Capital Improvements Plan: *FY 2002 – FY 2007*

Overview

The District of Columbia's Capital Improvements Program (the "Capital Program") comprises the finance, acquisition, development and implementation of permanent improvement projects for the District's fixed assets. Such assets generally have a useful life exceeding three years and cost more than $250,000. The Capital Improvements Plan (CIP) document is a comprehensive, annually updated, six-year plan for the development, modernization or replacement of city-owned facilities and infrastructure. The CIP consists of the appropriated budget authority request for the upcoming fiscal year and projected funding/expenditure plans for the following five years. In most instances, the major portion of capital authority goes toward improvements or applicable activities associated with streets, bridges, government facilities, public schools, and recreational projects.

The text of the CIP is an important planning and management resource. It analyzes the relationship of projects in the capital budget to other developments in the District. It also describes the programmatic goals of the various District agencies and how those goals impact upon the need for new, rehabilitated or modernized facilities. Finally, it details the financial impact and requirements of all the District's capital expenditures.

The CIP is flexible, allowing project expenditures plans to be amended from one year to the next in order to reflect actual expenditures and revised expenditure plans. However, consistent with rigorous strategic planning, substantial changes in the program are discouraged. The CIP is updated each year by adding a planning year, and reflecting any necessary changes in projected expenditures schedules, proposed projects, and District priorities.

The CIP is used as the basis for formulating the District's annual capital budget. The Council, the Authority, and the Congress, adopt the budget as part of the District's overall six-year CIP. Following approval of the capital budget, Bond Act(s) and Bond Resolution(s) are adopted to finance the majority of projects identified in the capital budget. Inclusion of a project in a Congressionally adopted capital budget and approval of requisite financing gives the District the authority to expend funds for each project. The remaining five years of the program, called the "out-years," show the official plan for making improvements in District-owned facilities in future years.

Why A Capital Improvements Program?

A capital improvements program that coordinates planning, financing and implementing infrastructure and facilities in the District of Columbia is essential to meet the needs of a jurisdiction uniquely situated as the nation's capital. As mentioned previously, capital improvements are those which, because of expected long-term useful lives and high costs, require large amounts of capital funding. These funds are expensed over a multi-year period (usually six years) and result in a fixed asset.

The primary funding source for capital projects is tax exempt bonds. These bonds are issued as general obligations of the District. Debt service on these bonds (the payment of interest over the lifetime of the bonds) becomes one of the items in the annual Operating Budget and thus, a factor in tax rates and spending affordability.

Also, Congress sets certain limits on the total amount of debt that can be incurred (currently 17.0% of general fund revenues) in order to maintain fiscal stability and good credit ratings. As a result, it is critical that the Capital Improvements Plan balance funding and expenditures over the six-year period so that the fiscal impact on the annual Operating Budget will not weigh too heavily in any single year.

Principles of the Capital Improvements Program

Several budgetary and programmatic principles are invested in the CIP. It is the responsibility of the Capital Program to ensure that these principles are followed. Some of the most important principles are:

To build facilities which support the District stakeholders' objectives.

To support the physical development objectives incorporated in approved plans, especially the Comprehensive Plan.

To assure the availability of public improvements. To provide site opportunities to accommodate and attract private development consistent with approved development objectives.

To improve financial planning by comparing needs with resources, estimating future bond issues plus debt service and other current revenue needs, thus identifying future operating budget and tax rate implications.

To establish priorities among projects so that limited resources are used to the best advantage.

To identify, as accurately as possible, the impacts of public facility decisions on future operating budgets, in terms of energy use, maintenance costs, and staffing requirements among others.

To provide a concise, central source of information on all planned rehabilitation of public facilities for citizens, agencies, and other stakeholders in the District.

To provide a basis for effective public participation in decisions related to public facilities and other physical improvements.

Program Policies

The overall goal of the Capital Program is to preserve the District's capital infrastructure. Pursuant to this goal, projects included in the FY 2002 to FY 2007 CIP and FY 2002 Capital Budget support the following programmatic policies:

Provide for the health, safety and welfare needs of District residents.

Provide and continually improve public educational facilities for District residents.

Provide adequate improvement of public facilities.

Provide and continually improve the District's public transportation system.

Minimize the per capita debt of the District's residents.

Support District economic and revitalization efforts generally and in targeted neighborhoods.

Provide infrastructure and other public improvements that retain and expand business and industry.

Increase employment opportunities for District residents.

Promote mutual regional cooperation on area-wide issues, such as the Washington Area Metropolitan Transit Authority, Water and Sewer Authority, and solid-waste removal.

Provide and continually improve public housing and shelters for the Homeless.

The Office of Budget and Planning

The Capital Program falls within the jurisdiction of the Office of Budget and Planning (OBP) under the Office of the Chief Financial Officer (OCFO) and consists of eight full-time equivalents. The mission of the OBP is as follows:

> *The Office of Budget and Planning is the principal advisor on the District's budget and has primary responsibility for the management of the Operating Budget. The OBP prepares, monitors, analyzes and executes the District's budget including operating funds, capital funds, and enterprise funds in a manner that ensures fiscal integrity and maximizes services to taxpayers.*

History

The District's legal authority to initiate capital improvements began in 1790 when Congress enacted a law establishing the District of Columbia as the permanent seat of the federal government and authorized the design of the District and appropriate local facilities. The initial roads, bridges, sewers and water systems in the

District of Columbia were installed to serve the needs of the federal government and were designed, paid for, and built by Congress. During the 1800's, the population and private economy of the federal District expanded sharply, and the local territorial government undertook a massive campaign to meet new demands for basic transportation, water, and sewer systems.

From 1874 to 1968, Commissioners who were appointed by the President and confirmed by Congress managed the District. One Commissioner, from the Corps of Engineers, was responsible for coordinating the maintenance and construction of all local public works, in accordance with annual budgets approved by the President and the Congress.

Legislation passed in the 1950's gave the District broader powers to incur debt and borrow from the United States Treasury. However, this authority was principally used for bridges, freeways, and water and sewer improvements. In 1967, the need for significant improvements in District public facilities was acknowledged. This awareness lead to the adoption of a $1.5 billion capital improvement program to build new schools, libraries, recreation facilities, and police and fire stations.

The Home Rule Act amendment in 1984 gave the District the authority to sell general obligation bonds to finance improvements to its physical infrastructure. To date, the District has issued in excess of $3 billion of general obligation bonds to finance capital improvements in the District.

In September 1997, the President signed the National Capital Revitalization Act (the "Revitalization Act"). The Revitalization Act relieved the District of its corrections operations at Lorton Correctional Facility. It also transferred responsibility for funding the maintenance and operation of the D.C. Courts system to the Office of Management and Budget (OMB). The District will therefore not incur the significant capital expenditures required at these facilities. In return, the District will no longer receive a federal payment in lieu of taxes for these functions.

Furthermore, the Revitalization Act raised the percent of annual debt service payable from 14 percent to 17 percent of anticipated revenues in order to compensate the District for the loss of the Federal payment. The primary impact of the Revitalization Act was to increase the District's flexibility to finance capital requirements[1].

Legal Authority and Statutory Basis

There are three statutory requirements that form the legal authority and assign responsibility for the District's Capital Program. They are as follows:

District of Columbia Home Rule Act, P.L. 93-198, §444, 87 Stat. 800: The Mayor is directed to prepare a multi-year Capital Improvements Plan for the District which shall be based upon the approved current fiscal year budget and shall include the status, estimated period of usefulness, and total cost of each capital project on a full funding basis for which any appropriation is requested or any expenditure will be made in the forthcoming fiscal year and at least four fiscal years thereafter.

District of Columbia Financial Responsibility and Management Assistance Act, 109 Stat. 108, §201: Requires the Mayor to submit a financial plan and budget, which describes capital expenditures and projected capital commitments with proposed sources of funding.

District of Columbia Appropriations Act, 2002, P.L. 106-113, §113. (Approval November 29, 2000:) Requires the Mayor to develop an annual plan by project, for capital outlay borrowings.

Along with the above mentioned statutory requirements, the following Mayor's Order supplements the legal authority and assigns additional responsibility for the District's Capital Program:

Mayor's Order 84-87: Creates within the Office of Budget and Planning a Capital Program coordinating office to provide central oversight, direction, and coordination of the District's capital improvements program, planning, budgeting, and monitoring. The administrative order requires the Office of Budget and Planning to develop a CIP which identifies; the status, estimated period of usefulness, and total cost of each capital project on a fully funded basis for which any

1 For further information on the flexibility to finance capital requirements, see the FY 2002 Operating Budget introductory chapter entitled, "Financial Plan."

appropriation is requested or any expenditure will be made over the next six years and includes:

An analysis of the CIP, including its relationship to other programs, proposals, or other governmental initiatives.

An analysis of each capital project, and an explanation of a project's total cost variance of greater than five percent.

Identification of the years and amounts in which: bonds would have to be issued, loans made, and costs actually incurred on each capital project identified to include applicable maps, graphics, or other media.

Capital Improvements Plan Development Process

The Capital Program, as mandated by Public Law 93-198 - the Home Rule Act, has the annual responsibility of formulating the District's Six-Year Capital Improvements Plan. Each District agency is responsible for the initial preparation and presentation of an agency specific plan. Under the program, projects should complement the planning of other District agencies and must constitute a coordinated, long-term program to improve and effectively use the capital facilities and agency infrastructure. Specifically, the CIP should substantially conform to the Office of Planning's Comprehensive Plan, the District of Columbia Municipal Regulations Title 10 (Chapters 1 to 11), Planning and Development.

