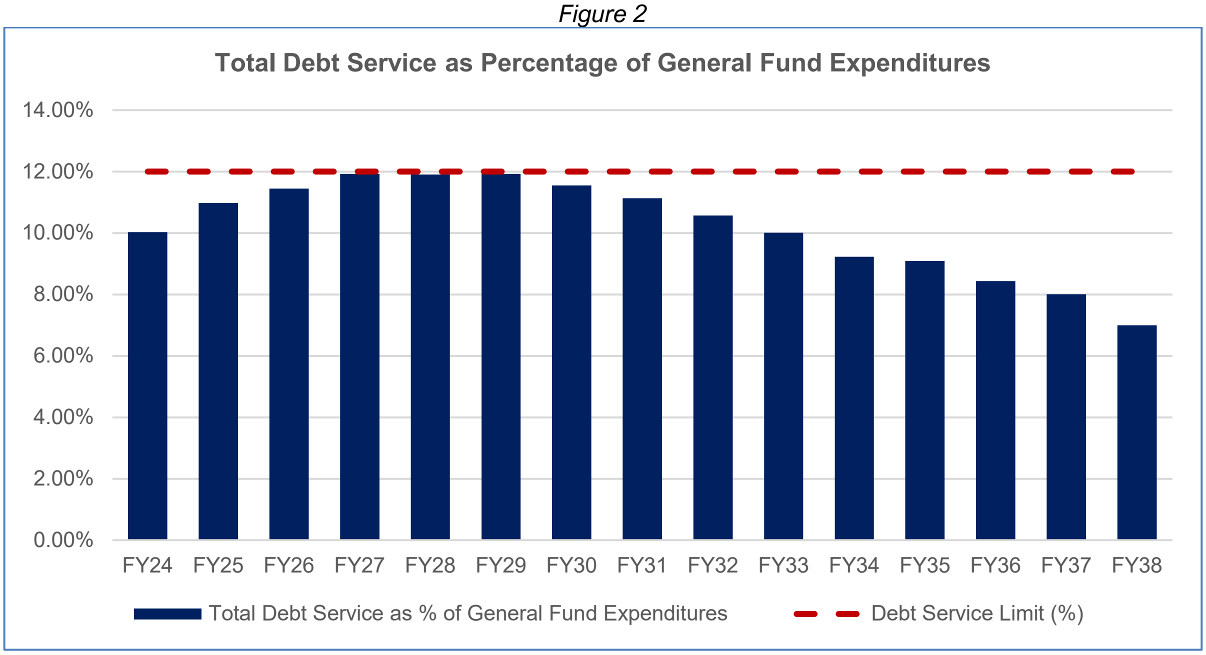
Debt Capacity Limitations

The District must operate within both federal and local statutory debt limits. Under the federal Home Rule Act, annual debt service on the District's General Obligation bonds must be no more than 17% of General Fund revenues. In 2009, the Council passed local legislation to further restrict the amount of debt outstanding. The local Debt Ceiling Act limits the annual debt service on all tax and fee supported debt to no more than 12% of the District's General Fund expenditures. This locally imposed limit is the true constraint under which the District's borrowing must operate. Compared to other state and local governments, the District has a relatively high debt per capita ratio. Staying below the 12% debt limit allows the District to maintain its very strong credit ratings on its General Obligation bonds (Aaa/AA+/AA+ from Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively), as well as on its Income Tax Secured Revenue bonds (AAA/Aa1/AA+ from S&P, Moody's, and Fitch, respectively). **The District's credit ratings are amongst the highest of any state or local government in the country.**

The OCFO calculates annual debt service as a percentage of projected general fund expenditures during the current CIP period, in compliance with the 12% locally mandated debt limit. The following graph illustrates the District's projected annual debt service percentages given the amount of debt projected to be issued to support the FY 2024-2029 CIP. It is important to note that the chart does not reflect the impact of future debt refinancings or restructurings, which are likely to lower the debt service reflected in the graph below and increase future borrowing capacity for the District.

While the 12% statutory debt limit is on the higher end as compared to other state and local governments across the country, it reflects our unique requirement to fund state, county, city, and school district infrastructure needs. This debt limit has been extensively discussed with the credit rating agencies, and coupled with our strong reserve policies, provides the maximum borrowing capacity to fund infrastructure at the lowest possible cost.

