

CAPITAL BUDGETING AND FINANCIAL CRISIS



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TODAY' SPEAKERS

Presenters (Government of the District of Columbia)

- David Clark, Program Manager, Enterprise Financial Systems
- Richard Dietz, Project Manager (CARSS), Office of the Chief Information Officer
- Darryl Street, Senior Financial Policy Advisor

Panel Discussants

- Kent Austin, Senior Program Manager, Transportation Department of the City of Dallas
- Kaitlyn Krueger, Director of Finance, City of Mequon, WI

PLAN FOR TODAY'S SESSION

- District of Columbia presents their capital planning experience through the lens of GFOA's Financial Foundations for Thriving Communities, including how their process has performed in recent months
- DC's presentation will show us the essentials of a high performing decision-making process for capital planning
- Panel discussion will be focused on how what we learned from DC can be applied in the current times

FINANCIAL FOUNDATIONS FRAMEWORK

Pillar 1 **ESTABLISH LONG-TERM VISION**

↓
*Give people
a reason to
cooperate.*

Pillar 2 **BUILD TRUST AND OPEN COMMUNICATION**

↓
*Create the conditions
for cooperation.*

Pillar 3 **USE COLLECTIVE DECISION MAKING**

↓
*Develop forums
for participation.*

Pillar 4 **CREATE CLEAR RULES**

↓
*Reinforce
constructive
behavior.*

Pillar 5 **TREAT EVERYONE FAIRLY**

↓
*Promote and
protect mutual
trust and respect.*

Office of The Chief Financial Officer Washington D.C.



David A. Clark, DIFS Program Director, OCFO
Darryl Street, Senior Financial Policy Advisor, OCFO
Richard Dietz, CARSS Project Manager, OCFO

**Trust and
Communication**



**Decision
Making**



Clear Rules



**Long-Term
Vision**



Fairness



Introduction



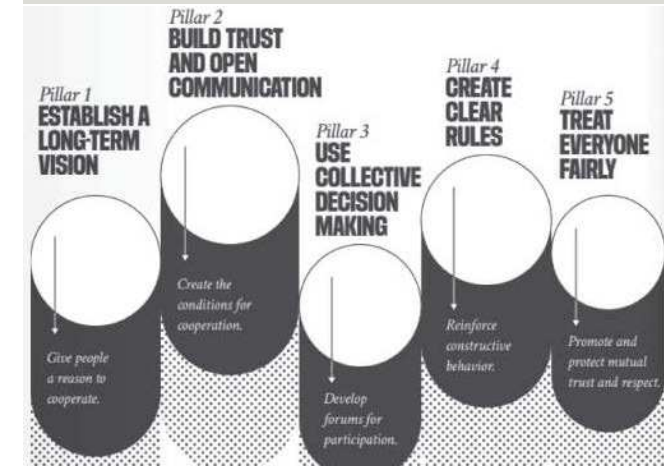
Questions



District of Columbia

- *The District operates as, and has to finance and provide the infrastructure needs of, a state, county, city and school district*
- The District enjoys a growing population (approx. 700,000), economy and tax base
- Fully-funded pension and OPEB trusts
- Strong bond ratings (Aaa/AA+/AA+) and strong reserves result in low overall costs of borrowing, but.....
- *The District has a large deferred maintenance backlog*
- *Historically low pay-as-you-go (“paygo”) funding levels*
- *Relatively high debt per capita ratios and statutory limits on borrowing*

The District’s asset management plan (CARSS) aligns with the five pillars



Pillar 1: Long Term Vision

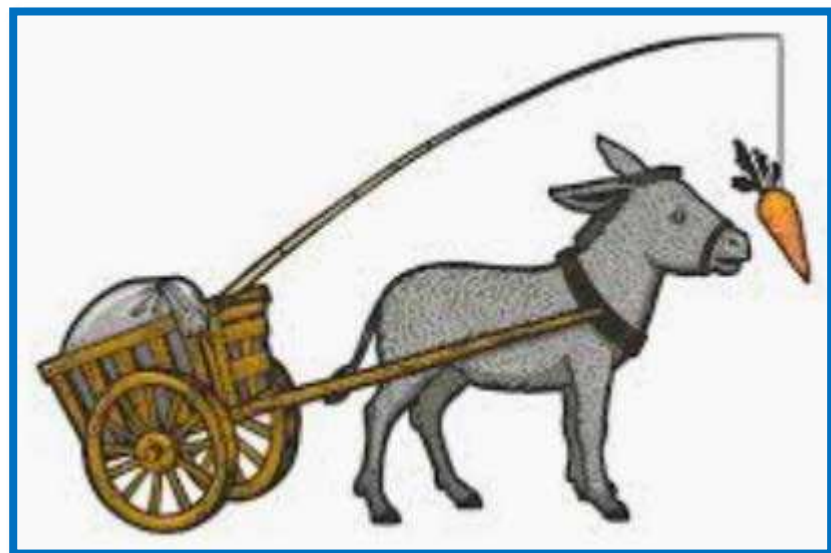
Long Term
Vision



Promote
Collaboration

Balance Long-
Term Thinking
with Short-
Term Needs

Promote Collaboration



MEMORANDUM

TO: Agency Directors
FROM: Rashad M. Young, City Administrator
SUBJECT: Implementation of *Capital Asset Replacement Schedule System*
DATE: April 21, 2017

I am writing to inform you about an exciting new tool the Office of City Administrator (OCA) and the Office of the Chief Financial Officer (OCFO) are utilizing for more accurate and timely budgeting for our capital facility and infrastructure needs.

Together, the OCA and the OCFO are implementing the District of Columbia government's *Capital Asset Replacement Schedule System* (CARSS), which is an information technology enterprise solution for assessing assets and is prerequisite to appropriately planning and budgeting for capital improvements, maintenance, and replacement needs.

In order to accomplish this goal, we are creating a centralized database of all District-owned assets and their respective condition. Right now, the team, led by John McGaw, Director of the Capital Improvements Program and Budget in the OCA Office of Budget and Finance, is populating CARSS with District-owned asset data - one asset type at a time.