Program Participants

The development and implementation of the CIP is a coordinated effort between the District's programmatic, executive, and legislative/oversight bodies.

User Agencies (Programmatic)

User agencies are responsible for:

Monitoring the condition of a capital facility and the supporting infrastructure.

Understanding the capital program requirements and acting within those requirements to maintain the condition of its facility.

Appointing a Capital Liaison Officer who develops the agency's capital plan, prepares the budget request, and modifies financing proposals throughout the year.

CIP expenditure plans and capital budget requests are developed at the agency level. User agencies must review their agency's strategic plan, replacement schedules, condition assessment, specific projects, construction costs, and time schedules. Agencies then submit their proposed project requests and analysis to the Office of Budget and Planning for review. Before submission of projects, agencies perform a thorough analysis and consider fundamental questions in developing their request, for example:

How does the project promote the goals and objectives of the agency?

What health and safety issues are addressed?

What is the essence of the project and what type of service will this project provide to citizens?

Will this project benefit the District?

What socio-economic group in the community will this project serve?

Implementing Agencies (Programmatic)

Implementing agencies manage actual construction and installation of a capital facility or supporting infrastructure. The implementing agencies are responsible for the execution of projects. This task includes the appointment of a Capital Financial Officer, who monitors the progress of the projects, and ensures:

The original intent of the project is fulfilled as Congressionally approved.

The highest priority projects established by the user agency are implemented first.

Financing is scheduled for required expenditures.

Historically, the Office of Property Management is the implementing agency for over 90 percent of the projects in the CIP.

Office of Budget and Planning (Executive)

The Office of Budget and Planning (OBP) is responsible for issuing "budget call" instructions to District agencies. The OBP provides technical direction to agencies for preparing expenditures plans, project/subproject justifications, priority ranking factors, operating budget impacts, cost estimates, milestone data and performance measures. The budget call allows for updates to ongoing projects and requests for additional financing and appropriated budget authority for ongoing and new projects. The OBP coordinates project evaluations to determine agency needs through careful analysis of budget request data, review of current available and future financing requirements, and comparison of project financial needs with the current bond sales and general fund subsidies anticipated to be available for CIP purposes.

Capital Review Team (Executive)

The Director of the Capital Improvements Program chairs the Capital Review Team (the "CRT") with representatives from the Chief Financial Officer, Deputy CFO for Budget and Planning, Deputy CFO for Finance and Treasury, Deputy Mayor for Planning and Economic Development, Mayor's Chief of Staff, City Administrator, Director for Office of Planning and representatives from the District of Columbia Financial Responsibility and Management Assistance Authority (the "Authority") and Council of the District of Columbia. The technical advisors to the team are the Directors of the Department of Public Works, the Office of Property Management, and the Office of the Chief Technology Officer. The Office of Budget and Planning - Capital Program provides analysis and all staff support to the CRT. The Capital Review Team evaluates agency requests using criteria developed by the Office of Budget and Planning. For further details see Appendix E – FY 2002 Proposed Projects by Priority Criteria and Appendix F – FY 2002 Planned Expenditures for Proposed Projects by Functional Area.

Mayor (Executive)

The CRT recommendation is then submitted to the Mayor for review, approval and transmittal to the Council. This fiscal year, or in a control year, the CRT's recommendation is submitted to the Mayor, Council and Authority for joint review and consensus approval.

Council, Authority, and Congress (Legislative/Oversight)

There are three levels of legislative/oversight review. They are as follows:

The Council of the District of Columbia ('the Council")

The District of Columbia Financial Responsibility and Management Assistance Authority – DCFRMAA (the "Authority")

The Congress of the United States (the "Congress")

Each body reviews and approves the capital budget and the six-year plan.

Authorizing Projects in the CIP

The OBP reviews and analyzes the CIP with the assistance of the Capital Review Team. The CIP is developed in the four-step process described below[2]:

Steps 1: Budget Call

In the Fall of the current fiscal year, District agencies are requested to provide the OBP with updated information regarding on going projects (increases or decreases in funding or planned expenditures), as well as requests for new projects. The instructions call for agencies to provide detailed information on a project's expenditure requirements, physical attributes, implementation timeframe, feasibility, and community impact. In addition, agencies provide project milestones, estimated costs, expenditure plans, Operating Budget impacts and a prioritized list of potential capital projects. The agency requests are disseminated to all members of the Capital Review Team for review.

Step 2: Agency Presentations

Each agency then presents a briefing to the CRT on their on going projects and new project requests. The purpose of the presentations are to provide members of the CRT more detailed information regarding a project's scope of work and projected cost. It also provides the CRT an opportunity to ask questions in order to determine

[2] A flowchart of the CIP approval process is provided in Appendix E – Authorizing Projects in the CIP.

each project's unique qualifications. Occasionally, agencies are requested to re-submit an updated request in order to provide supplemental information for review.

Step 3: Analysis

Project requests submitted in Step 1 undergo a thorough analysis to determine whether agency requests merit inclusion in the District's CIP. This analysis is divided into the following three primary functions:

Function 1 - Project Justification: Each project request is evaluated by the CRT to determine its relationship with the agency's overall mission; whether the project is duplicative of efforts of another agency's on going project; whether the project is in concurrence with the District's Comprehensive Plan; and whether the planned expenditure is an operating rather than capital expense.

In addition, project requests are reviewed based on priority criteria and must meet one or more of the factors below[3]:

Health/Safety

Legal Compliance

Efficiency Improvement

Facility Improvement

Revenue Initiative

Economic Development

Project Close-out

Function 2 - Cost Analysis: An important factor in the evaluation of a project request is the overall cost it will incur. Cost estimates are developed in conjunction with the Department of Public Works and the Office of Property Management to validate the project costs proposed in the agency submissions. Furthermore, future operating costs are estimated in order to provide supplementary information regarding out-year liabilities once the project is implemented (Operating Budget Impacts).

Function 3 - Financing Analysis: The Office of the Chief Financial Officer is committed to finance on-going capital projects in a manner in which:

Funding is committed for the entire CIP

The District receives the lowest cost of funding available

The useful life of capital projects matches and does not exceed the average maturity of the liability used to finance the assets

As such, the OBP reviews the useful life of each project and presents this information to the Office of Finance and Treasury (OFT). OFT develops a strategy to match the underlying assets with an appropriate means of financing.

Step 4: Approval

After reviewing all capital project requests with regard to scope of work, projected cost, and financing alternatives, the CRT evaluates the projects based on their physical attributes, implementing feasibility, and physical/economic impact on the community. The CRT then formulates a recommendation in the form of a CIP. The proposed "Capital Improvements Plan" is then submitted to the Mayor, Council, and Authority for approval and then to Congress for final Congressional approval.

Phases of a Capital Project

It is assumed that all capital projects are actually the sum total of a series of sections, grouping types of tasks necessary to accomplish the goal of the project. These sections of similar task groupings are defined as "phases." Each project in the CIP is approved and budgeted for five phases. However, in some instances projects only need funding for planned expenditures in one particular phase (i.e., major equipment acquisition). Phases are referenced numerically and alphabetically, and are as follows:

1. Design (also known as Phase 1 or Phase A)
2. Site (also known as Phase 2 or Phase B)
3. Project Management (also known as Phase 3 or Phase C)
4. Construction (also known as Phase 4 or Phase D)
5. Equipment (also known as Phase 5 or Phase E)

[3] Appendix E provides a complete breakdown of all projects in the CIP by priority criteria.

The first phase of any capital project is **Design**. This includes all work completed to define the scope and content of the project. Architects and engineers that agencies employ to analyze the planning for a project would be funded from the design phase. Costs associated with solicitations and proposals also fall within this phase. This phase also would be used to fund any processes necessary for selection of contracts.

The second phase of a capital project is **Site Acquisition**. This phase covers costs associated with site preparation expenses, legal work or probable demolition and hauling expenses. Site appraisal and survey would also be funded through this phase.

The third phase of a capital project is **Project Management**. All internal agency management and support costs from design to construction are paid through this phase. Activities within this phase include any work of the project manager and other staff.

The fourth phase of a capital project is actual **Construction** completed for a facility. This would include any construction contract work done by other District agencies as well. This phase funds work on a particular construction contract.

The last phase, **Equipment,** funds any disbursements for specialized equipment. Equipment funded through capital has to be that which is permanently connected to the physical plant and designed to be an integral part of the facility. Equipment defined for funding by this phase includes items such as the purchase and installation of elevators, boilers, generators, and HVAC systems. The Capital Program will not fund office equipment or personal computers. Items such as these are expected to be funded by the operating budget.

Project Milestones

Each phase of a project is monitored and tracked using "milestone" data. Milestone data allows the Capital Program to determine whether projects are being completed on time and within budget. Milestone data is provided by agencies in the quarterly Financial Review Process (FRP) and also in the annual budget submissions as justification for additional funding.

Milestone data includes such items as project authorization dates, original project cost estimates, contract award dates, revised completion dates, construction start dates and others. In an attempt to summarize the various elements of milestone data, the Capital Program includes status codes in the project description forms (PDFs).

The Comprehensive Plan

The Capital Improvements Plan must be consistent with the District's Comprehensive Plan. The following is a brief synopsis of the Comprehensive Plan and its role in the development of the CIP.

