



**CAPITAL PROGRAM COORDINATION**

**TASK 2 REPORT**

**August 24, 2004**

**For the Office of the Mayor and City Administrator  
Washington, DC**

**by the**

**Brookings Greater Washington Research Program**

**and the**

**21<sup>st</sup> Century School Fund**

## **PREFACE**

The District of Columbia contracted with the Brookings Greater Washington Research Program in January 2004 to conduct a three-part study of the city's master facility planning and capital budget process. Brookings subcontracted with the 21<sup>st</sup> Century School Fund to assist in the study.

The first task was the review of best practices in coordinated public facility and capital budgeting processes around the country. This task was led by the 21<sup>st</sup> Century School Fund and is the subject of a separate report. The second task was to assist the District of Columbia in the design and implementation of a new, coordinated facility planning and capital budget process. This paper is the product of that work. The third task, also led by the 21<sup>st</sup> Century School Fund, is to provide an analysis of the DC Public School and Charter Public School capital projects, budgets and expenditures and to develop some alternate criteria for setting capital investment priorities for schools. That report will be completed in the spring of 2005.

The authors of this Task 2 report are Alice Rivlin, Director of the Brookings Greater Washington Research Program, Carol O'Cleireacain, Brookings Nonresident Senior Fellow, David Garrison, Deputy Director of the Brookings Greater Washington Research Program, and Mary Filardo, Director of the 21<sup>st</sup> Century School Fund. The authors thank Kimberly Driggins, the Project Manager for the Master Facilities Program Coordination Plan in the City Administrator's Office, and Noel Bravo, Special Assistant to the Mayor for Budget and Finance, for their leadership and perseverance in organizing and guiding this project for the city and in pushing forward aggressively to reform the District's facility planning and capital budget process.

The authors were given full access to agency heads and other senior staff around District government and were helped considerably by many candid, thoughtful exchanges. In particular, the authors want to thank Natwar Gandhi, Chief Financial Officer, Dallas Allen, Chief of the Budget Formulation Division, Office of the Chief Financial Officer, Julie Wagner, former Director the Long Term Planning Division of the Office of Planning, Peter May, Deputy Director of the Office of Property Management, and Kendrinna Rodriguez, Program Analyst for the Master Facilities Program Coordination Plan in the City Administrator's Office.

## Capital Program Coordination Project Report

This paper presents proposals for improving the way the District of Columbia decides how to improve its public facilities and other infrastructure. It recommends a practical decision process that will help the District plan effectively for capital improvement, up-grade the condition, utilization, efficiency and attractiveness of its public assets, and maintain them in good repair. It argues for comprehensive capital planning and budgeting across all public agencies, including the District of Columbia Public Schools as well as the agencies that report directly to the mayor. The recommended process is designed to improve program coordination and maximize opportunities for joint use of facilities where practical and efficient.

Every city needs a disciplined, transparent process for assessing its public infrastructure and allocating scarce resources to meet its most urgent needs. Facilities and other infrastructure are big ticket items and they last a long time. Special care must be taken to get capital decisions right, since commitments, once made, often affect how well the city functions for decades to come. The District, moreover, has special reasons for focusing attention on improving its capital investment decision process at this time:

- A long history of fiscal stringency has resulted in deferring spending for facilities and maintenance. Hence, the District has many public facilities that are inadequate, antiquated, poorly located and expensive to maintain. Many types of public services could be delivered more effectively at lower cost if facilities and infrastructure were more modern, more appropriately designed, and more effectively utilized.
- The District's resources available for capital spending are severely limited. The District operates its government under severe fiscal restraint imposed by Congress. As the Government Accounting Office has documented, the District has a structural deficit in its operating budget, meaning that it does not have a big enough tax base to provide average services at average tax rates. It has high per capita debt and limited additional borrowing capacity.
- The District Government has been so focused on improving program management, operating budgets, accounting, and other systems that it has devoted little time and energy to improving the capital decision process until very recently.
- Taxpayers, lenders and the federal government are unlikely to provide additional resources without a clear demonstration that the District is improving its capacity to plan, budget and maintain its assets in an effective manner.