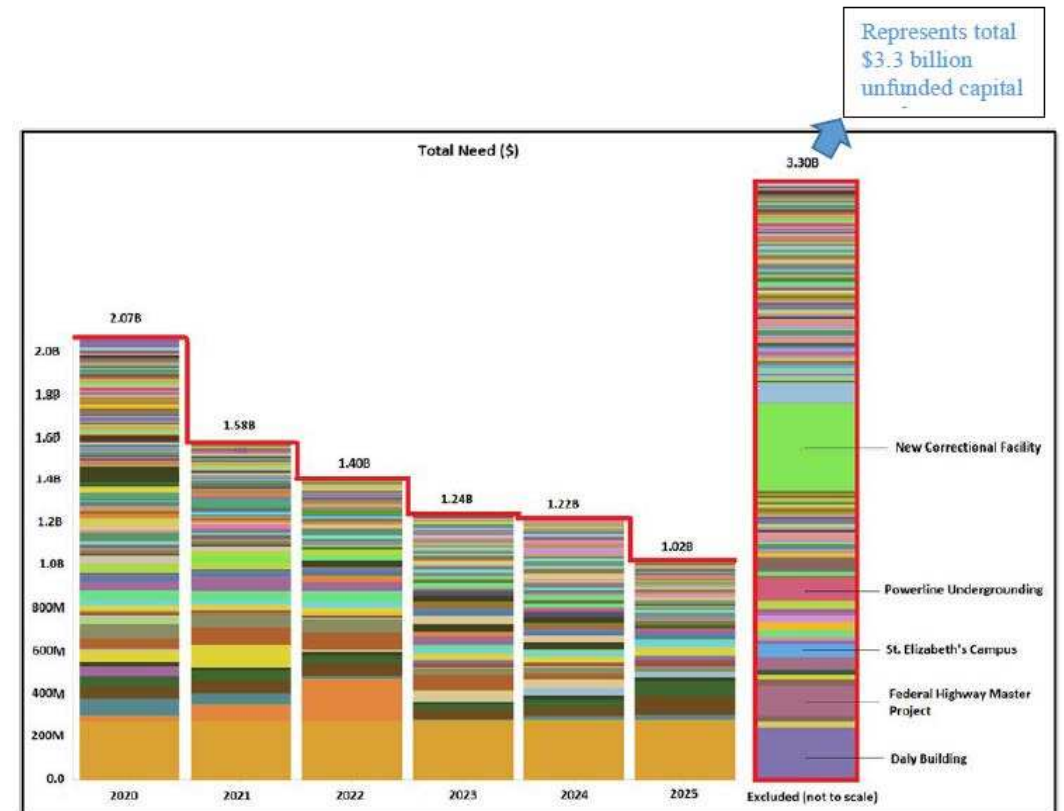
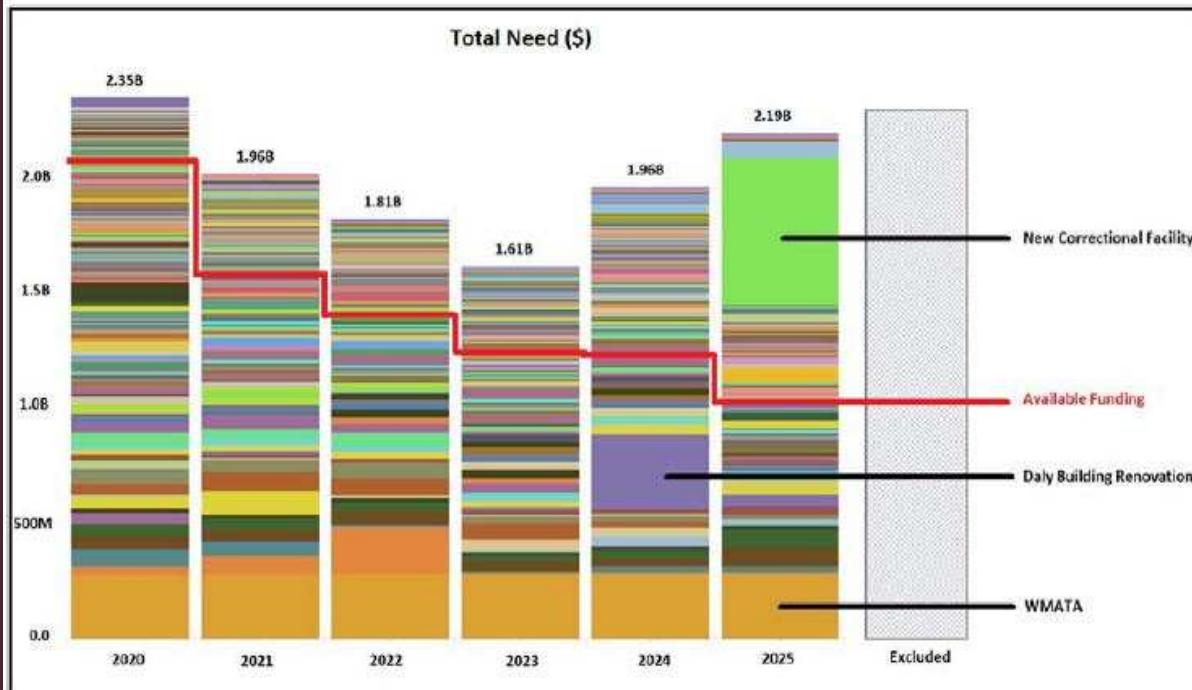
Having a comprehensive inventory of all District-owned assets is the first step in being able to develop an estimate of the cost of replacing those assets; maintaining an asset inventory and conducting condition assessments are best practices in asset management promulgated by the Government Finance Officers Association. The inventory, along with the condition assessments, will allow the District to conduct better long-term asset management planning and financing to address the replacement of key infrastructure while minimizing negative impacts on residents, business owners, and on the District's financial stability.

The benefits of a comprehensive asset management system include the following:

- Better prioritization of capital projects relative to long-term risks and costs
- Ability to determine optimal rehabilitation and maintenance schedules and processes
- Determination of financial impact of deferred capital maintenance
- Optimal timing of delivering new projects

Balance Long-Term Thinking with Short-Term Needs

- Short-to-intermediate-term needs: 6-year CIP
- Long-term needs: all deferred maintenance and unfunded capital needs



Pillar 2: Build Trust and Open Communication

Trust and Communication



Establish Open
Lines of
Communication

Cultivate
Trustworthy
Relationships

Establish Open Lines of Communication

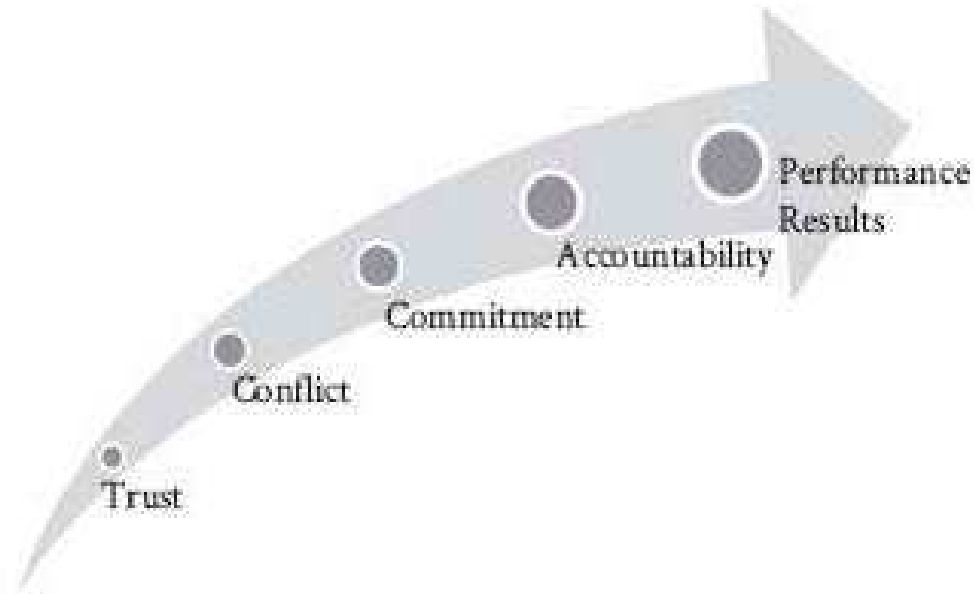
GFOA Concept: Communicating is key. Allowing people to understand what common resources we have that can be used for the benefit of all.