The Comprehensive Plan is a master land use and development document for the District of Columbia. The Office of Planning creates the Comprehensive Plan in partnership with the National Capital Planning Commission, District agencies, stakeholders, citizens and the private sector. It is approved by the Mayor and Council and is codified by law - Title 10 (Planning and Development) of the District of Columbia Municipal Regulations (Subtitle A: Comprehensive Plan). It is updated on a regular schedule (usually every 7-10 years) and consists of 11 chapters under the following titles:

Chapter	Plan Title
Chapter 1	General
Chapter 2	Economic Development
Chapter 3	Plan: Housing
Chapter 4	Environmental Protection
Chapter 5	Transportation
Chapter 6	Public Facilities
Chapter 7	Urban Design
Chapter 8	Preservation of Historic Features
Chapter 9	Downtown Plan
Chapter 10	Human Services
Chapter 11	Land Use Element

The Comprehensive Plan includes both District of Columbia (local) and federal elements. There are 11 District elements and eight federal elements. The District elements have been enacted by the

Council of the District of Columbia and approved by the Mayor since April 10, 1984. The federal elements include *Federal Goals for the Nation's Capital* and have been prepared and adopted by the National Capital Planning Commission.

The major themes of the Comprehensive Plan include:

Stabilizing and improving District neighborhoods

Increasing the quantity and quality of employment opportunities in the District

Developing a living downtown

Preserving and promoting culture and natural amenities

Respecting and improving the physical character of the District

Preserving and ensuring community input

Preserving the historic charter of the District

Reaffirming and strengthening the District's role as the economic hub of the National Capital Region

Promoting enhanced public safety

Providing for diversity and overall social responsibilities

The Comprehensive Plan includes a number of general provisions established in order to ensure an ongoing planning process that provides for the following:

Continued refinement and implementation of District elements

Periodic review of progress in realizing District elements object and policies;

Provisions for information about the District; and

Opportunities for community review and comment.

The policies established in support of the planning process objectives are to accomplish the following:

Continue refinement of the District elements and to track the progress or problems in realizing District objectives and policies.

Provide information on a continuing basis through reports, displays, exhibits, presentations and meetings.

Prepare periodically, a report to the Council of the District on the progress of implementing the District elements (this report is the responsibility of the Mayor)

Review existing plans to conform to the District elements.

Consistency with the Comprehensive Plan is essential to developing a strategy for construction or rehabilitation of public infrastructure in the District. To be included in the CIP, projects must:

Adhere to the major themes of the Comprehensive Plan

Meet the policy objectives of the Comprehensive Plan

Comply with the general provision of the Comprehensive Plan

The National Capital Planning Commission

It is very important to recognize the ideas and vision of the federal government for the District in the development of the CIP. The National Capital Planning Commission (the "NCPC") is the federal government's capital planning authority in the national capital region. Individuals on the NCPC include three members appointed by the President, two members appointed by the Mayor of the District of Columbia, the Secretaries of Defense and of the Interior, the Administrator of General Services, the Chairman of the Senate Committee on Governmental Affairs, the Chairman of the House of Representatives Committee of Government Reform, the Mayor and the Chairman of the Council of the District of Columbia.

In December 1997, the NCPC published the *Extending the Legacy* document. *Extending the Legacy* is a vision for planning in the Nation's Capital over the next 50 to 100 years. It sketches the big picture of what the District might look like many years from now. The planners, architects, citizens, government officials, and others who developed *Extending the Legacy* coordinated their efforts with the District's Comprehensive Plan. As mentioned, the Comprehensive Plan is published jointly by the Commission and the District and acts as the primary development document for Washington D.C.

For more information on *Extending the Legacy*, please contact:

The National Capital Planning Commission
801 Pennsylvania Avenue, N.W.
Washington, D.C. 20576
Telephone: (202) 482-7200
E-Mail: Legacy@ncpc.gov
Web Site: WWW.NCPC.GOV

PROGRESS REPORT ON CRITICAL ONGOING INITIATIVES

The following is a brief progress report on initiatives outlined in previous Capital Improvements Plans. While there are a number of ongoing initiatives, the following are the most critical to the Capital Program's overall financial and programmatic health. The highlighted initiatives include:

Critical Ongoing Initiatives
Facility Condition Assessment Study
Capital Improvement Program Assessment
Performance Measurement

Facility Condition Assessment Study

The Facility Condition Assessment is a systematic process of conducting a physical audit of site and building systems. It identifies the existing physical condition and functional performance of buildings, as well as maintenance deficiencies. From the information collected during the audit, capital renewal and replacement requirements can be estimated for individual projects and annual forecasts. The assessment provides a basis for decision-making on routine maintenance, renovations and capital projects.

At the conclusion of this study, the Office of Property Management will develop and implement an enterprise-wide automated planning and management system that the District will use to organize, manage and maintain its land and facilities data in a manner consistent with the private sector.

The goals of the Facility Condition Assessments are:

Improved resource utilization

Lower operating costs

Energy conservation

Improved Maintenance

Prolonged Asset life

Thus far, the District has captured information about 14 such buildings. They are, McMillan Park Annex 8 Facility, McMillan Park Annex 9 Facility, Bond Bread Building, D.C. National Guard Armory Building, D.C. Warehouse facility, The Fire Alarm Headquarters, Firth-Sterling Facility, The old Juvenile Court, One Judiciary Square Building, Randall Building, The Recorder of Deeds Building, Frank D. Reeves Center, The Southwest Health Center and The Shepherd Parkway Facility.

The assessment will capture information on all aspects of a building's condition. The reports generated in the building audits will form the basis for the upgrade and replacement of the District's vast property inventory that includes 48 million square feet of space in 2,800 buildings

Capital Improvements Program Management Assessment

In order to help District agencies assemble a strong CIP and manage it proficiently, there needs to be a comprehensive review of the program policies and strategies developed to expand on service delivery and program efficiency. To improve the CIP's performance, the District is initiating a comprehensive study of the Capital Program. The study will be used to improve the link to its customers (City Agencies) and stakeholders (DC Council, Congress, and the Citizens of the District of Columbia).

The purpose of the study is to:

Conduct a complete assessment of the Capital Improvement Program, for both financial and management components.

Develop a comprehensive CIP database for the District with the capability for extracting individual agency information along with wide-ranging up to date reporting capabilities.

Evaluate the procurement action lead times for agency CIP's, and provide a flow chart for each agency's acquisition process.

Identify inefficiencies and bottlenecks that prevent proper project implementation. Provide a statistical analysis of each agency's success rate and recommend corrective actions.

Develop strategies and recommend solutions to facilitate efficient project and program management.

It is most likely that as the result of this assessment, a complete revision of the CIP will be necessary to bring about a successful and effective program to help the District build a strong capital portfolio.

In addition to a comprehensive study of the Capital Program, the District is currently reviewing a proposed Integrated Product Team (IPT) concept. The IPT concept is a task team lead by the Office of Contracting and Procurement and the Office of Property Management. This team will be chartered to plan, execute and manage all construction related CIP projects that are subjected to the authority of the Mayor. The goal of the IPT will be to significantly improve the efficiency by which construction related CIP projects are implemented.

Performance Measurement

While formulating the FY 2002 capital budget, The District continued working to develop a new performance measurement system. The District made progress in developing and implementing performance measures relating to agency financial efficiency. At the end of each month, agency CIP managers and Directors receive a comprehensive Financing Balances Report which measures performance of their CIP by calculating important financial indicators such as:

Percentage of agency available funds unobligated

Agency funds expended as a percentage of total funding available

This information was critical in the development of the FY 2002 CIP. It was used as one of the primary justifications for including or excluding projects in the 2002 Capital Improvements Plan.

There are two primary challenges facing the District:

1. Providing desired and necessary services at affordable cost
2. Reassuring taxpayers that their resources are well spent

Performance measures (and the appropriate use of benchmarks) play a major role in meeting these challenges. They help government officials and citizens identify program results, evaluate funding levels, improve service delivery, and communicate accomplishments.

While percentage of agency available funds unobligated and agency funds expended as a percentage of total funding available was a major step forward in measuring performance leading to stronger accountability and fiscal discipline, more is needed.

The remainder of this section introduces the new indicators to measure efficiency and effectiveness of District agencies in managing their Capital Programs. Effective June 2002 all city agencies will report on the following indicators on a semi annual basis. Based on these reports, the CIP program will hold each agency head responsible in expending their project yearly allotments, and to complete their projects in a timely fashion according to the established plan. At each capital budget oversight meeting agency directors will be asked questions based on the performance of their agency CIP, and corrective measures will be recommended and the results will be noted.

Key Principles for the Capital Program in Performance Measurement

In proceeding with its performance measurement plan, the Capital Program has established a set of "ground rules" for its efforts are as follows:

The Capital Program will mandate outcomes, not processes.

The Capital Program will measure only what's important.

The Capital Program is willing to change measures as long as they benefit the performance process.

The Capital Program will seek to benchmark against the best in class, not just the best in government.

The Capital Program will give responsibility, as well as accountability, for meeting measures to the same individual.

The Capital Program will measure the performance of the District's capital projects.

The Capital Program will measure the performance of the District's capital projects.