Figure 2



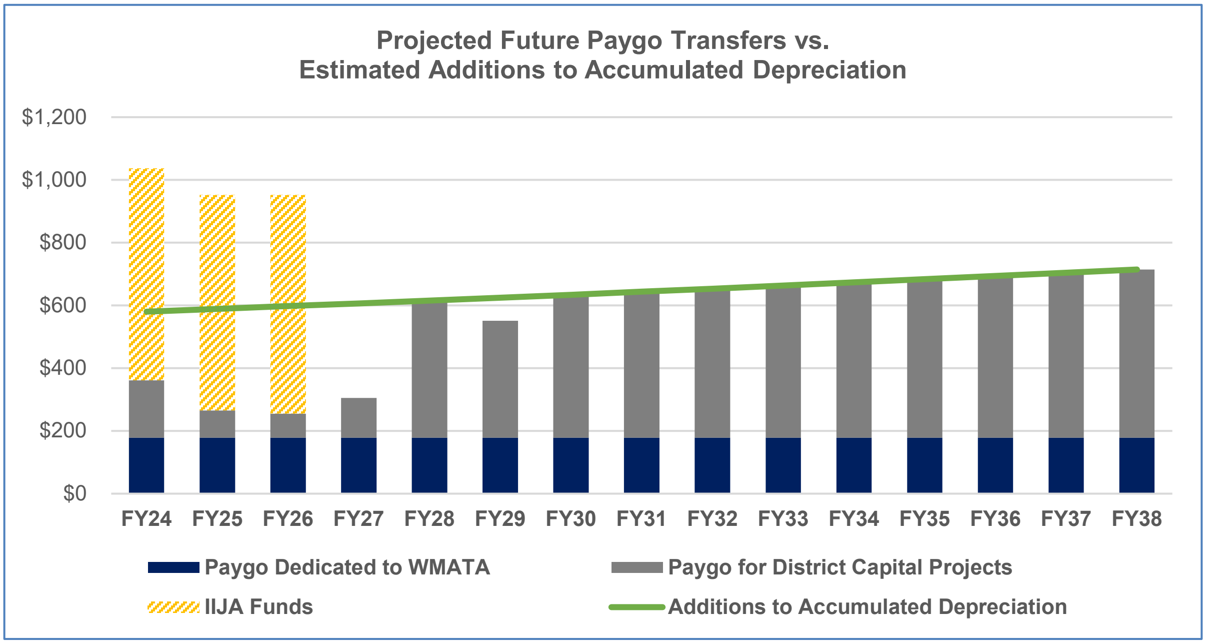
Paygo Funding Mechanism Through Legislative Action

The other key source of funding for the District's CIP is paygo funding, which is a transfer of cash from the operating to the capital budget. Given the statutory limits on the amount of debt that can be issued, these cash transfers from the General Fund to the CIP program are the most flexible source of funding for addressing the identified, unfunded capital needs.

The Budget Support Act of FY 2018 included a provision for the use of paygo as part of the Capital Infrastructure Preservation and Improvement Fund. The provision specifies that for FY 2020, the financial plan shall include a minimum local funds total transfer of paygo to the CIP of $58,950,000, plus any associated special purpose revenues dedicated to capital. Then, beginning in FY 2021, and for each subsequent fiscal year thereafter, the financial plan shall include a minimum local fund transfer for paygo of the $58,950,000 (and any special purpose revenues dedicated to capital) plus 25% of the increase in local fund revenues over the FY 2020 base year. The amount of local fund revenues transferred to the CIP is capped, to not exceed annual additions to total accumulated depreciation as reported in the District's most recent Annual Comprehensive Financial Report. The District receives funding from the Infrastructure Investment and Jobs Act (IIJA), enacted into law in 2021, of $2.06 billion from FY2024 to FY 2026. This substantial amount of additional federal funding for infrastructure is planned to be used to supplement local funds to further address the District's unmet capital needs.
As an example of how significantly paygo funding for capital has grown, the adopted FY 2024 budget includes total paygo funding for capital, including amounts dedicated to WMATA, of roughly $361 million plus IIJA Funds of $676 million, for a total of $1.04 billion in FY 2024 alone. This is approximately $457 million more than legislatively required. Additionally, over the 6-year CIP period, projected paygo transfers to the capital budget total $2.35 billion excluding IIJA Funds. The total aggregate amount of paygo funding over the entire 6-year CIP period exceeds the legislative minimum by roughly $800 million including IIJA Funds.