For CARSS creating an open line of communication starts with understanding four basic questions:

- 1. What assets do I have that I need to maintain?**
 - ✓Comprehensive asset inventory (or registry)
- 2. What is the quality of the assets I have?**
 - ✓Facility/asset condition assessments
- 3. How will I prioritize my capital needs?**
 - ✓Develop system to evaluate, rank and prioritize asset maintenance
- 4. How much funding do I have to address capital needs and asset maintenance**

Cultivate Trustworthy Relationships

The CARSS program develops trust through encouraging people to work together by acting as board members.



- The District uses a team comprised of subject matter experts from across City government to score the projects.
- Everyone is given a chance for input, and everyone is privy to how the final scores were arrived at.
- Capital budget team collectively makes decisions on how to score all projects across all agencies. Keeps the scoring more honest.
- Actions are transparent and reputations are on the line.

Pillar 3: Use Collective Decision Making



Engage
Key Stakeholders

Collective Choice
Arrangements

Networked
Enterprises

Engage Key Stakeholders

GFOA Concept: Let people voice their concerns. Ask for their feedback. Adjust as needed.

It is critical to identify and engage key stakeholders in your jurisdiction. For the District the key stakeholders are;

- ***District Agencies*** – CARSS project team engages directly with each asset-owning agency in the presentation and quality of their asset data. Agency's have direct representation on review boards that initially score individual capital projects in specific areas (i.e. IT, fleet, horizontal infrastructure, etc.)
- ***Executive Office of the Mayor (EOM)***- The EOM, through the Office of the City Administrator, has direct input into the final scoring of all capital projects, along with the Capital Budget Team, to develop the priority of projects and develop the District's 6-year CIP.
- ***District Council*** – The Council is involved through the creation of a legal requirement to annually report to the Council, and public, on the state of the District's infrastructure and deferred maintenance. This requirement is fulfilled through the annual publication by the OCFO of its Long-Range Capital Financial Plan Report.

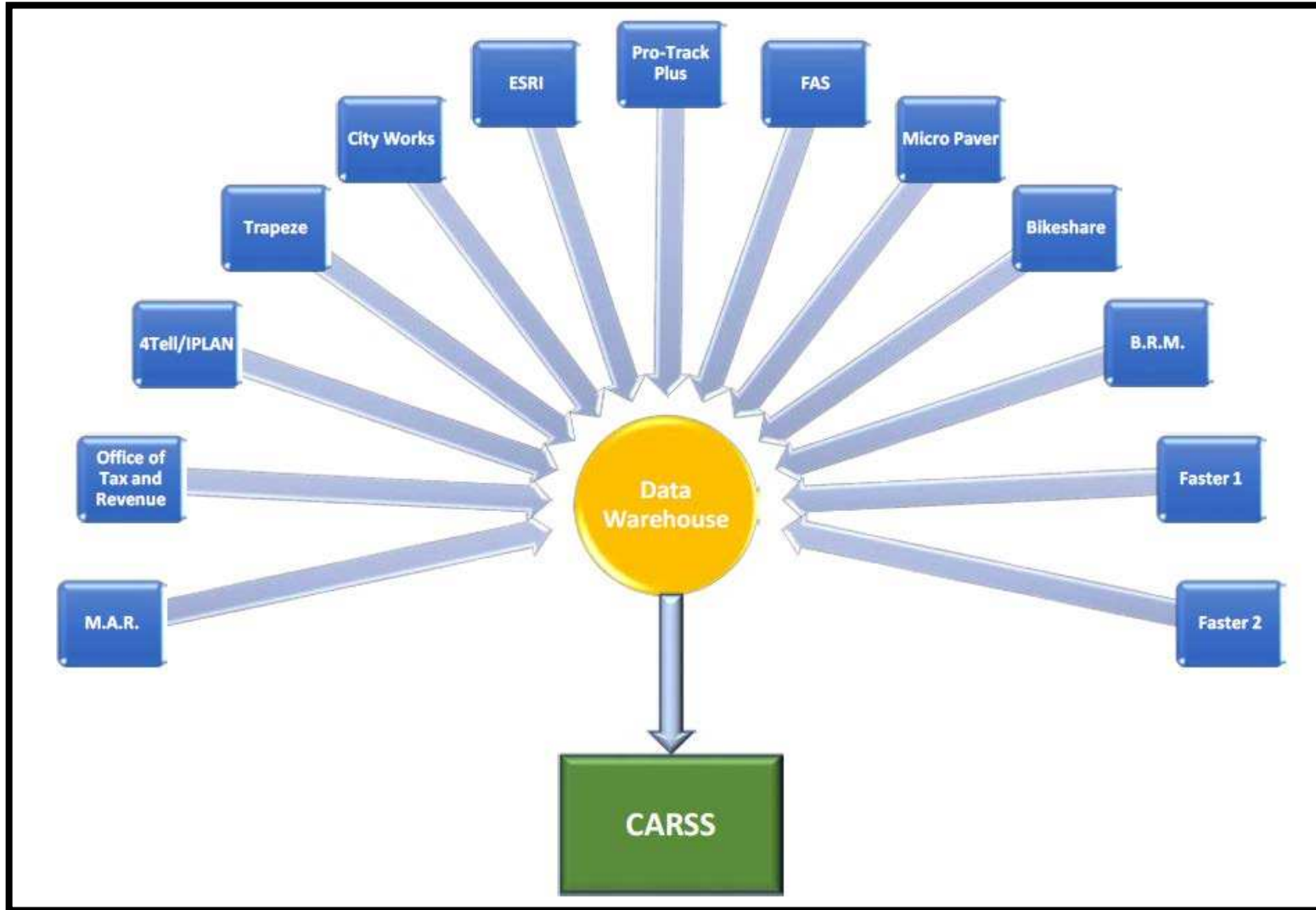
Collective Choice Arrangements

A broad group of people should be engaged in making decisions about the future of the community

- Provide Facts
- Facilitate productive conversation
- Make it enjoyable
- * Provide Closure
- * Use technology wisely
- * Allow Trade Offs