Financial and programmatic performance measures can be developed and used as an important component of decision-making and incorporated into the capital program. Performance measures should be SMART:

S trategic

M easurable

A ttainable

R eliable

T imeline-based

Beginning in June of 2002, agencies will be required to report (semi annual report) on the inventory of their capital assets:

Agency Building Inventory

Inventory Agency Capital Assets and a brief description and physical location of each asset

Age of each capital asset

Estimated value of the Capital Asset

Geographic location (Ward Indicator)

Occupancy status

What programs are these facilities supporting

Net and Gross Square Feet per building

Number of customers that use this building annually

Number of staff that work in the facility daily

Whether or not the building is on a routine maintenance schedule

The following will be the new indicators of the performance of agency CIP. At the semi annual CIP assessment meetings, the CIP directors will be asked to report on the following:

1. Agency Project Status

Status of each agency CIP projects

Number of Completed Projects

Number of Closed Projects

Number of requested reprogramming per agency

Number of requested redirections per project

Number of projects with negative budgets

Per Square Foot cost of each project completed

Districts Capital Program's Performance Measurement Plan:

Historically, the Capital Program has not reported input and output measures in the budget documents. The performance measurement plan being articulated is the first introduction of performance measures for the District's Capital Program. It consists of three timeframe stages (short, intermediate, and long) based on three items. It is presented in Table CIP-1.

The ultimate objective is to foster a performance based Capital Program, one which values efficiency, effectiveness, and service delivery results as key indicators of how well the Capital Program serves the citizens. In the future, the performance measurement system will incorporate citizen input into the process.

FY 2001 Programmatic Initiatives in Review

The FY 2001 Programmatic Initiatives for the Capital Improvement Program centered on developing ways to streamline the budget process, improve service delivery, administer performance audits and create equipment replacement schedules. Great strides were made to accomplish these initiatives, however, there is much work remaining to be done.

The area of great concern echoed by many is still the backlog of capital projects. The CIP is addressing this issue by establishing a Centralized Integrated Product Team (IPT). The IPT consist of program specialist from both the Office of Property Management and the Office of Contract and Procurement solely dedicated to the planning, execution and management of capital projects.

In addition, the Office of the Chief Technology Officer has worked very closely with agency directors to ensure that they have the necessary resources and information technology solutions to adequately support the implementation of projects.

Table CIP-1

	Performance Measurement Plan Timeframe Stages		
Item	**Short**	**Intermediate**	**Long**
Goal	Continue developing additional measures for the FY 2002 to FY 2007 CIP and FY 2002 Capital Budget	Collect and report performance data on a quarterly basis	Use performance data to develop the FY 2003 to FY 2008 CIP and FY 2003 Capital Budget
Time Period	**Present – June, 2002**	**June, 2002 – June, 2003**	**On going**
Activities	• Develop draft measures with the Department of Public Works • Present initial performance measures to agencies during FY 2002 • Receive feedback from implementing agencies	• Train District employees in performance measurement • Develop accurate baseline of current capital performance • Report findings in FY 2002 to FY 2007 CIP and FY 2002 Capital Budget	• Continuously improve upon current performance • Develop a performance based capital budget • Deliver performance reports to Congress and District Council • Incorporate citizen input

FY 2002 Programmatic Objectives and Future Directions

In FY 2002, the Capital Improvement Program is committed to work closer with district stakeholders, and agency director's to develop a realistic baseline budget consistent with community concerns and mayoral priorities. Going forward, agencies will be held more accountable to complete projects on time and within budget. The demand on resources to fully fund projects dictates the need to develop fiscal discipline and sound management practices.

In FY 2002 the Capital Improvement Program will put in place the following initiatives:

Revenue Generating Initiatives:

Historically, General Obligation Bond proceeds have been the primary source of funding capital projects. However, as a result of the backlog of capital projects and the strain placed on the operating budget in terms of debt service payments, the need to identify revenue-generating initiatives that help support the cost of projects becomes even greater. For example, the District is exploring creating a special assessment tax district to cover the cost of a major economic development initiative. In addition, several other agencies have developed partnerships with public and private entities to bring together financial resources. It is through this collective effort that alternative revenue generating initiatives will be explored.

Performance Measures and Benchmarks:

Performance measures are being used more by local governments to measure efficiency, effectiveness and productivity. Comparing performance with selected benchmarks will be a valuable step in evaluating agency operations. The capital improvement program will be developing performance measures that address a reactive approach to service delivery and reporting. For example, examining the statistics on how quickly potholes are filled or how fast

streets are cleared in snow emergency situations can be a measure of productivity efficiencies. It is our goal to have a more proactive management approach with performance measures that gauge effectiveness to anticipate problems before they occur and develop a comprehensive solution strategy.

Develop Standards to Comply with GASB 34:

GASB 34 is a standard issued by the Government Accounting Standards Board. Under GASB, the cost of fixed assets, i.e. plant, property and equipment must be recognized through the depreciation over the life of the assets. Helping to ensure compliance with the new standard will require discussions with program managers, information technology specialist, financial staff, budget analyst, and accounting professionals.

By instituting these new initiatives, the Capital Improvement Program seeks to improve the overall monitoring and reporting of the program through good budgeting and sound fiscal management.

Mayor's Policies for the Capital Improvements Program

The Mayor's policies for the Capital Improvements Program complement his policies designed for the health and development of the District of Columbia. These initiatives evolve in response to changes in the local economy, Congressional oversight, revenues, and funding tools available to carry out complete and comprehensive public services to the citizens of the District. The following are the Mayor's five policy initiatives and their respective CIP achievement budget:

1-Strengthening Children, Youth, Families and Individuals - Families are the most important component of our neighborhoods. Strong families create healthy communities where neighbors know and trust each other, and children grow into healthy and productive adults. The goal of this policy initiative is to promote strong children, youth, families, individuals and communities through a network of human and social services that supports and sustains productive and healthy lifestyles. This plan is a guide for creating a pro-family system of integrated service to address the complex challenges faced by District residents. To enhance support for all citizens in the District, the following goals must be achieved:

Children are ready for school

Children and youth succeed in school

Children and youth live in healthy, stable and supportive families and environments

All youth make a successful transition into adulthood

Youth choose healthy behaviors

Elders are considered a resource and live with dignity and independence in community settings they prefer

People with disabilities live with dignity and independence in community settings they prefer

All residents have access to quality health care

Families, individuals, and the elderly live in healthy, safe and supportive communities

All families, children, youth, individuals, and elderly are engaged in and contribute to their communities' decisions and activities

All residents have opportunities for lifelong learning

All families and individuals are economically self sufficient

Table CIP-2

AG	FY 2002	FY2002-FY 2007	Strengthening Children, Youth, Families and Individuals
BY0	8,767,000	17,022,000	Office on Aging – Including new construction for two multipurpose wellness centers in wards 1 & 2
GA0	174,163,000	868,493,000	Public Schools – Including school renovations: life safety, modernization, cooling and heating plants issues of 79 schools in the District of Columbia
HC0	17,717,000	31,887,000	Department of Health – Including IT initiatives: vital records, HIV/AIDS, Metro Care Project and Preventive Health Immunization Databases
JA0	15,811,000	38,830,000	Department of Human Services – Including IT Initiatives , including Safe Passage System
JB0	5,182,000	5,732,000	Public Benefit Corporation – Including Broiler plant renovations
RM0	45,120,000	98,868,000	Commission on Mental Health Services – Including complete Modernization and environmental Cleanup
Total	**$266,760,000**	**$1,060,832,000**	

In short, the goal of this plan is to promote strong children, youth, families, and individuals and communities through a network of human and social services that supports and sustains productive and healthy lifestyles. This plan is a guide for creating a pro-family system of integrated service to address the complex challenges faced by District residents.

The FY 2002 to FY 2007 CIP policy initiatives related to Strengthening Families total $1,060,832,000 in project proposals. Included are $266,760,000 proposed funds for FY 2002. Specific Projects included in the FY2002 to FY 2007 CIP that advance these initiatives are provided in Table CIP-2.

2-Building and Sustaining Healthy Neighborhoods - Neighborhoods are the fundamental building blocks of a city. Not because of the streets and buildings and metro stops that mark the area, but because of the people who live and work there, who give the neighborhood its character, and who ultimately determine its future. The quality of neighborhood life has a huge impact on the health of our families, the strength of our economy, and the future of our children. For these reasons, Building and Sustaining Healthy Neighborhoods is critical among the list of strategic priorities in the City-Wide Strategic Plan. The quality of our physical environment has a massive impact on the health of our families, the strength of our economy, and the future of our children. For these reasons, Building and Sustaining Healthy Neighborhoods is critical among the list of strategic priorities in the City-Wide Strategic Plan. The following are goals of the initiative:

Establish basic safety in streets and buildings city-wideEnhance the appearance and security of neighborhoods city-wide

Improve Access to quality housing city-wide

Engage residents in building their neighborhoods

Sustain healthy neighborhoods city-wide

Identify communities and mobilize partners

Reclaim Community

Restore and revitalize community

Sustain success

The FY 2002 to FY 2007 CIP policy initiatives related to Strengthening Families total $383,179,000 in project proposals. Included are $163,337,000 proposed funds for FY 2002. Specific Projects included in the FY2002 to FY 2007 CIP that advance these initiatives are provided in Table CIP-3.