As shown in the following graph, under the approved legislation, future local funds transfers to the CIP for paygo, both the amounts dedicated to WMATA and the amounts for the District's capital projects, would be roughly equivalent to additions to total accumulated depreciation in FY2028 and by FY2030, at which point the calculation to determine future local funds transfers would be capped at the amount reported for additions to total accumulated depreciation of capital assets.

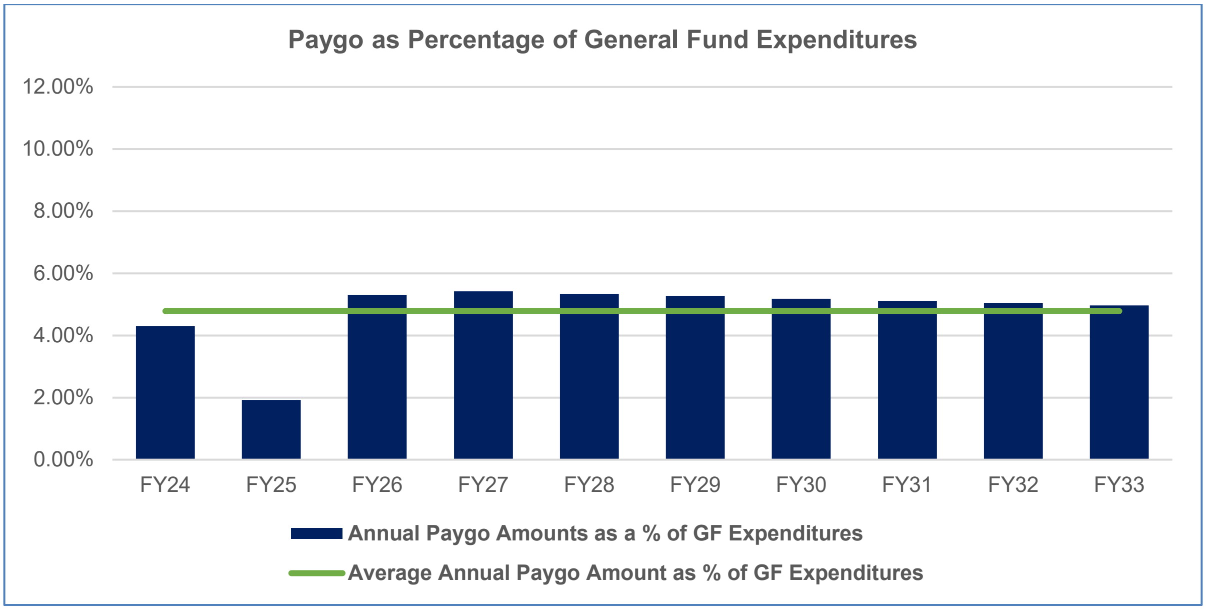
Figure 3 [1]



While the estimated increases in paygo from local funds represent significant portions of the projected local funds revenue growth of the District, and a substantial increase in funding for the capital program over prior year's amounts, it represents a relatively small part of the local funds portion of the District's general fund budget. As seen in the following graph, the annual amount of local funds transfers of paygo for capital averages 4.8% of the local funds portion of total general fund expenditures between fiscal year 2024 and fiscal year 2033, which is the earliest time by which all unmet capital needs could be funded.

[1] Estimates based on additions to total accumulated depreciation of capital assets as per the ACFR: $563M in FY2022. While GASB 87 includes amortization of capital leases in the calculation of total depreciation & amortization, District legislation only includes depreciation. Therefore, amortization of capital leases is excluded from the calculation of total depreciation for this purpose.