Agency		Total Cost		Project Alignment with District Policies					Evaluation Score	Multiplier	Priority Score
Project				How supportive is the project on a scale of 1-5?					Bonus = x		
	Meets District Policy Priorities		Project Examples	1=	2=	3=	4=	5=			
	Improve Outcomes for Children and Youth		*Education *Public Safety	Improvements to existing building system (Public Safety and/or Education ONLY)	Renovation of existing asset	Expand Existing Asset and renovate facility	modernizing existing building	creating a new facility	0	3	0
		Expand the availability and affordability of high-quality childcare.	*Child Care	If the project provides child care - X = bonus						N/A	0
		Address the needs of communities and individuals most impacted by violence.	*Ambulances *MPD Vehicles	If the project provides public safety vehicles - X = bonus						N/A	0
		Expand opportunities that will further close the K-12 achievement gap school modernization.	*Pre-K *School Modernization	If the project provides new Pre-K classroom or is a full school modernization - X = bonus						N/A	0
	Increase Prosperity across all 8 Wards		*Community (Homelessness, Housing, Employment) *Health	Improves some services offered beyond current levels		Improves current facility – but does not create new employment		Creates New Facility and jobs when project is complete	0	3	0
		Expand efforts to produce, preserve, and protect affordable	*New Communities	If the project provides direct support for 'new communities' - X = bonus						N/A	0
		Reduce health disparities with a focus on health equity.	*Healthy Living	If the project provides improved health care - X = bonus						N/A	0
		Continue efforts to make homelessness rare, brief and non-recurring.	*Wellness Centers	If the project provides support for homelessness - X = bonus						N/A	0
		Put more DC residents on a pathway to the middle class.	*Libraries *Recreation Centers	If the project provides some form of economic growth toward the middle class- X = bonus						N/A	0

Networked Enterprises



Networked enterprises connect previously separate actors in the pursuit of a shared objective and multiply their collective power to achieve the objective.

CARSS has centralized 13 separate and unique data sources into one environment that allows the separate data sources to be joined together to create new ways of looking at the data.