Table CIP-3

AG	FY 2002	FY2002-FY 2007	Mayor's Policy Initiatives for Building and Sustaining Healthy Neighborhoods
BX0	1,285,000	7,815,000	Commission on the Arts – Program includes Artbank, Mt. Vernon Sq. Metro, Community initiatives and neighborhood projects.
CE0	11,073,000	22,581,000	Public Library – Including new Tenley Branch and Benning Branch
FA0	46,299,000	78,649,000	Metropolitan Police Department – Program including emergency generators, Information Tech Initiative, Property Streamlining and Central Cellblock.
FB0	12,918,000	20,824,000	Department of Fire and Emergency Services – Facility Renovation including complete modernization, renovation, electrical systems and structural work on several facilities belonging to the Fire Department.
HA0	67,078,000	148,502,000	Department of Parks and Recreation – General Improvements Including HVAC replacement, Erosion remediation, roof replacement, playground equipment, pool replacement.
FL0	17,029,000	29,653,000	Department of Corrections – Complete renovation including floor refinishing, emergency management system installation and escalator conversion to the Central Detention Facility
FX0	7,655,000	75,155,000	Office of the Chief Medical Examiner – Network Infrastructure
Total	**$163,337,000**	**$383,179,000**	

3- Economic Development - Government alone cannot meet all the needs of children, families and neighborhoods. A vital economy is critical to providing quality jobs, affordable housing, and vibrant cultural amenities for our citizens. The Economic Development action plan sets a course for expanding our economy to this end. The following are the goals of this initiative:

- Increase new and rehabilitated housing units
- Increase homeownership
- Grow private sector by targeting industry networks
- Grow target industries
- Link training to growth sectors through coordinated systems
- Market the District
- Ensure a competitive D.C.
- Increase access to capital
- Establish retail hubs/commercial centers in neighborhoods
- Relocate District agencies to neighborhoods to spur economic development

The FY 2002 to FY 2007 CIP policy initiatives related to Strengthening Families total $430,344,000 in project proposals. Included are $170,369,000 proposed funds for FY 2002. Specific Projects included in the FY2002 to FY 2007 CIP that advance these initiatives are provided in Table CIP-4.

Table CIP-4

AG	FY 2002	FY2002-FY 2007	Mayor's Policy Initiatives for Economic Development
EB0	11,600,000	20,200,000	Business and Economic Development – Information Technology, Neighborhood Revitalization and One Stop Business Centers
GF0	14,156,000	30,892,000	University of the District of Columbia – Complete renovation of buildings 32,38,39,41,42,44,46,47 and 52.
KA0	59,467,000	72,710,000	Department of Public Works – Including Streetscape projects citywide, Facility Construction, Solid Waist Facilities, Roadside Improvements and Local Improvements.
KE0	65,600,000	270,700,000	Washington Metropolitan Transit Authority –District's contribution to purchasing of 50 new passenger railcars.
DB0	19,546,000	35,842,000	Department of Housing and Economic Development – Affordable housing Program.
Total	**$170,369,000**	**$430,344,000**	

4-Making Government Work - The district government plays a pivotal role in assembling, coordinating and deploying resources – a role that is critical to the fulfillment of the public will. Government must be a reliable partner for citizens in their neighborhoods. The following are the goals of this initiative:

- Ensure all operations focus on customer service
- Ensure agencies can obtain the resources they need to support service delivery
- Enhance the look and functionality of government buildings
- Schedule and coordinate neighborhood service delivery
- Make government work better and cost less
- Improve the management of employees
- Harness the power of technology to improve service delivery
- Use a Performance Management System to drive meaningful change in agencies

2007 CIP that advance these initiatives are provided in Table CIP-5.

Table CIP-5

AG	FY 2002	FY2002-FY 2007	Making Government Work
AT0	19,566,000	31,901,000	Office of Chief Financial Officer – Including CIS systems Integration and Facility Improvements
BE0	4,800,000	14,800,000	Office of Personnel - BE5HR Modernization
BN0	500,000	500,000	DC Emergency Management Agency – Microwave Backup System
CR0	2,250,000	7,750,000	Department of Consumer and Regulatory Affairs – Real Property Database
KV0	10,529,000	17,587,000	Department of Motor Vehicles – DMV information Technology, IT information Technology and MVIS
TO0	106,506,000	320,781,000	Office of the Chief Technology Officer – Information Technology Infrastructure including E-Government, DC Cablenet, Unified Communication Center and City Wide Wireless Communications
Total	**$144,151,000**	**$393,319,000**	

5- Unity of Purpose and Democracy – In order for the District of Columbia to be the great city we know it can be, it is necessary for every sector of our community to join together behind a common agenda, a unity of purpose. Government must do its part for our community, so must our foundations, our faith community, our businesses, our nonprofits, our labor organizations, our academic institutions and our citizens. The Unity of Purpose strategic priority fosters the development of shared priorities and common goals for the District of Columbia, and aligns our community's resources behind those priorities and goals. The following are goals of the initiative:

Engage citizens in the governance of the city

Promote multi-sector support and implementation of the community's shared priorities

Foster a constructive and respectful relationship with Federal government agencies and Congressional oversight committees, and establishing home rule for the District

Enhance regional cooperation among local jurisdictions and thereby foster common goals throughout the metropolitan area

The FY 2002 to FY 2007 CIP policy initiatives related to Unity of Purpose total $44,381,000 including FY 2001 funds for $25,077,000. Specific Projects included in the FY2002 to FY 2007 CIP that advance these initiatives are provided in Table CIP-6.

Table CIP-6

AG	FY 2002	FY2002-FY 2007	Mayor's Policy Unity of Purpose and Democracy
AM0	23,077,000	40,881,000	Office of Property Management – Including Government Centers, DC Armory Renovation and Reeves Municipal Center
PO0	2,000,000	3,500,000	Office of Contracting and Procurement – E-Procurement and PMIS System Development
Total	**$25,077,000**	**$44,381,000**	

Fiscal Policy

Policy on Project Eligibility for Inclusion in the CIP

Capital expenditures included as projects in the CIP must:

Be carefully planned, generally as part of the District-wide Facility Condition Assessment Study in concert with the Comprehensive Plan. This provides decision-makers with the ability to evaluate projects based on a full disclosure of information.

Have a useful life of at least 3 years or add to the physical infrastructure and capital fixed assets.

Enhance the productivity or efficiency capacity of District services.

Have a defined beginning and a defined ending.

Be related to current or potential projects. For example, facility planning or major studies should be funded with current revenues.

Policy on Debt Financing

With few exceptions (Highway Trust Fund projects), the CIP is primarily funded with general obligation bonds or equipment lease debt. Capital Improvement projects usually have a long useful life and will serve taxpayers in the future as well as those paying taxes currently. It would be an unreasonable burden on the current taxpayers to pay for the entire project up front. General obligation bonds, retired over a 30-year period, are necessary and fair. Capital improvement projects eligible for debt financing must:

Have a useful life at least as long as the debt issued with which they are financed.

Not be funded entirely from other potential revenue sources, such as Federal aid or private contributions.

Policy on Capital Debt Issuance

In formalizing a financing strategy for the District's Capital Improvements Plan, the District adheres to the following guidelines in deciding how much additional debt, both general obligation and revenue bonds, may be issued during the six-year CIP planning period:

STATUTORY REQUIREMENTS: The issuance of general obligation indebtedness cannot cause maximum annual debt service to exceed 17.0% of local revenues as stipulated in the Home Rule Act.

AFFORDABILITY: The level of annual operating budget resources available to pay debt service should not impair the District's ability to fund ongoing expenditures and maintain operating liquidity.

FINANCING SOURCES: Identifying new financing sources to maximize capital project financing capacity at the lowest cost available, while maintaining future financing flexibility.

CREDIT RATINGS: Issuance of additional debt should not negatively impact the District's ability to maintain and strengthen current credit ratings, which involves the evaluation of the impact of additional debt on the District's debt capacity, debt burden, and amortization rates.

Policy on Terms for Long-Term Borrowing

In order to mitigate the interest costs associated with borrowing, the District identifies sources other than bond proceeds to fund its CIP, such as grants, Highway Trust Fund moneys, and paygo capital. Furthermore, the District issues its bonds annually based on the anticipated spending for the fiscal year, not on a project by project basis. The District has issued only general obligation bonds in the past, but anticipates the issuance of revenue bonds for general capital purposes in the future. The pledge of a new revenue source/issuance of revenue bonds must not have a negative impact on the District's general fund and must provide favorable interest rates.

In order to match the debt obligations with the useful life of the projects being financed, the District issues short to intermediate-term annually based on the anticipated spending for the fiscal year, not on a project by project basis. The District has issued only general obligation bonds in the past, but anticipates the issuance of revenue bonds for general capital purposes in the future. The pledge of a new revenue source/issuance of revenue bonds must not have a negative impact on the District's general fund and must provide favorable interest rates.

In order to match the debt obligations with the useful life of the projects being financed, the District issues short to intermediate-term financing for those projects that may not fit the criteria for long term financing. The District amortizes bonds over a 30-year period for those projects with an average 30-year life.

Bonds may be issued by independent agencies or instrumentalities of the District as authorized by law. Payment of the debt service on these bonds is solely from the revenue of the independent entity or the project being financed.

Policy on Terms for Short-Term (Interim) Borrowings

The District may issue other forms of debt as appropriate and authorized by law, such as bond anticipation notes (BANs) and commercial paper. The use of BANs and commercial paper provides a means of interim financing for capital projects in anticipation of future bond offering or other revenue takeout. Furthermore, these types of interim financing tools allow the District to benefit from lower interest costs by including short-term financing of capital expenditures in the initial financing structure. The use of BANs and/or commercial paper is intended at such times that it is financially feasible.

Policy on the use of the Master Equipment Lease

The purpose of the Master Equipment Lease Purchase Program (the "Program") is to provide District agencies with access to low cost tax-exempt financing for equipment purchases. With the establishment of this Program each agency will acquire eligible equipment using the same procedures that are currently used to bid and select equipment. Furthermore, the Program assists the District in improving its assets/liability management by matching the useful life of the asset being financed to the amortization of the liability.