In our view, the District should strive over the next several years to create an inclusive **multi-year capital plan** encapsulating the city's vision for improving its facilities and other infrastructure. The plan should always be a work-in-progress, updated periodically as conditions and aspirations change. We suggest a 10-year plan revised every other year, which we refer to as the **Ten-Year Capital Plan (TCP)**. The TCP should be translated annually into the **capital budget and financial plan** for the next fiscal year.

Both processes should be comprehensive in scope and supported by accurate information so that decision-makers can make well-informed decisions and carry them out. As the capital budget is implemented, for example, projects should be tracked so that information about their status can be fed back into the next round of decisions.

This paper grew out of a request by the District for assistance in thinking through its capital planning and budgeting processes. The Brookings Greater Washington Research Program and the Twenty First Century School Fund worked closely with Office of the Mayor and the Office of the City Administrator to identify best practices in other cities, analyze the strengths and weakness of the current District process and specify a new set of procedures for improving the District's capital decision-making, and do an in-depth analysis of the DC Public School and Charter School facility plans and capital budgets. Results of the best practice and school analyses will be described in separate papers; this paper focuses on what the District itself should do.

The first section of the paper describes some of the weaknesses of District practice with respect to facilities planning and capital budgeting in the past--weaknesses which highlight the case for strengthening the planning and capital budget processes. Then we turn to two important requirements for improving those processes--broadening their scope and improving the information on which they are based. Next we describe how the two major processes--Ten-Year Capital Plan and annual capital budget and financial plan--should work when they are fully up and running. Finally, since full implementation will take time, we address what should be done immediately to improve capital decision-making for the FY2006 budget cycle. The authors benefited from close interaction with District officials in numerous interviews and meetings, but the views we express here are our own.

## **WEAKNESS OF THE PRIOR PROCESS**

In the last few years the District has made enormous progress in organizing its decision-making on the operating budget. The Mayor and Chief Financial Officer have worked well together in crafting the Mayor's budget proposal. The Council has done its job effectively, and has worked with the Mayor to resolve differences in priorities and present a proposal to the Congress that both branches of the city government can stand behind and defend. Unfortunately, however, the capital budget has been largely left out of these improvements and has not received adequate attention from either the Administration or the Council until recently. Interviews with participants in the process revealed serious weaknesses that need to be corrected.

First, the information available about existing facilities is inadequate for deciding where best to spend additional capital dollars. The District does not have a complete inventory of the location and condition its facilities, although an effort to put together such an inventory has recently gotten underway. District of Columbia Public Schools (DCPS) have more complete information about facilities than most other District agencies. The information about the location and conditions of school properties was collected as a prelude to creating the DCPS Master Facilities Plan, which has recently been updated. The process of assembling comparable information for non-school properties, by contrast, was is still a work in progress.

Second, uneven attention has been given to projecting future demand for services, although these projections are essential to determining future facilities needs. The Mayor's strategic planning process identifies service goals and priorities, but has not been translated into multi-year facilities needs or a multi-year capital plan to frame a capital budget.

Third, no-multi-year plan has been developed identifying future priorities for upgrading and replacing public facilities. As a result, most projects are one-off efforts, and the agencies that are more effective in advancing their projects often do so by working directly with individual Council members. In the absence of a long range plan that puts projects in context, capital budgeting appears to be as short-term as operating budgeting and opportunistic rather than strategic. Because of limited funds and past neglect of facilities, almost all of the current agency requests for capital spending are in the urgent "health and safety" category. The case for capital spending in this category is that the health or safety of clients or employees will be threatened if the expenditure is not made, although the rationale is often not spelled out in detail. This patch-the-leaking-roof approach to capital spending favors emergency renovations rather than new construction, except where replacement is the only option.

Opportunities for co-location of programs and joint use of facilities are frequently over-looked. We found some examples of joint use of schools, park and recreation facilities, and libraries. The examples, however, resulted from ad hoc efforts of individuals to work jointly when they perceived an opportunity to do so, aggressive agency leadership or political pressure. Agencies do not routinely sit in a room together and talk through joint or related capital needs. The planning and budgeting processes do not explicitly encourage multi-agency coordination or provide any incentives to participants to plan together. The isolation of the DC Public Schools from the rest of DC government is especially counter-productive. Since DCPS accounts for a large fraction of city capital spending, it is vital that school facilities be well-planned, efficiently used and integrated with other community facilities.