Figure 4



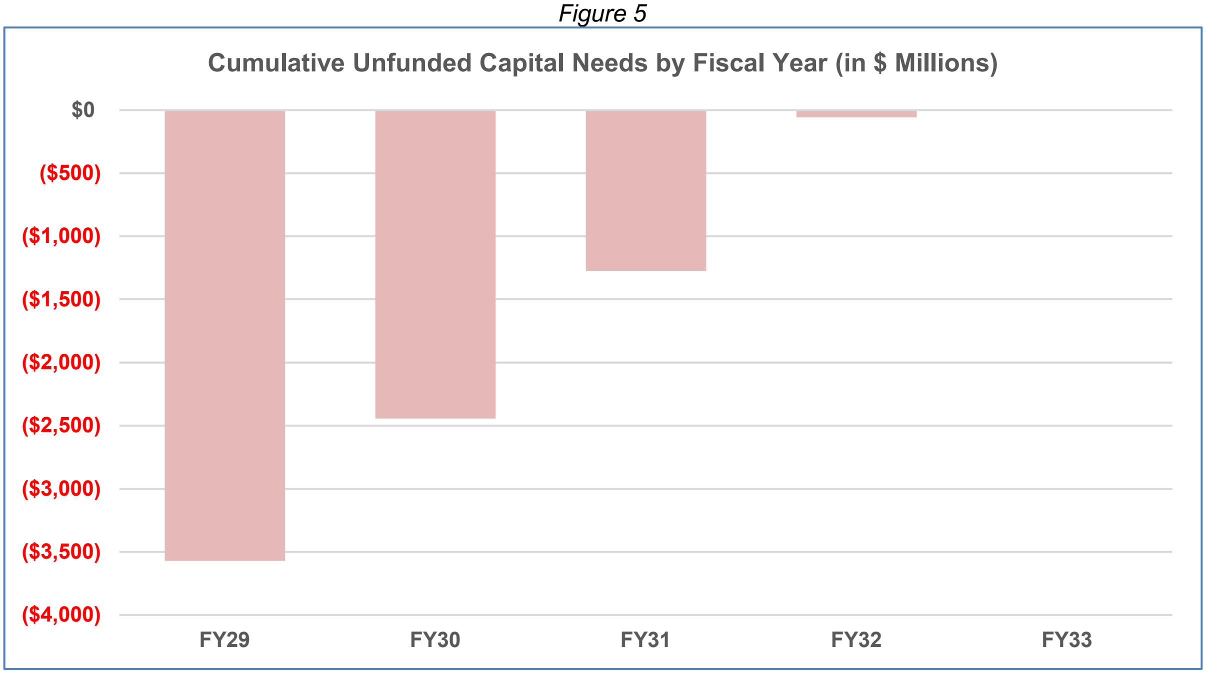
Allocating this level of additional paygo funding is not without challenges, as the growth of local revenues is projected to slow substantially due to an expected weakening of the District and national economies. Capital projects compete for funding with programmatic priorities such as affordable housing, homeless services, and the general growth and expansion of services for residents. However, properly maintained equipment and facilities will, in the long term, result in lower life-cycle costs and increased resources for other District programs. Additionally, federal funding from the IIJA should help to offset a slowing of local revenue growth and to address the District's unfunded capital needs. The District expects to receive approximately $687 million per year from FY2024 to FY2026 from the Infrastructure Investment and Job Act. The additional funds will help to maintain and expand the existing asset base and cope with the increasing strains on the District's infrastructure.

Also, District legislation requires that once the 60-day operating reserve level is reached for the federally and locally mandated cash reserves, 50% of all surpluses in a given fiscal year go to paygo funding. This additional funding will further assist the District in achieving paygo levels that support ongoing capital asset maintenance. The addition of these new revenues should allow the District to meet its increased commitment to funding capital, while also supporting reasonable growth in operating programs.

Funding Solutions
The District's long-range financial planning model incorporated both the projected amounts of additional paygo funding, as discussed earlier, and maximized the amount of borrowing for capital, all while staying below the District's statutory debt limits. Given these projected amounts of paygo funding for capital, and maximizing the District's bonding capacity, the long-range capital financial model estimates that the District will be able to "catch up" and fund all existing unfunded capital projects identified in CARSS as early as FY 2033. This would allow all District assets in the general fund to reach a state of good repair, while also addressing new unfunded capital projects. In other words, the $3.57 billion of capital needs not funded in the 6-year CIP could be funded as early as 2033 with paygo levels increasing to 4.8% of the general fund budget and borrowing up to the 12% statutory debt capacity limit if no additional capital projects are added before addressing currently identified unmet needs. Funding of the gap could be further accelerated through additional resources, such as increased federal funding or greater use of non-traditional funding structures, such as public-private partnerships.

