Government of the District of Columbia
Office of the Chief Financial Officer

Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Jeffrey S. DeWitt** **Chief Financial Officer**
DATE:	**March 6, 2017**
SUBJECT:	**Fiscal Impact Statement – Electric Company Infrastructure Improvement Financing Amendment Act of 2017**
REFERENCE:	**Draft bill provided to the Office of Revenue Analysis on February 27, 2017**

Conclusion

Funds are sufficient in the fiscal year 2017 through fiscal year 2020 budget and financial plan to implement the bill.

Background

In 2014, the District passed legislation[1] to bury a portion of the District's primary power lines. The District and the Potomac Electric Power Company (PEPCO)[2] agreed to share the estimated $1 billion in infrastructure costs for the project. The District's share of the costs was to be funded with an estimated $375 million in revenue bonds, supported through surcharges on PEPCO customer electricity bills, and up to $125 million in budgeted capital funds. PEPCO would finance up to an additional $500 million through a customer surcharge over approximately 60 years.

The bill replaces the planned District revenue bond financing mechanism with a "pay-go" financing mechanism. Under this new approach, surcharges that were dedicated to supporting debt service on revenue bonds issued by the District will now be collected in a new District fund[3] and used to reimburse infrastructure costs incurred by the District Department of Transportation (DDOT). The bill caps the amount to be collected from the District surcharge at $187.5 million. This change will

[1] The Electric Company Infrastructure Improvement Financing Act of 2014, effective May 3, 2014 (D.C. Law 20-102; D.C. Official Code § 34-1311.01 et seq.).
[2] PEPCO is the regulated utility responsible for the electricity distribution network in the District of Columbia, and is one of six utilities under Pepco Holdings, an Excelon company.
[3] Section 6 of the bill establishes the DDOT Underground Electric Company Infrastructure Improvement Fund.

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result in fewer funds available for infrastructure improvements than the $375 million of bond proceeds that were originally planned to be spent. The lower surcharge collection could mean that average customer surcharges will also be lower than originally anticipated, but it depends on the proposed scope and timing of work. The Public Service Commission (PSC) must approve the exact amount of the surcharge after reviewing proposed infrastructure plans from DDOT and PEPCO. The plans, called Underground Infrastructure Improvement Projects Plans[4], must be issued within 45 days of the effective date of the law, and every two years thereafter. As of this writing specific project plans have not been finalized by DDOT and PEPCO to present to the PSC.

The District will transfer title of the improvements to PEPCO for the sum of one dollar, once the installation is completed. The bill exempts the transfer of this property from all taxes, including transfer, recordation, sales and use taxes.

Financial Plan Impact

Funds are sufficient in the fiscal year 2017 through fiscal year 2020 budget and financial plan to implement the bill.

The bill does not change the nature of the costs imposed on the District by the underlying, enacted legislation. As with the original plan, DDOT intends to align planned resurfacing and reconstruction with the electric infrastructure project to help reduce overall costs. DDOT has some flexibility within their Federal Highway funds and their local road reconstruction funds to move capital funds from other projects to support the project. Thus far, DDOT has identified $62 million of local and Federal Highway funds for the project. If the reprioritization exercise requires funds to be diverted from other transportation projects then the Mayor must seek Council's approval before diverting the funds.[5]

Eliminating the bond option for the project does not affect the District's debt. Because the originally planned revenue bonds were to be financed by customer surcharges, and not District-imposed fees or taxes, the bonds were not considered District debt under the statutory debt cap. The bill's elimination of revenue bonds should lower the total surcharges for the project because the surcharges will not have to cover bond interest. Final surcharge rates will be determined by the Public Service Commission. Preliminary estimates of the likely surcharge rates are not available at this time.

Exempting the transfer of the improvements to PEPCO from transfer, recordation, sales and use taxes does not have a fiscal impact. This is because this is a unique and large project that is not currently part of any ongoing or anticipated tax revenues.

There are two important items to note as the fiscal year 2018 budget process unfolds:

1) The proposed undergrounding project and customer surcharges authorized under the 2014 legislation will increase the amount that the District government must pay for its electricity usage

[4] See section 8 of the bill that modifies the plan requirements that are established in D.C. Official Code § 34-1313.07.
[5] The reallocation of funds among Federal Highway Administration approved capital sub-projects does not require Council approval so long as the losing and gaining sub-projects are within the same project as categorized in the District's Highway Trust Fund spending plan.

and may also impact the amount of subsidy needed by United Medical Center. The anticipated increase[6] in direct District costs was funded in the budget and financial plan beginning in fiscal year 2015[7]. Although funding is built into the financial plan for fiscal year 2018, actual electricity charges to date do not reflect a surcharge. As the new budget is finalized, it is important to ensure sufficient funding remains in the Department of General Services electricity budget to accommodate the expected surcharges. While it is possible the surcharge will be less than anticipated when the project was funded in fiscal year 2015, we cannot say for sure if there will be any savings in the financial plan.

2) The bill establishes the DDOT Underground Electric Company Infrastructure Improvement Fund. Budget authority will be required before any of the surcharge revenue may be spent.

[6] See Office of the Chief Financial Officer Fiscal Impact Statement for Bill 20-387, Electric Company Infrastructure Improvement Financing Act of 2013, December 9, 2013.
[7] Fiscal Year 2015 Budget Support Act of 2014, effective Feb 26, 2015, (D.C. Law 20-155; 62 DCR 3601).