In the last couple of years the District's capital budget process has become more disciplined and comprehensive. A Budget Review Team (BRT) under the leadership of the City Administrator has reviewed agency requests for capital spending in an organized way during the 2005 capital budget process. The BRT process appears to operate in the same manner as similar processes in other cities. The Mayor and his staff determine the total constraint on capital spending and articulate the Mayor's priorities. The BRT reviews projects and determines priorities with the constraints.

However, the information on which decisions are based is extremely weak. Cost projections are limited and measures of cost effectiveness of alternative investments are not available. No real risk analysis is performed prior to a capital project being accepted. Capital spending appears to be a "free good" to agencies, since they are not charged for the debt service associated with their capital projects and until recently have not been required to include the related maintenance and operating costs in their budget submissions. This latter requirement was instituted 2005, but it is not yet clear how many agencies complied or whether the estimates will prove accurate.

Finally, implementation of the capital budget is weak. Capital projects are not monitored closely on a routine basis to see if they are on schedule and on budget. There is no tracking system for

capital projects and no common vocabulary for milestones or assessment of progress toward completion. As projects are finished, they do not move into an asset management process which keeps tabs on their condition and maintenance cost.

Some of the problems with the District's facilities planning and capital budgeting process stemmed from the inattention of the city's leadership in the face of competing demands. Others stemmed from the failure of the Office of Property Management (OPM) to meet the needs of its clients (other District agencies), provide up to date information on the condition of District properties and put together a master facilities plan. OPM is now being modernized under new leadership and will be able to play a more effective role in the future.

## **SCOPE OF A NEW PROCESS**

It is important that *all* physical assets in the local public sector – facilities, infrastructure, technology and other long-lasting equipment– be part of the capital planning and budgeting processes. These processes should include all the agencies that report to the mayor plus the schools (DCPS and charter schools), libraries, the University of the District of Columbia and other quasi-independent entities that rely on DC tax resources for operating expenditures and DC general obligation borrowing authority for capital resources. The DC Water and Sewer Authority and Washington Metropolitan Area Transit Authority (WMATA), and similar agencies, if any, have to be treated somewhat differently, because their services may extend beyond the District, and they have their own revenue sources and governance structures. However, their claims on District-financed capital spending must be part of the District Government's capital planning and budgeting processes. These claims all come out of the same limited pot. The Convention Center and similar entities with dedicated streams of tax revenues have to be included as well.

It is particularly important that both the planning and budgeting processes fully integrate the schools and libraries into the decision process along with the mayoral agencies. Although DC Public Schools has its own governance structure, it does not have a dedicated source of revenue. DCPS is the city's largest user of capital funds and charter schools are among its fastest growing entities. Moreover, schools and libraries and other neighborhood service providers (including WMATA) offer the greatest potential for co-location and service coordination that may increase efficiency and improve neighborhood services.

Further, there are several District capital-intensive agencies, such as Transportation and Housing, the bulk of whose spending is provided by federal aid. The District needs to bring them into the capital planning process, as well, so that their projects are examined and can be coordinated with the District's priorities and capital spending. Without such planning coordination, efficient and effective service delivery, accountability, and neighborhood targeting will not be complete.

## **INFORMATION BASIS FOR A NEW PROCESS**

Data, analysis, and projections are essential to an effective decision process. To make judgments about the best way to use limited resources for improving facilities, decision makers need the best possible information and analysis at all stages of the process. Gathering and analyzing information, however, takes time and requires resources. Many decisions cannot wait for ideal information to become available. District decision-makers must make the best decisions they can on the basis of available information while simultaneously striving to improve the quality and flow of information for the next round of decisions.