Pillar 4: Create Clear Rules

Clear Rules



Well Defined
Boundaries

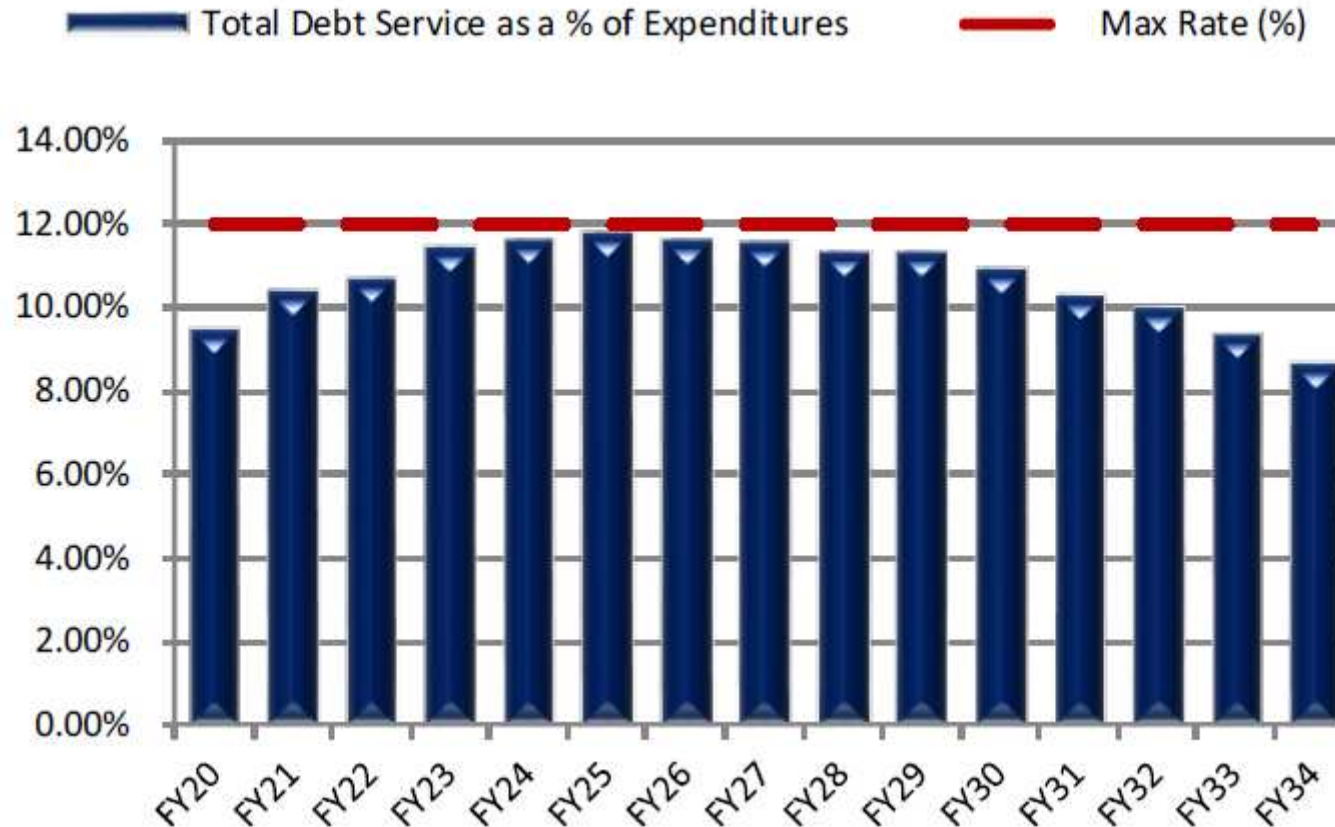
Monitoring

Maintain
Oversight

Sanctions and
Rewards

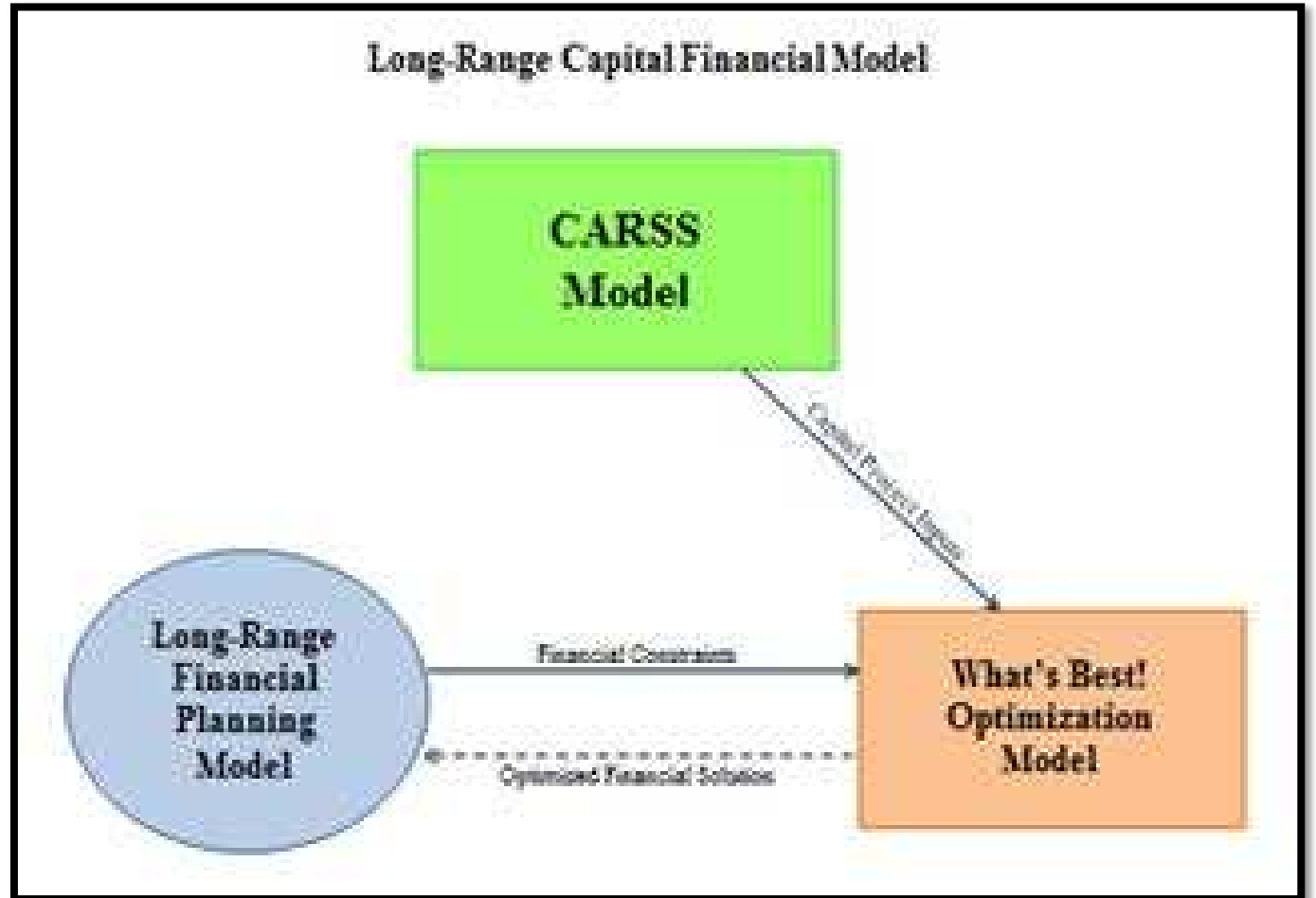
Well Defined Boundaries

One of the most common financial boundaries experienced by local governments is the limit on the amount of debt they can incur. The District's long-range financial planning model incorporates both projected amounts of federal funding, paygo and other funding, as well as maximizing the amount of borrowing for capital, all while staying below the District's statutory debt limits, as illustrated in the graph below.

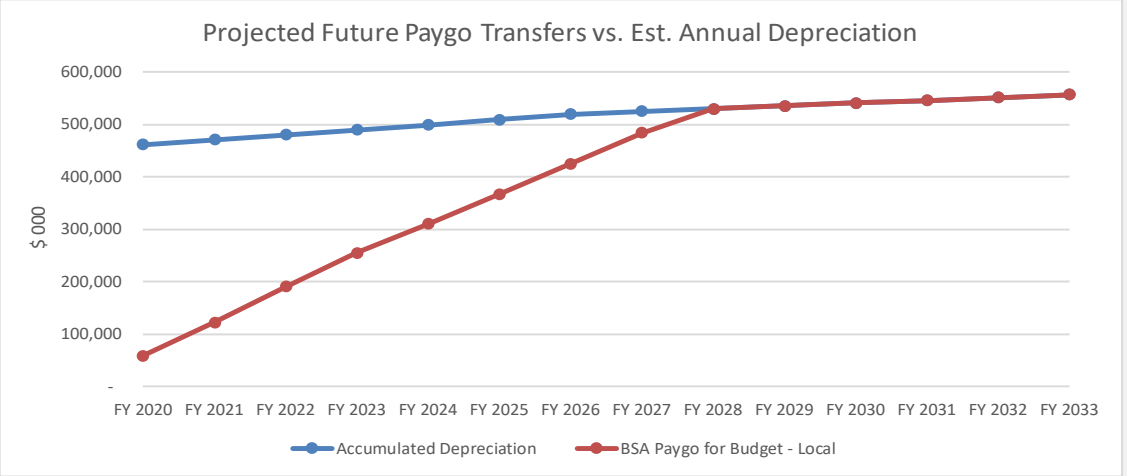


GFOA Concept: Everyone must follow the same rules. Hold people accountable. When they understand their reputations are at stake, they're more likely to play fair.

- Unmet needs identified in CARSS were quantified by year and priority of capital projects
- Developed a long-range capital financial plan optimization model to determine the lowest cost solution to finance the capital funding gap

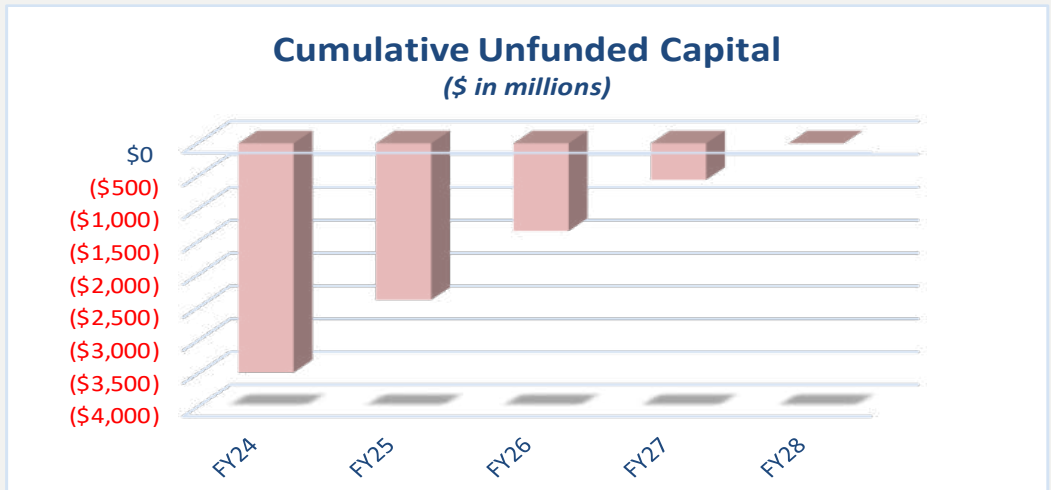


Maintain Oversight



New District law gradually increases paygo (cash funding) levels to equal annual depreciation.

Issuing debt up to the statutory limit, refunding existing debt and utilizing higher Paygo levels will allow all deferred maintenance to be addressed by 2028.



Sanctions and Rewards

GFOA Concept: Reinforce cooperation and don't allow anyone to cheat the system. People will occasionally be tempted to succumb to selfish behavior. Leaders should maintain oversight capabilities to reinforce cooperative behavior.

Rewards

- As a result of implementing its asset management system and long-range capital financial planning tools, along with strong levels of reserves and prudent financial management, the District received ratings upgrades from every major bond rating agency, including “Aaa” from Moody’s.
- This has allowed the District to enjoy record low costs of borrowing, and thereby afford greater amounts of debt to address its capital needs sooner.