The Program terms and conditions are established under an "umbrella" contract. Since the terms and conditions are up-front, there is no need to negotiate a new lease contract each time equipment is to be financed as long as the master lease agreement is in effect.

For equipment or any system (i.e. computer) to be eligible it must have a unit value of at least $25,000. In addition, it must have a useful life of at least 5 years. The repayment (amortization) will not exceed the useful life of the equipment being financed. The maximum financing term that may be requested is 10 years.

Computer hardware and software will be eligible although, large amounts of licensed software will need to be approved by legal counsel. Software financing will be limited to 25% of total computer expenditures. Rolling stock such as autos, trucks, and public safety vehicles will also be eligible but may require paperwork to provide appropriate insurance and warranties.

Policy on the Use of Paygo Financing

"Pay-as-you-go" ("Paygo") financing is obtained from current revenues authorized by the annual Operating Budget and approved by the Council and the Congress in a public law to pay for certain projects. No debt is incurred with this financing mechanism. Once the public law becomes effective, the operating funds are transferred to the capital account and allocated to the appropriate project. Generally, Paygo financing supports the costs for minor repairs, equipment purchases, or other items that do not qualify for long-term general obligation bond financing. The Mayor has the following policies on the use of Paygo financing:

Paygo must be used for any CIP project not eligible for debt financing by virtue of its limited useful life.

Paygo should be used for CIP projects consisting of short-lived equipment replacement (not eligible for the Master Equipment Lease Purchase Program), and for limited renovations of facilities.

Congress to be enacted for the fiscal year beginning October 1, 2000.

> **§113** *At the start of the fiscal year, the Mayor shall develop an annual plan, by quarter and by project, for capital outlay borrowings: Provided, that within a reasonable time after the close of each quarter, the Mayor shall report to the Council of the District of Columbia and to the Congress the actual borrowings and spending progress compared with projections.*

> **§114** *The Mayor shall not borrow any funds for capital projects unless the Mayor has obtained prior approval from the Council of the District of Columbia, by resolution, identifying the projects and amounts to be financed with such borrowings.*

> **§115** *The Mayor shall not expend any moneys borrowed for capital projects for the operating expenses of the District of Columbia government.*

Trends Affecting Fiscal Planning

Several different kinds of trends and economic indicators are reviewed, projected, and analyzed each year for their impact on the Operating Budget and for their impact on fiscal policy as applied to the Capital Improvements Plan. These trends and indicators include:

INFLATION: Important as an indicator of future project costs or the costs of delaying capital expenditures.

POPULATION GROWTH/DECLINE: Provides the main indicator of the size or scale of required future facilities and services, as well as the timing of population-driven project requirements.

DEMOGRAPHIC CHANGES: Changes in the number and/or locations within the District of specific age groups or other special groups, which provides an indication of requirements and costs of specific public facilities (i.e., senior wellness centers and recreation centers).

PERSONAL INCOME: The principal basis for projecting income tax revenues as one of the District's major revenue sources.

IMPLEMENTATION RATES: Measured through the actual expenditures within programmed and authorized levels, implementation rates are important in establishing actual annual cash requirements to fund projects in the CIP. As a result, implementation rates are a primary determinant of required annual bond issuance.

Spending Affordability: Meeting Financial Management Targets

One of the most important factors in the CIP development process is determining spending affordability. Historically, spending affordability was directly related to the issuance of long-term general obligation bonds, operating budget (Paygo), and grants. The size and financial health of the capital program was therefore constrained and dependent upon the ability of the Operating Budget to absorb increased debt service amounts and/or operating requirements for capital expenditures.

Over the past several years, the Mayor, Council, Financial Authority and the Office of the Chief Financial Officer have been working diligently to improve the District's financial position and provide additional capital funding at lower borrowing costs. In FY 1997 the first real operating surplus in 10 years was achieved, and the District's credit ratings were raised the following year. In FY 1998 the District achieved a $445 million surplus as a result of improved tax collection and and expenditure control. Significant operating suppluses were also achieved in fiscal years 1999 and 2000.

In this new environment, financial objectives are changing. As such, the Office of the Chief Financial Officer is working with the stakeholders to meet specific financial management targets. These targets are presented below.

Maintaining a positive fund balance

- Maintaining a balance between revenue and expenditure growth rates (structural balance)
- Reduction of outstanding debt and debt service
- Achieving/maintaining debt ratios comparable to industry standards Achieving further increases in bond ratings from all three major rating agencies (to the "A" level).

In meeting these financial management targets, the District determines spending affordability in the Capital Program.

Financial Management Target: Reduction of Outstanding Debt and Debt Service

The District has amortized most of its bond issues over 20 years. In addition to the 20-year amortization structure, the District financed an operating deficit in 1991 with an intermediate term repayment structure. Only within the last several fiscal years has the District amortized its bonds over 30 years to better match the useful life of the assets being financed. These amortization structures caused the District's debt service to be heavily front-loaded, creating a strain on the District's operating budget.

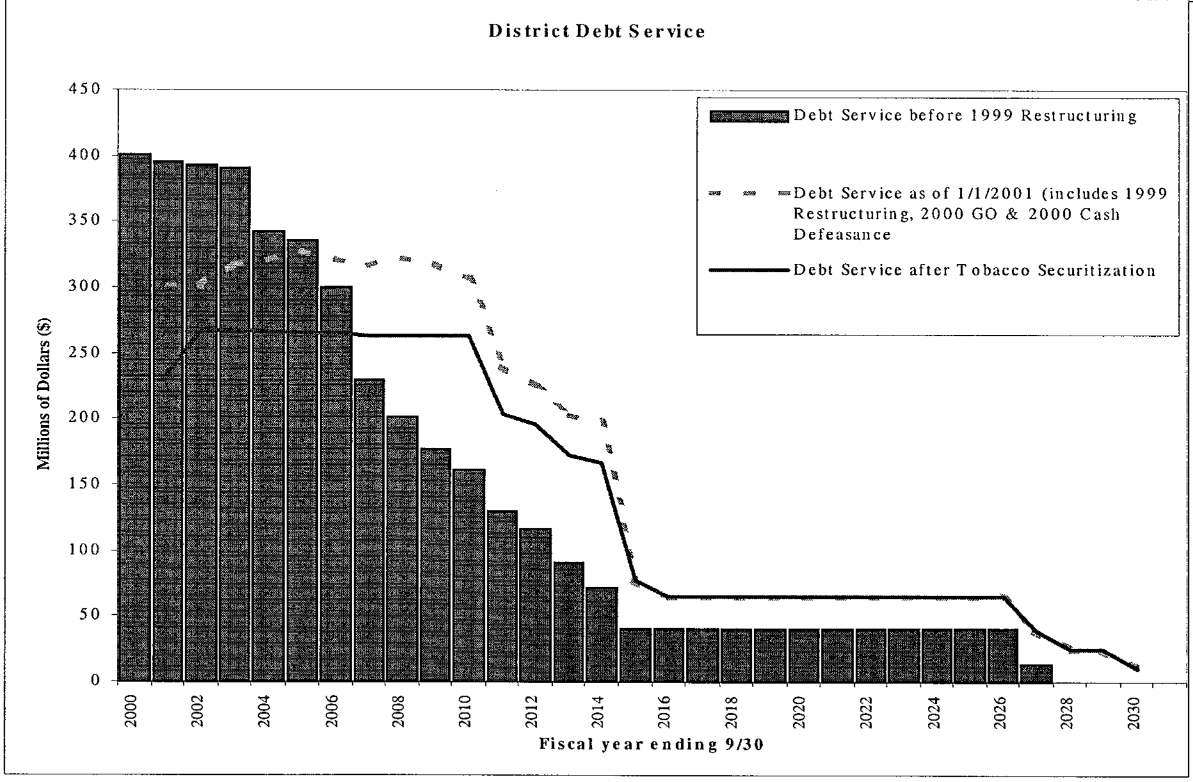
In FY 1999, the District restructured its debt in order to adjust this heavily front-loaded debt amortization. This restructuring, which moved some of the near-term debt service out to future years, produced debt service and operating budget relief of an average of approximately $65 million annually for the next several years.

In FY 2000, the District issued $189 million of variable-rate bonds to fund approved FY 2000 capital projects. Variable-rate bonds typically provide a lower cost of capital than fixed-rate bonds. For this reason, despite the inherent fluctuation in the debt service on them, it is desirable to have some portion of the District's debt portfolio as variable-rate. The District's target percentage range for variable-rate debt is 7 to 10 percent of the total debt portfolio, and it currently has approximately 7 percent outstanding.

In FY 2001, the District significantly reduced its outstanding general obligation debt by securitizing the revenues that it is due to receive over the next 30 years as a result of the national settlement with the manufacturers of tobacco products (the Master Settlement Agreement). The District established a separate instrumentality, the Tobacco Settlement Financing Corporation (the "Corporation"), which issued bonds backed by the District's future tobacco settlement revenues (TSRs). This transaction represents the District selling its rights to these TSRs (to the Corporation) in exchange for an upfront lump-sum payment (represented by the proceeds of the bond sale). These bonds are not debt of the District, however. They represent debt of the Corporation, payable solely from TSRs to be received by the Corporation in the future. Through this transaction, the District transferred the risk associated with non-receipt of TSRs in the future. The bond proceeds from transaction were used to pay off outstanding debt of the District. Specifically, the District reduced its outstanding debt by $490 million by applying these bond proceeds to pay off outstanding general obligation bonds. This resulted in debt service savings totaling approximately $684 million over 14 years, for an average of roughly $50 million of debt service savings per year.