Several types of information are essential to decision-making about facilities improvement:

- **Condition of buildings and other facilities and intensity of use.**

Reasonably complete information on the condition of facilities and the current type and intensity of their use should be available and regularly updated. For example, a school building assessment would evaluate the building elements (roof, windows, brick work, shingles, etc.), the systems (boiler, plumbing, air conditioning, and wiring) not only for age and functionality, but also for adaptability for new technology or more intensive use, such as all-year sessions. Assessing this information will require knowledge of modern standards for efficient use, including reasonable useable life.

At present, DC Public Schools has more complete facilities information than most District agencies. We understand the District has a new facilities inventory and assessment underway, which will bring some basic physical, systems and use information into this process. Currently, a full asset management process is still missing, although some facility assessments have been done and others are in process.

- **Projections of demand or need for services.**

Facilities decision-makers need reasonably reliable projections of future demand for the services to be delivered: numbers of students, senior citizens, clinic patients, motor vehicles, etc. Where are services over-loaded and stressed now? Where is growth occurring and likely to produce over-load in the future? These projections are needed by type of service and location within the city.

Some agencies have such projections, but they should be improved, updated and centrally collected and available.

- **Estimates of the costs of providing or upgrading needed facilities.**

Design, engineering and construction cost estimates should be provided for each project. In some cases, it may be necessary to estimate costs for different levels of specification and quality standards. In addition, project cost estimates should include debt service costs and maintenance to the applicable standards and to accepted useable life (based on quality

specifications). Further, affordability constraints on current and projected borrowing capacity and the ability of the city to service its debt should be made explicit. Specific demographic, design, engineering, construction and financial data require expertise to generate them, the ability to analyze them and interpret them for those less expert, and the ability to anticipate the essential questions and concerns of the decision-makers.

## **MULTI-YEAR CAPITAL PLANNING PROCESS**

**The District should create a Ten-Year Capital Plan (TCP) and review it periodically.** The process of creating the TCP will force decision-makers to move beyond the short-term needs and emergency repairs that have dominated recent capital budgeting. It will force agencies to look ahead and assess both the current and the future adequacy of their facilities. It will require them to project changing needs for services in different parts of the city as the District population and economy changes. The TCP decision process will require input from the Office of Planning, the Office of Property Management, the Chief Financial Officer, and the Mayor's strategic planning process. Creating the TCP will give decision-makers an opportunity to reward collaboration among agencies and co-location of activities when better service or lower costs might result. It will also give decision-makers a chance to consider how best to use public facilities to leverage private sector development in different parts of the city.

The District needs to pay special attention to the relationship between the quality of capital improvements and the future need for maintenance and emergency repairs. The latter has, historically, been a major use for scarce capital dollars. Modernizing facilities and building new ones sometimes results in lower spending for maintenance and repair, although the opposite is more often true. New, more modern facilities are often larger and more elaborate. They are likely to contain additional equipment and technology with its own maintenance requirements. Moreover, materials used may be of lower quality than that used in the grand old buildings they replace.

In addition, given that agencies have not generally been charged maintenance, the TCP will have significant implications for the operating budget. Further, since emergency repairs have taken such priority in the past, the issue of jettisoning and de-commissioning facilities is likely to need more attention going forward. The life-cycle of facilities is to plan, to acquire, to operate, and to dispose. The goal of the TCP is to incorporate all of these elements into the District's way of doing its business.

**What would the TCP be like?** The Ten-Year Capital Plan should be a specific year-by-year schedule for modernizing and upgrading the District's facilities, infrastructure and technology systems. The introduction of the plan should provide a framework of information on the city: recent demographic, economic (employment and income) and housing trends, placing them in a national context and drawing implications for future growth and public services and infrastructure.

The schedule itself should identify each project by agency (or agencies) responsible, give a description and justification, show location, usage, estimated cost, and beginning and completion

dates. The TCP should contain maps so that the location of all contemplated capital projects can be seen clearly in relation to each other. Summary tables should be provided which indicate the shares of the TCP representing “program expansion,” “program replacement,” and investment for a “state-of-good repair,” with projects shown, by agency and location, under each designation. Implications of each project for maintenance and operating costs should be explicitly discussed.

The TCP should contain a full chapter presenting and discussing the Financing Program, denoting contemplated/necessary borrowing by entities, by fiscal year, expected pay-as-you-go capital spending, grants and federal funding.

