FY17 CIP
A Menu of Possible Items to Include in the BFAAC Report

Key Topics and Comments

1. General CIP Process and Direction

- It is positive that all projects have identified funding sources. Identifying funding sources that minimize GF transfers and debt are the key to a healthy CIP.
- It is positive that major CIP projects such as Potomac Yard Metro and other transportation initiatives leverage low interest sources and grants as well as TIFS to reduce the burden of carrying General Obligation Bonds.
- Note that priorities for the FY2016-2026 CIP budget do not explicitly include a priority to consider the economic growth benefits of a proposed CIP project. There is no recognition in the CIP that money spent for a broad range of economic growth initiatives (not just "development") is not sunken cost, rather, it is an investment that will pay dividends.
- Note that last year projects were numerically ranked and prioritized. This year the process of selecting projects and priorities involved having departments submit project requests to a Peer Technical Review Committee, which in turn sent recommendations to a CIP Steering Committee, who then reviewed, prioritized and forwarded its recommendations to the City Manager. Based on the information in the CIP, this appears to be mostly an internal process that does not directly receive input from resources outside of the City.
- The strategic plan is referenced as a metric for assessing all CIP projects. The City has an opportunity to reflect on the current strategic plan and include stronger direction that includes a wide range of strategies for economic growth and increasing revenue. Should the strategic plan exercise be a "warm up" of the old strategic plan leftovers?
- The CIP represents a substantial part of the City's budget and is the source of the need for all borrowing. The City does not borrow for operations.
- Note that funds are budgeted for a Customer Relations Management System. Is this related to the Information Technology project or is it related to service from all City departments?

2. Components of the CIP

- In addition to the ACPS/CIP and funds for an Information Technology Plan, the CIP projects are organized in three categories.

    - Category 1 is Asset Maintenance - The City's assets are continuing to deteriorate faster that repairs can be made. The City has put into place a data-driven mechanism for prioritizing maintenance. It is positive the City has finally put in place a rational plan for this Category of project. There appears to be no economically feasible way of bringing all of the low ranking assets up to a "good" level in the near future.
    - Category 2 is Renovation/Existing Assets – Category 1 and Category 2 projects both deal with existing assets. The comments that apply to Category 1 apply to Category 2, but the City should be should be assessing how to reduce the number of City buildings, that currently number around 90, and ways to combine or co-locate functions .

- Category 3 is New Facilities – The City needs to aggressively re-evaluate the philosophy of single use facilities. We have already forgone opportunities to co-locate City functions in a number of buildings, including the Eisenhower fire house and the upcoming Chinquapin Pool building. One also must question why a major investment in the Public Safety Center did not include a firing practice range. More can be said about this point.
- Information Technology – This is a new Category from what I can determine, but will be included in the other Categories in future budgets. There is a need to determine the best vehicle for delivering high speed connectivity to the City. We understand there are a number of independent vendors that provide high speed internet services in addition to Comcast. A careful study should include the cost/benefit of alternatives, including incentives to existing private vendors as opposed to a City sponsored or funded City-Wide approach. The City may want to explore how to make the "market" improve and broaden service.
- ACPS - The ACPS projected CIP is $68 million higher than the City's projection over the next 5 years. This indicates either a substantial property tax rate increase to fund only ACPS's CIP, or that ACPS CIP projects will be scaled back. There is no discussion of a mechanism to reconcile these two budgets.

  To illustrate this dilemma and focus the public debate, Council may want to consider having ACPS include the cost of the debt service related to its CIP in the ACPS budget.

3. Cash Capital and Debt Services

- The 2017-2026 CIP assumes $974 million in borrowing, and the City states that such borrowing is consistent with the City's AAA/Aaa bond rating.
- With the exception of Potomac Yard Metrorail the projected borrowing generally complies with the City's self-imposed debt limits and ratios.
- The City and Council should be annually monitoring its self-imposed limits and targets to determine if they are aligned with current Municipal financing procedures and the advice of bonding advisors.
- Note that the Debt Service as a percentage of Total Personal Income Target is well above our current target of 3.2% and limit of 4.5%. We understand that there have been recent changes in how the Bureau of Economic Analysis calculates income, and the City should explore revising the target and limit to reflect this change.
- Note that the Debt Service as a Percentage of General Government Expenditures indicates an increasing burden on the City to repay debt. While these projects remain within the current self-imposed limit, this highlights the need for aggressive economic growth to deflect the possibility of higher property taxes.