In addition, in accordance with a Congressional requirement, the District used $35 million of its Fund balance in FY 2000 to pay off outstanding general obligation bonds, and plans to use not less than $122 million of its fund balance in FY 2001 to pay off additional general obligation bonds and other long-term obligations.

Through the transactions described above, the District has significantly reduced and restructured its outstanding debt and the associated debt service payments to be made from the District's operating budget, as indicated by the following graph.



Financial Management Target: Debt Ratios Comparable with Industry Standards

Three debt ratios that are typically used as measures of a jurisdiction's debt burden are: Debt-to-Full (property) Value; Debt Service as a % of General Fund Revenue; and Debt Per Capita. With the notable exception of the Debt Per Capita, the District's debt ratios are comparable with those of other major municipalities. (See chart below. As the chart indicates, the data in it is as of the end of FY 1999 and therefore does not include the results of the District's recent debt reduction efforts.) In terms of Debt Per Capita, one of the reasons that the District's ratio is relatively high is that for years it has funded capital projects that are typically funded by states. Notwithstanding this fact, the District intends to continually monitor its debt ratios with the goal of having them be comparable or favorable in relation to other major municipalities and rating agency benchmarks.

The FY 2002 to FY 2007 Capital Improvements Plan (CIP), proposes that the District fund $1.8 billion in new and on going capital projects (excluding the Highway Trust Fund), of which $1.63 billion qualify for long-term (20 - 30 year) financing and $168 million for intermediate-term (10-15 year) financing. The District's ratio of maximum annual debt services to total local revenues is currently 8.1%, which leaves sufficient debt capacity for the proposed six-year CIP within the legal debt limit of 17%.

Table CIP-7

Debt Ratio								
Debt Measures*	Washington DC	Baltimore	Chicago	Detroit	New Orleans	New York	Philadelphia	Pittsburgh
Net Overall Debt to Full value	7.6%	2.3%	6.6%	9.2%	N/A	10.4%	16.3%	16.1%
Net over all Debt per Capita	$6,244	$653	$2,508	$1,587	$1,062	$4,667	$4,209	$3,704
Debt Service as % of Revenues	9.7%	6.4%	11.7%	7.0%	12.0%	10.0%	13.8%	17.7%

* All debt measures were derived from year end 1999 CAFR's except for Chicago which are based on the 1998 CAFR and New Orleans which are based on 1999 Audited Financials.

Financial Management Target: Improving Investment Grade Bond Ratings from All Three Major Rating Agencies

Credit ratings evaluate the credit worthiness of a jurisdiction and the credit quality of the notes and bonds the jurisdiction issues. Specifically, credit ratings are intended to measure the probability of the timely repayment of principal and interest on notes and bonds issued by the District. Potential investors utilize credit ratings to assess their repayment risk in loaning the District funds for capital and short-term operating needs.

There are three major agencies that rate the District's debt: Fitch IBCA, Inc., Moody's Investors Service, and Standard & Poor's Corporation. A summary of agency credit ratings categories for long-term debt is provided Table CIP-8.

Table CIP-8

Summary Rating Agency Credit Ratings for Long-term Debt			
Investment Attributes	**Fitch IBCA**	**Moody's**	**Standard and Poor's**
Highest Quality	AAA	Aaa	AAA
High Quality	AA	Aa	AA
Favorable Attributes	A	A	A
Medium Quality/Adequate	BBB	Baa	BBB
Speculative Elements	BB	Ba	BB
Predominantly Speculative	B	B	B
Poor Standing	CCC	Caa	CCC
Highly Speculative	CC	Ca	CC
Lowest Rating	C	C	C

Source: Public Finance Criteria for Fitch, IBCA, Moody's Investor Service and Standard and Poor's Corporation

During FY 1995, the District's unenhanced general obligation debt was downgraded by all three rating agencies. Since 1998, each rating agency has issued a series of upgrades to the District's bond rating. The agencies currently rate the District's long-term, general obligation bonds, as well as surrounding counties and comparable cities as follows:

Table CIP-9

Summary Rating Agency Credit Ratings of Long-term Debt			
Municipalities	**Fitch IBCA**	**Moody's**	**Standard and Poor's**
District of Columbia	BBB	Baa1	BBB+
Fairfax Co., VA	AAA	Aaa	AAA
Montgomery Co., MD	AAA	Aaa	AAA
Prince Georges Co., MD	AA	Aa2	AA
Detroit	A	Baa1	A-
New York	A+	A2	A
Philadelphia	A-	Baa1	BBB

In FY 1999, the District received upgrades to its bond ratings from all three major rating agencies, raising the ratings to "investment-grade" levels: Standard and Poor's (S&P) – BBB, Moodys – Baa3 and Fitch - BBB. In FY 2001, the District received further upgrades by S&P and Moodys, to BBB+ and Baa1, respectively, as a result of the continued improvement in the District's financial condition. (Fitch is currently evaluating its rating.) The upgrades in the bond ratings by these agencies will make the Districts bonds more marketable, hence resulting in a lower cost of capital to the District.

Information considered when assessing the District's credit quality include:

Economic base

Financial performance

Management structure

Demographics

Debt burden

Credit ratings are very important to the Capital Program. They affect the District's cost of capital, as well as represent an assessment of the District's financial condition. As stated earlier, the cost of capital plays a major role in determining spending affordability. Higher costs for capital financing diminish the ability of the Capital Program to proceed with programmatic objectives. In short, higher costs for capital results in fewer bridges rehabilitated, roofs repaired and facilities renovated. On the other hand, lower costs of capital increase the affordability of such projects.

Major Assumptions

A number of assumptions must be established in order to develop a comprehensive Capital Improvement Plan budget. Due to the unique and changing nature of the District's organizational structure and financial position, it is difficult to precisely forecast revenues, expenditure patterns, costs, and other key financial indicators. Nonetheless, the following primary assumptions were used to develop this CIP:

The capital expenditure target for the FY 2002 to FY 2007 CIP is based on the assumption that the District can meet its FY 2002 Operating Budget's current and future expenditure targets as established by the CIP.

The FY 2002 Operating Budget will be sufficient to provide for:

Lease payments for the District's Master Lease Program used to finance certain equipment projects.

Paygo capital used to finance certain initiatives with shorter useful lives.

Debt service on intermediate and long-term debt financing.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY CAPITAL IMPROVEMENT PROGRAM

Overview

The District of Columbia Water and Sewer Authority is an independent, regional authority that provides essential retail water and wastewater services to over 500,000 residents and businesses in the District of Columbia, and also provides wholesale wastewater conveyance and treatment services to approximately 1.6 million residents in Prince George's and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia. WASA is governed by an eleven member regional Board of Directors, and is responsible for maintaining and operating the water distribution system, sanitary and combined sewage systems, and the world's largest advanced wastewater treatment plant, Blue Plains. Since WASA's formation in 1996, it has successfully undertaken significant efforts to improve its financial position and operations, a critical part of which has been the development and implementation of a ten year, $1.6 billion capital improvement program. The capital program will help WASA meet its key goals of providing the best service possible to its retail and wholesale customers, reducing long-term operating costs, and meeting all regulatory requirements.

Ten Year Capital Improvement Program & Financial Plan

Traditionally, the District's Capital Improvements Plan is developed for a six-year period. WASA operates under a regulatory and capital project-driven environment that requires a minimum ten year planning horizon, and since its formation in 1996, has developed a ten year, as opposed to six year, capital improvement program. In addition, WASA annually develops a ten year financial plan that integrates the impact of the capital improvement program with WASA's Board policy-driven goals of maintaining strong bond ratings, implementing rate increases on a gradual and predictable basis, streamlining operations in order to lower operating costs over the next eight years, and providing better service to our customers.

In large part due to the development of these long-term plans, WASA received bond rating upgrades to the strong "A" category from all three rating agencies in spring 2000. In particular, the rating agencies cited WASA's strong financing and rate-setting policies, its policy of gradual and predictable rate increases, and its emphasis on long-term financial planning. WASA's bond ratings are as follows:

- *Moody's Investors Service* - "A2" with positive outlook to *"A1"* with stable outlook
- *Standard & Poor's* - "A-" with stable outlook to *"A"* with positive outlook
- *Fitch IBCA* - "A" with stable outlook to *"A+"* with stable outlook

Capital Financing and Reserve Policies

In order to secure the lowest practical cost of capital to finance WASA's long-term capital program, WASA's Board has adopted the following capital financing policies that are integrated into WASA's ten year plan:

1. Senior debt service coverage of 140 percent, exceeding WASA's bond indenture requirements of 120 percent; and
2. Cash reserves approximately equivalent to six months' operating expenses, currently sized at $90 million. Any one-time cash receipts will go directly into cash reserves until they reach the $90 million level.
3. WASA will also finance a portion of its capital program on a pay-go basis from cash balances that exceed the $90 million reserve level. This pay-go financing reduces the need for long-term debt and ultimately lowers WASA's debt service expenses.
4. WASA will, whenever possible, use the least costly type of financing for capital projects, based on a careful evaluation of WASA's capital and operating requirements and financial position for each year.

5. WASA will attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debt.
6. WASA will finance its capital equipment needs (e.g., computer equipment and systems; minor utility equipment such as pumps, motors, etc.) with operating cash or short-term financing instruments with the same or shorter lives as the related assets.

WASA's capital improvement program is financed from the following sources:

- Revenue Bonds/Commercial Paper – 43%
- Payments from Wholesale Customers – 28%
- Pay-Go Financing (Transfer from Operations) – 15%
- EPA Grants – 13%
- Interest Income on Bond Proceeds – 1%

WASA's capital improvement program totals $1.644 billion over FY 2000 – 2009, as described in more detail below. Approximately 26 percent of the program is mandated.