**Time period.** The period covered by the Ten-year Capital Plan should be long enough to make major changes feasible, but not so long that planning becomes detached from reality, which is why we suggest that the TCP cover a 10-year period. While a longer time horizon might be desirable for some kinds of projects (e.g., bridges), the periodic updating will ensure that they do not present unrecognized problems. Moreover, since needs and conditions change, the TCP should not be set in stone. We believe it should be reviewed and updated every second year.

**How should the TCP be created?** To start the process, the Mayor (or the City Administrator on his behalf) should issue guidance to agencies for the submission of agency facilities plans. The guidance should reflect the program priorities emerging from the Mayor’s strategic planning process, specify the precise information required in the submissions, and provide the formats for submission. Guidance should also contain constraints reflecting Chief Financial Officer’s estimates of future financing capacity to avoid agencies submitting wish lists with no realistic chance of funding. Agencies should work with the Office of Planning, the Office of Property Management, the CFO’s Office of Budget and Planning, and technical experts as they prepare their submissions to ensure quality plans. Guidance should encourage agencies to work together on their plans, especially plans for neighborhood services in particular parts of the city.

**How should decisions be made?** Agency submissions (their own TCPs), which may need central technical support to come to standard, should be examined and vetted by a Technical Review Team consisting of qualified staff from Office of Planning, the Office of Property Management, the Chief Financial Officer, the Office of the Chief Technology Officer, and the Offices of the Mayor and City Administrator. This team should make sure that information is complete and accurate and should suggest options to be considered. Expertise on the team should include demography, engineering, building systems, technology, planning, finance, construction, and project management. The technical review team should give explicit attention to the potential for co-location and joint use of facilities. This is not happening at present, although some opportunities for co-location and joint use have been identified on an *ad hoc* basis (driven by a political request and/or aggressive agency leadership).

After the Technical Review Team has completed its work, a high level Capital Planning Team chaired by the City Administrator should make decisions. The process will need to be documented. The criteria used to determine priorities should be put in writing and approved by the Mayor. The Mayor should be thoroughly briefed on the plan and have an opportunity for personal input. The product of this decision process would be called the Mayor’s Proposed Ten-Year Capital Plan and should be transmitted to the Council for debate and public hearings.

## ISSUES TO BE DECIDED ON THE CAPITAL PLANNING PROCESS

If the District decides on the model described above, there should be thorough discussion of several questions.

- 1. Who is on the Ten-year Capital Plan Review team besides the City Administrator?** The team should probably include all four Deputy Mayors and Chief Financial Officer, along with the heads of Office of Planning, the Office of Property Management, and the Chief Technology Officer.
- 2. Who drives the decision process?** We believe strongly that the City Administrator should drive the process personally if he is willing and able to devote the time and energy that it would take to drive it effectively. Having the City Administrator moving this forward on behalf of the Mayor will give the process the status it needs and ensure that all participants take it seriously. It will also help to ensure that capital priorities are central to and linked with agency service missions. The Chief Financial Officer, the Chief Technology Officer, the Directors of the Offices of Property Management and Planning, and the deputy mayors must also be personally involved in the final decision process, but only the City Administrator can insure that the proposed Ten-year Capital Plan reflects the mayor's priorities and is consistent with announced mayoral initiatives.
- 3. What should be the relationship between the Ten-year Capital Plan and the Comprehensive Plan now being revised by the Office of Planning?** In the past, the Comprehensive Plan has not paid much attention to public facilities. Should it?
- 4. What should be the role of the Office of Property Management in the near term and the longer run?** The Office of Property Management is crucial to this process. It is under new management, but past failures to meet the needs of other District government agencies have put it in a weak position. Some agencies have gone their own ways on facilities. Gaining a role with them will not be easy and may likely not be the first priority. Also, OPM is only now grabbing control of facilities-related data; it is not clear it has adequate facilities expertise. For example, is there a city engineer (with staff) currently at OPM?