Sanctions

- Best practices have now been institutionalized, so getting away from these practices or deferring certain levels of funding would likely result in negative reactions from rating agencies and bond investors. *Helps to develop institutional discipline.*



Pillar 5: Treat Everyone Fairly

Fairness



*Proportional
Equivalence between
Benefits and Costs*

Conflict-Resolution
Mechanisms

Proportional Equivalence between Benefits and Costs

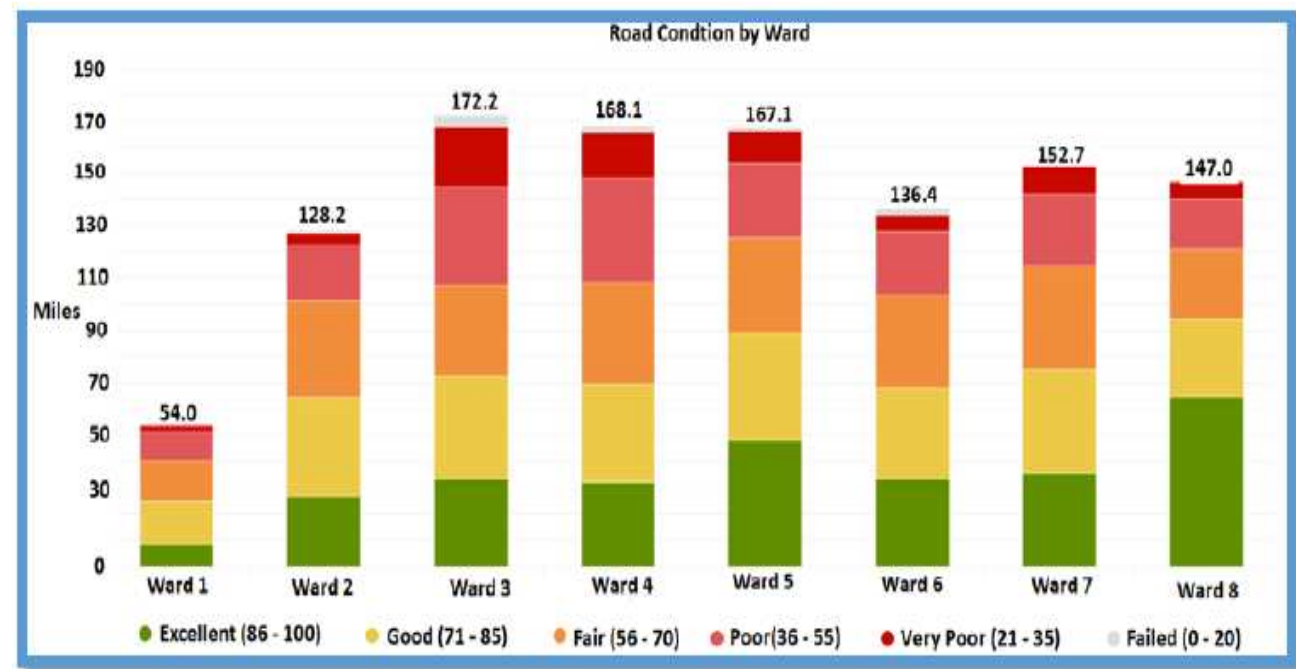
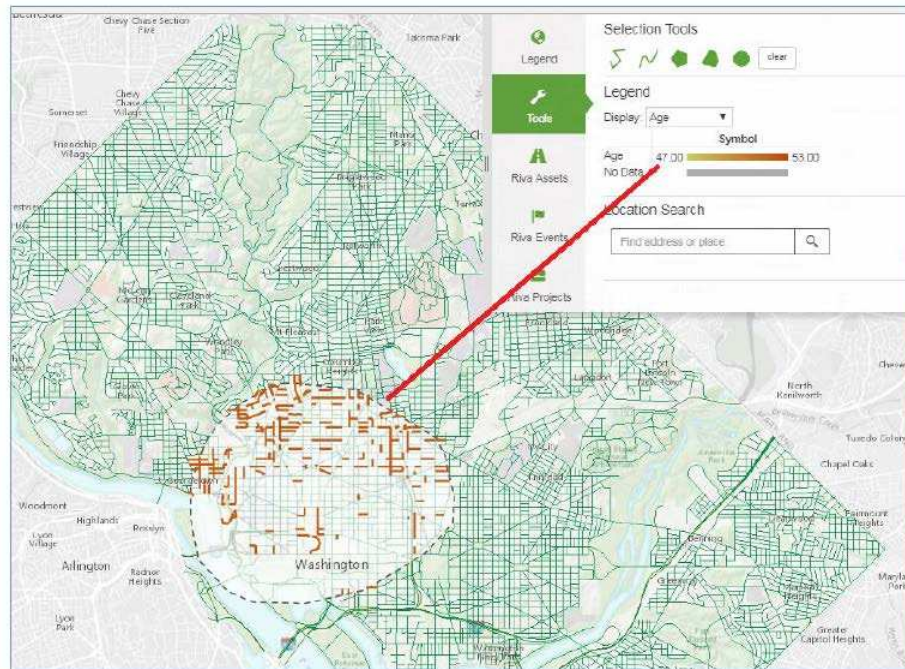
Annual Capital Funding Gap by Asset Type
(in \$ millions)

Asset Classifications	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
IT Projects & Systems:							
Capital Maintenance Projects	8.35	11.54	16.04	20.65	13.61	4.54	74.72
New Capital Projects	21.61	23.19	22.70	17.63	13.83	5.65	104.61
Total	29.96	34.73	38.74	38.27	27.44	10.19	179.33
Equipment & Regulatory:							
Capital Maintenance Projects	3.00	10.28	10.50	10.74	5.54	14.65	54.71
New Capital Projects	1.35	-	3.42	3.42	3.42	3.42	15.03
Total	4.36	10.28	13.92	14.16	8.95	18.07	69.73
Fleet:							
Capital Maintenance Projects	13.46	2.53	7.98	10.84	35.54	38.83	109.19
New Capital Projects	-	-	-	-	-	-	-
Total	13.46	2.53	7.98	10.84	35.54	38.83	109.19
Horizontal Infrastructure:							
Capital Maintenance Projects	7.16	27.94	75.78	36.39	58.41	27.12	232.80
New Capital Projects	63.38	56.88	16.21	-	-	-	136.47
Total	70.55	84.82	91.98	36.39	58.41	27.12	369.27
Facilities:							
Capital Maintenance Projects	64.12	110.16	91.83	76.24	90.84	108.44	541.63
New Capital Projects	99.62	89.79	157.01	195.90	510.35	975.75	2,028.42
Total	163.74	199.95	248.84	272.14	601.18	1,084.19	2,570.04
Grand Total	\$282.06	\$332.30	\$401.47	\$371.81	\$731.53	\$1,178.41	\$3,297.57

Conflict-Resolution Mechanisms

GFOA Concept: We can't please everyone all the time. Disputes around financial decisions will happen. Anticipate that. Prevent destructive conflict. Promote constructive debate.