The following graph illustrates the unfunded capital needs, meaning those capital needs not funded as part of the FY 2024-2029 CIP, identified in this 2023 report. Those unmet capital needs, which grow to slightly more than $3.57 billion through FY 2029, begin to be paid down starting in FY 2030, assuming no new additional capital projects are added to the CIP before addressing these identified unmet needs. The analysis that supports unmet needs being funded as early as 2033 relies on two important assumptions: 1) unmet capital needs identified in this report are prioritized in the years beyond the current CIP period over the addition of new capital projects, and 2) that most of the bonding capacity available outside of the current CIP is targeted at funding these unmet capital needs. Over the last several years, the District's capital budgets have been split roughly 60% to address existing capital needs, or deferred maintenance, and 40% to new capital projects to support growth. If the District were to maintain such a split in its future capital budgets outside of the current CIP it would extend the time frame to "catch up" with all the identified unmet capital needs by several years. In addition, if revenues were to fall, or grow at a slower pace than currently anticipated, the time that it would take to fund all the District's unmet capital needs would likely be extended by several years as well.

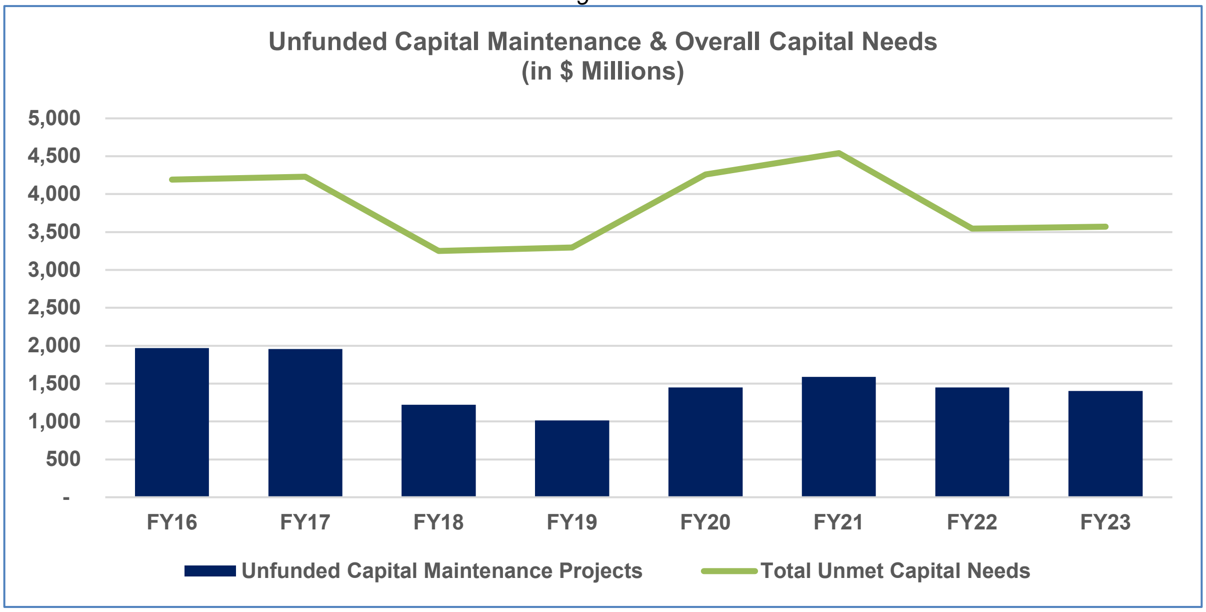
Figure 5



Progress in Addressing Unfunded Capital Needs

Since the first Long-Range Capital Financial Plan report was produced, the District's capital budgets have grown from approximately $6.30 billion in 2016 to roughly $10.51 billion in 2023, with an increasing focus on addressing unmet capital needs, especially deferred maintenance of existing assets. As can be seen in the following graph, the amount of identified unfunded capital needs steadily decreased until the onset of the recession in 2020 brought about by the coronavirus pandemic. This year's report identified total unmet capital funding needs of approximately $3.57 billion, an amount only slightly above the $3.54 billion identified in last year's report. The District can address these unfunded needs in a reasonable amount of time due in large part to the strength and resilience of the District's economy, comparatively low borrowing costs due to strong credit ratings, refinancing existing debt whenever possible, and utilizing the debt service savings for additional borrowing capacity to support the capital budget. These factors will allow the District to address its unmet capital needs in roughly a decade.