Wastewater Treatment Program

WASA operates the Blue Plains Advanced Wastewater Treatment Plant, the world's largest advanced wastewater treatment facility. Through Blue Plains, WASA provides wastewater treatment services to over two million people in the service area, including residents of the District of Columbia, most of Montgomery and Prince George's Counties in Maryland, and portions of Fairfax and Loudoun Counties in Virginia. Wastewater treatment includes liquid treatment processing to handle both sanitary wastewater flows and peak storm flows, along with solids processing to treat the residual solids removed in primary treatment units and produced by the liquid treatment process facilities. Blue Plains is rated for an average flow of 370 million gallons per day (mgd).

Liquids Processing Projects

WASA's ten-year capital improvement plan includes liquids processing projects to upgrade and rehabilitate facilities involved in handling flows for both sanitary and combined sewer systems. These flows move sequentially through the Blue Plains treatment plant, first screened for sand and grit removal, then passed through sedimentation basins for further solids removal. Secondary treatment follows, which removes organic pollutants using a biological process. Flows then pass through nitrification/denitrification facilities, and effluent filtration and disinfection facilities prior to fully treated discharge into the Potomac River. Liquids processing facilities are required to meet WASA's National Pollutant Discharge Elimination System permit for discharge of effluent into the Potomac River.

Solids Processing Projects

Biosolids processing involves reductions in volume along with treatment to meet federal, state, and local requirements, as applicable, for biosolids disposal. This is provided by a system of solids processing facilities that includes gravity thickening of primary sludge, floatation thickening of biological waste sludges produced by the secondary and nitrification/denitrification facilities, digestion of all biosolids streams, and dewatering by centrifuge or belt press. Dewatered biosolids are conveyed to temporary storage prior to outloading to tractor-trailers for removal from the plant and ultimate land application. Major projects will include the upgrade of existing gravity thickening facilities, replacement of biological sludge thickening facilities, construction of additional dewatering capacity, and design and construction of a state-of-the-art digestion facility, sized for the total biosolids production of the plant.

Plant-Wide Projects

Several significant plant-wide projects are included in WASA's capital plan. Two projects address chemical handling and feed systems, which have presented operating and safety concerns to WASA for a number of years. These include replacing the outdated lime feed facilities at Blue Plains with a sodium hydroxide storage and feed facility, and transitioning from the current chlorine and sulfur dioxide dechlorination process to sodium hypochlorite for disinfection and sodium bisulfite for dechlorination. Chemicals for both projects are more expensive to purchase, but are easier to handle, and safety concerns are considerably reduced.

A new process control and computer system will allow for automation of a significant number of processes at Blue Plains, leading to better management of chemical usage and, ultimately, less staffing. In addition, the new system will allow better management of electricity consumption, minimizing peak demand usage and related charges. The system will be implemented in three phases, beginning with the grit chambers, primary and secondary treatment, and dewatering processes, and then moving to nitrification, filtration, disinfection, and solids processing.

As part of the plant-wide capital improvement program, the high priority rehabilitation program is being developed to provide for various process equipment upgrades and replacement, insuring the reliability of critical equipment while the capital improvement program is implemented.

Combined Sewer Program

A combined sewer system merges the transportation of both stormwater and wastewater within one system. Approximately one-third of the District's sewer system is a combined sewer service area. These combined sewers are primarily located in older areas of the District, specifically in the downtown area. On occasions when some portions of the combined sewer system reach physical conveyance capacity during heavy rains, excess flow is discharged to area waterways. Discharges are permitted by the Environmental Protection Agency (EPA).

With the assistance of an EPA planning grant, WASA will have a draft of a major Combined Sewer Overflow (CSO) control plan ready by summer 2001. This long-term control plan will present a range of operating and capital options to address CSO issues that reflect cost-benefit and affordability analyses of WASA and its customers.

Based on experience in other jurisdictions' EPA-approved long-term control plans, the potential cost impact of future capital projects required by the long-term control plan could range from $500 million to $2.5 billion. WASA's current capital program includes approximately $122 million for long-term control plan development and rehabilitation of several major pumping stations, including the Main and O Street and Poplar Point stations.

Stormwater Program

WASA is responsible for the maintenance of facilities that convey runoff to the Anacostia and Potomac Rivers and other receiving streams. The stormwater system includes approximately 600 miles of storm sewer pipes, catch basins, inlets, special structures, pumping stations and related facilities. The existing storm sewer system dates back to the early 1900's and includes a variety of materials. Projects include extensions to the system, rehabilitation of stormwater pumping stations, relief of certain storm sewers, as well as projects to rehabilitate or replace storm sewer systems that have experienced structural deterioration. Historically, these projects have been paid for by the District's General Fund.

The District of Columbia was issued a stormwater permit in April 2000 that expires in April 2003. WASA has been working with the District for the last few years to develop a plan and a new funding mechanism to meet the requirements of the permit, which will involve new operating and programmatic functions for WASA and other District agencies. The fee that has been approved by City Council and pending in Congress is only meant to cover the requirements of the initial permit period. However, if the permit issued for the period after FY 2003 contains significant new capital requirements for the stormwater system, it is anticipated that these projects would be financed with the District's new stormwater fee. Depending on the requirements of the post-2003 permit, the fee may need to be at a higher level in the future.

Sanitary Sewer Program

WASA is responsible for wastewater collection and transmission in the District of Columbia, including operation and maintenance of the sanitary sewer system. The District's sanitary and combined sewer system includes 1,800 miles of large interceptor sewer and smaller gravity collection sewers as well as 24 pumping stations. WASA is also responsible for sewer lateral connections from mains to the property lines of homes, government and commercial properties. In addition, WASA is responsible for the 50-mile long Potomac Interceptor sewer, which provides conveyance of wastewater from areas in Virginia and Maryland to the Blue Plains Wastewater Treatment Plant.

The existing sewer system dates back to 1810. Over the next few years, WASA will be undertaking an evaluation of this system to determine its condition and to develop new capital projects, as appropriate. In general, projects in the existing sanitary sewer service area program provide for replacement or rehabilitation of the system as well as extensions to the system for development and growth as needed. This year's program also reflects increased costs due to the new street repair and restoration regulations required of WASA and other area utilities.

Water System Program

The water distribution system operated and maintained by WASA includes almost 1,300 miles of water mains (ranging in size from four to 78 inches in diameter), three elevated water storage tanks, five underground water storage reservoirs, and four water-pumping stations. The water distribution system also includes appurtenances necessary for proper system operation, inspection, and repair, such a main line valves at regular intervals to allow flow control; air release valves to prevent air entrapment; blowoff valves for draining water mains; check valves to permit flow in one direction only; division valves to allow transfer of water between service areas during emergencies; fire hydrants; and meters.

Water capital projects include rehabilitation/replacement of water pumping stations; rehabilitation of existing storage tanks and reservoirs in the system, and rehabilitation, replacement or extension of the water distribution, including valve replacements, cross connection elimination, dead end elimination, and water main cleaning and lining. This year's program also reflects increased costs due to the new street repair and restoration regulations required of WASA and other area utilities.

Metering Improvements

WASA is in the process of carrying out its large meter testing program and its comprehensive automated meter reading (AMR) / replacement project. The testing program is being carried out on all meters three inches in diameter or larger, with repairs being made on meters found to be improperly registering water consumption. The project started in FY 2000 and continues into FY 2001. The AMR / replacement project is expected to get underway in late 2001, and involves replacement of all 130,000 water meters in the system with meters that can be read automatically.

Washington Aqueduct

This year's CIP includes $145 million for WASA's share of improvements to Washington Aqueduct facilities, approximately the same amount as last year's plan. As the largest of three wholesale customers of the Aqueduct, WASA is responsible for approximately 76 percent of the Aqueduct's capital projects. Over the past three years, the Aqueduct has spent $32 million (WASA's share only) on a variety of projects, including the conversion of drinking water treatment from chlorine to chloramines; rehabilitation of the raw water conduits from the Potomac; and various improvements to the McMillan and Dalecarlia Treatment Plants.

Capital Equipment

WASA's ten year capital equipment budget totals $85 million. Over half of this budget will fund information technology projects, including implementation of key systems such as customer information, materiel management, financial management, maintenance management, and a time and attendance component of the recently-installed payroll system. Additional improvements include upgraded network infrastructure, PC replacement, and web site development, as well as $15 million for fleet replacement. Approximately $8.6 million is included in the plan for pump repair, large motor repair, and various process equipment upgrades at Blue Plains.

FY 2002 Congressional Capital Authority Request

In past years, WASA requested Congressional appropriations authority in 37 specific project categories. In conjunction with WASA's initial FY 2001 budget and request for Congressional appropriations authority, WASA had requested that future authority be given in seven broader project categories: wastewater treatment, combined sewer overflow, stormwater, sanitary sewer, water, Washington Aqueduct and capital equipment. This new capital structure was approved by the U.S. Congress with the adoption of the FY 2001 District of Columbia appropriations bill in November 2000 and future capital authority requests will be made on this basis.

The following table provides the District of Columbia's Water and Sewer Authorities FY 2002 request for additional capital authority.

Program	FY 2002 Authority Request (in thousands)
Wastewater Treatment	52,600
Sewer Collection	11,148
Combined Sewer	109
Stormwater	118
Water System	77,957
Capital Equipment	10,182
Total	152,114