CARSS promotes constructive debates by bring factual data for consideration to the decision makers. Things like scoring, condition, unmet need, reinvestment rates, ROI, unmet need analysis, prioritization.

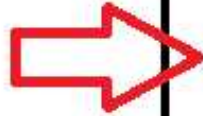


Mayor Identifies \$1.2 Billion Gap

How Did We Close the Gaps?

19

Six-Year Capital Improvement Plan (CIP)



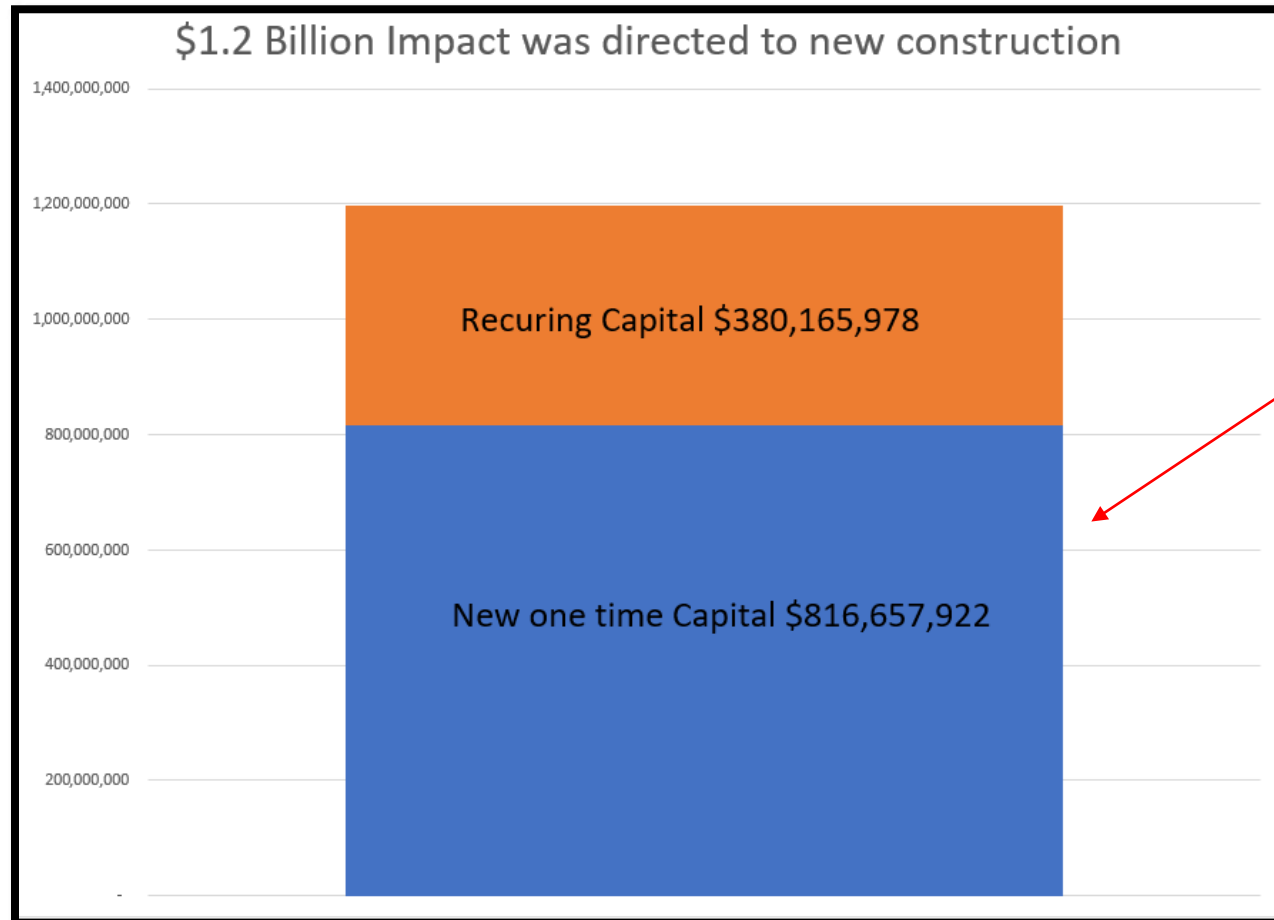
Cut **\$1.2B** by removing and/or shifting projects that were not ready to move forward on previously scheduled timelines.

Our focus:

- 1 **Maintaining timelines for existing projects when able to still deliver on time**
 - ✓ All existing school and recreation center modernizations
 - ✓ K Street Transitway and Benning Road Streetcar Extension
- 2 **Keeping core infrastructure and assets in a state of good repair**
 - ✓ Funding for streets, sidewalks, alleys, and fleet remain priorities
- 3 **Prioritizing immediate maintenance and safety concerns**
 - ✓ Funding added for Daly Building, New Beginnings campus, DC Jail, St. Elizabeths

What made up our \$1.2Billion Gap

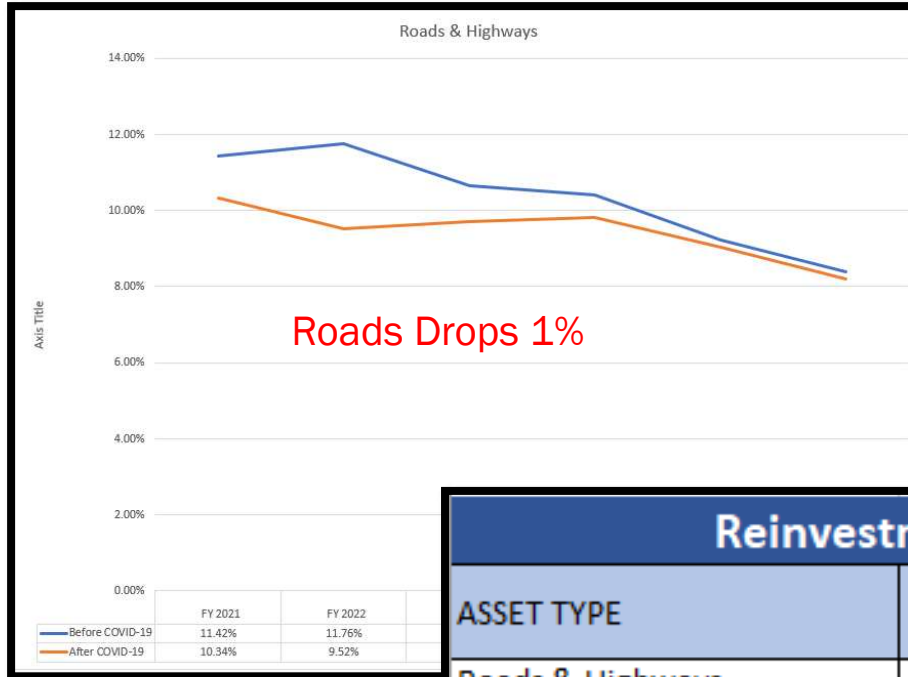
CIP Plan	2021	2022	2023	2024	2025	2026	Totals
Before COVID-19	2,142,696,015	1,945,764,657	1,654,812,435	1,282,572,054	1,060,430,495	1,019,841,197	9,106,116,852
After COVID-19	1,660,342,170	1,548,500,325	1,349,081,072	1,257,870,363	1,110,952,503	982,546,524	7,909,292,955
Delta	482,353,845	397,264,332	305,731,363	24,701,691	(50,522,008)	37,294,673	1,196,823,896