Figure 6



As illustrated in the chart above, unfunded capital maintenance needs, which serve as a proxy for deferred maintenance, had decreased since the first long-range capital financial plan report in 2016. In the 2016 report, unfunded capital maintenance needs were nearly $2 billion, or nearly half of total unmet capital needs. However, there was a much greater emphasis on addressing those unmet capital maintenance needs beginning with the 2018 CIP, and those amounts declined significantly to just slightly more than $1 billion in 2019. These amounts then began to rise in 2020 and 2021 because of capital maintenance project delays caused by the coronavirus pandemic. Capital funding increased in 2022 which brought down the level of both unfunded capital maintenance needs and total unmet needs from levels seen during the period of the Covid-19 pandemic. Even though the District faces several economic headwinds, the funding gap remained largely the same in 2023, which demonstrates the District's continued commitment to addressing its capital needs.

Challenges to Achieving Timeline of Meeting Unfunded Capital Needs
While the analysis described in this report indicates that the District could fund all its unmet capital needs as early as 2033, it is important to note that there are several challenges that may impact the viability of that timeline. The OCFO released its most recent quarterly revenue estimate on September 30, 2023, and the outlook for FY 2024 and beyond remains cautious due to a variety of national and local economic trends such as a continued high interest rate environment, a deteriorating commercial real property market, and declining federal employment.

While overall, the District's economy has proved more resilient than previously forecasted, revenue is projected to end the fiscal year flat. In the out-years, slower economic growth and a deteriorating real estate market offset the impact of near-term strength. Finally, an uncertain economic outlook, and the resulting slowing of revenue growth, will increase the inherent competition between programmatic and capital spending. Future decisions regarding these allocations could have a material impact on the District ability to meet the timeline outlined in this report to fund all its deferred maintenance and unmet capital needs.

Non-Traditional Funding Approaches (Public-Private Partnerships or P3s)
The District has begun to explore alternative funding methods, where appropriate, such as public-private partnerships (P3s). P3s potentially unlock additional private sources of funding that could supplement the District's more traditional tools for funding infrastructure. While P3s have their benefits and drawbacks, the fact that the District has a detailed asset registry and a thorough knowledge of all its

assets, makes it possible to better assess which assets might be good candidates for utilizing a P3 structure. In attempting to assess which capital projects might be funded using P3s, the OCFO has held extensive discussions with the Mayor's Office of Public Private Partnerships (OP3), as well as with the Office of the Deputy Mayor for Planning and Economic Development (DMPED), over the past several years to identify projects better suited for this source of funding.

5. Summary and Conclusions

Although there is still work to be done, the District has made significant progress in addressing its deferred maintenance needs. Through an increased focus on funding maintenance of existing assets, such as roads and sidewalks in the capital budgets, the amount of identified deferred maintenance has been reduced by roughly 29% from the amount identified in the initial Long-Range Capital Financial Plan report in 2016.

Like every other state and local government in the nation, the District continues to face challenges in navigating these uncertain times driven by tight monetary policy, the threat of an economic recession, elevated inflation, as well as other challenges, which could negatively impact the continued growth in District revenues.

Despite challenges, this report outlines that if the District commits to borrowing up to its statutory maximum level of 12% of general fund expenditures, as well as commits to increase pay-as-you-go (or cash) funding for capital to an amount averaging 4.8% of the general fund budget, it can fund all deferred maintenance and new capital needs by as early as 2033. In other words, if 16.8% of the District's budget is committed to capital, with the remaining 83.2% spent on operations and programs, the District can have amongst the best funded and maintained infrastructure of any state or local government in the nation.

The credit rating agencies have taken note of the District's aggressive approach to identifying and addressing its deferred maintenance and critical infrastructure needs and cited it as one of the key factors in the ratings upgrades earned by the District in 2018. It is, therefore, important to continue to make demonstrable progress in addressing the city's critical infrastructure needs. Aggressive outreach for non-traditional funding and project delivery approaches, such as public-private partnerships and asset recycling initiatives, should be prudently pursued to potentially provide additional sources of funding for other critical capital projects that might be outside the scope of available funding in the District's CIP.

GOVERNMENT OF THE
DISTRICT OF COLUMBIA

Office of the Chief Financial Officer
1350 Pennsylvania Avenue, Suite 203, Washington, DC 20004
202.727.2476