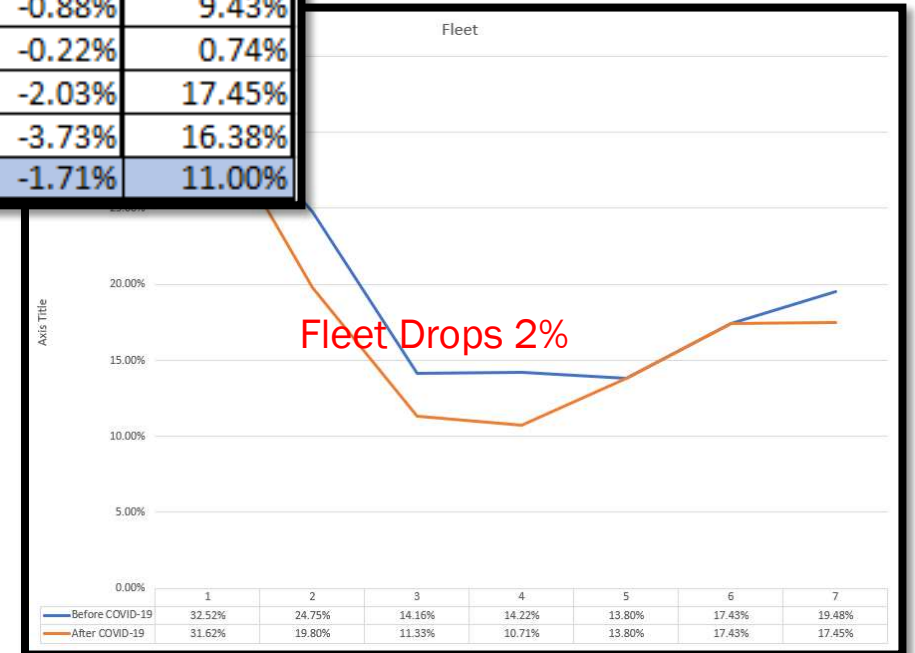
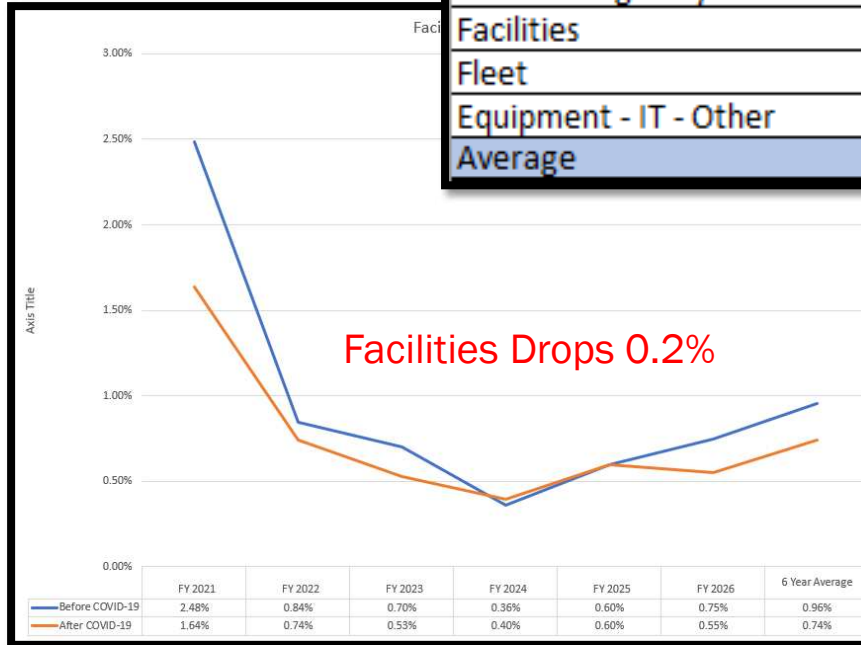
Capital Cost Type	Amount	
New/One Time Construction	816,657,922	68%
Recurring Capital Cost	380,165,978	32%
Total	1,196,823,900	100%

One time capital projects were deferred at a greater percentage than recurring capital projects

\$1.2 B Impact to Reinvestment Rates



Reinvestment Rates			
ASSET TYPE	Before	COVID-19	After
Roads & Highways	10.31%	-0.88%	9.43%
Facilities	0.96%	-0.22%	0.74%
Fleet	19.48%	-2.03%	17.45%
Equipment - IT - Other	20.11%	-3.73%	16.38%
Average	12.71%	-1.71%	11.00%



Panel Discussion



In this environment people may become hyper-focused on near-term concerns. How do you balance that with long-term thinking?

What is your community's vision that supports asset management?



Pillar 2

BUILD TRUST AND OPEN COMMUNICATION

*Create the
conditions for
cooperation.*

Trust and open communication will be easier if there is shared set of facts about capital needs. How can you establish that shared set of facts?

Recall an experience from your career where trust was built or lost during capital planning. What did you learn from that?



Pillar 3

**USE
COLLECTIVE
DECISION
MAKING**

*Develop
forums for
participation.*

What have you found to be the best way to include the public in capital planning decisions?

How have you brought departments that have a stake in the capital planning into the process?



How do you require people to consider the trade-offs inherent in spending proposals?

What is key commitment that is made as result of the planning/budgeting process and how to do enforce accountability on that point?



How do you ensure different groups of stakeholders are receiving an equitable amount of services and that needs that are important to that group are being met?

How do you show decision-makers the long-term impact of the decisions they are making today?

DC Contact Information

Copies of the District's 2019 Long-Range Capital Financial Plan Report can be found on the OCFO website at <https://cfo.dc.gov>, or on the District's investor relations website at www.DCbonds.com.

Contact Information:

David A. Clark, *Director, Capital Improvements Program*
(202) 727-2055
david.allen.clark@dc.gov

Darryl Street, *Senior Financial Policy Advisor*
(202) 727-2476
darryl.street@dc.gov

Richard Dietz, *CARSS Project Manager*
(202) 875-9456
richard.dietz3@dc.gov

OUR PANELIST'S CONTACT INFORMATION

- Kent Austin: kent.austin@dallascityhall.com
- Kaitlyn Krueger: kkrueger@ci.mequon.wi.us

OTHER RESOURCES

- Research report on DC's capita planning experience:
<https://www.gfoa.org/materials/capital-planning-dc-government>
- The Financial Foundations book:
<https://www.gfoa.org/materials/financial-foundations-thriving-communities>