Most crucially, the Office of Property Management may have yet to define its role. We see OPM as part of this new iterative process, taking its place among the agencies, budget, operations and service delivery actors/decisions makers around the table. OPM needs to be seen by others in this planning process as an additional, important actor at the table – involved in the priority setting and decision-making from the beginning. The process does not work if agency interaction with OPM is to bring a set of building specifications to be plugged into a design or if OPM thinks of itself as sitting back, waiting to receive fully worked out sets of demands from agencies.

- 5. How should the Council and the public be involved?** The Ten-year Capital Plan must have public input and Council buy-in, and it is vitally important that the Council's role be thoughtfully constructed. One possibility is for the Council to hold public hearings on the mayor's proposed TCP, amend it in the light of public comment, and then vote on it. Council

approval would give the plan more official status, although it might be hard to get agreement on such a large, complex plan.

It might also be useful to have public input earlier in the process. Should the City Administrator hold hearings and invite public input before the decision process? Should there be neighborhood focus to the early public input? Is there a role for the Advisory Neighborhood Commissions that might give them a stake in the process? Should the executive branch consult with the Council before making decisions on the TCP? Early consultation with Council would increase the chances of Council buy-in later.

**6. Would creating a Planning Commission help?** Many cities have a separate Planning Commission whose job it is to gather public input and provide an independent, public review of major plans and projects. The District lacks this capacity and instead places the burden on the City Council to carry out this function. The Council has a heavy work load, limited staff and members committed to defending the interest of their wards. Hence, the Council may not be the best venue for obtaining initial public input on capital projects and reviewing the TCP.

We believe that it would be in the long run interest of the District to create a District Planning Commission which could vet and review the TCP. In many cases, the Commission could clarify, and build consensus on contentious planning issues before they are introduced into the Council's legislative process. Having a Planning Commission would add important structure and process to the District's capital budget planning. Creating a Planning Commission would require an amendment to the charter and thus is a longer term objective. We would urge the District to give strong consideration the creating a Planning Commission, but not to let the absence of a Planning Commission be an excuse for putting off the urgent need to move ahead now to improve on the capital decision process in the ways we suggest.

## **TURNING THE PLAN INTO A CAPITAL BUDGET**

A major weakness of the current capital budget is the lack of a multi-year capital plan to frame it. As a result, capital budgeting appears to be as short-term as the operating budget and highly opportunistic rather than strategic. Because of limited funds and past neglect of facilities, almost all of the current agency submissions for capital projects are in the urgent "health and safety" category. This approach tends to emphasize renovations over new construction, except where replacement is the only option. In addition, there appear to be weaknesses in the data provided and used for capital budget decisions. It is not clear that a real risk analysis is performed prior to a capital project being accepted. It is also not clear that any measure of cost-effectiveness goes into the analysis.

Unfortunately, capital spending and space appear to be "free goods" to agencies. There is no charge to agency budgets for debt service, actual rent is not charged to agencies, and there is no mandatory inclusion of related maintenance and operating costs for facilities proposals. Agencies were asked to include maintenance costs in their 2005 operating budgets for the first time, but it is not yet clear to us how thoroughly agencies followed this directive and whether the estimates provided are accurate.

We propose that every year the Mayor present a Capital Budget & Financial Plan, with realistic out-years, derived from the existing Ten-year Capital Plan. Agencies would receive guidance and submit projects for inclusion in the Capital Budget. Guidance should reflect any change in the Mayor's priorities from the prior year and the most recent estimates of financing capacity from the Chief Financial Officer. It could reinforce certain priorities, such as giving preference to projects that were submitted jointly by more than one agency. In general, agencies would be expected to submit projects that had already been approved for the up-coming year in the existing TCP. Exceptions could be made for genuinely unforeseen emergencies, but these should be rare.

The Budget Review Team, chaired by the City Administrator, would make decisions on which projects and capital expenditures to include in the Capital Budget. The process would be similar to that used for FY2005, but the information would be much more complete. Moreover, the projects should be familiar to the participants because they would already have been included in the TCP.

The Capital Budget presents spending and projects by agencies. Debt service would be allocated back to agencies and entities whose capital projects are being financed. The costs of maintenance to sustain the life of the capital facilities as well as the operating costs of staffing and providing services through the proposed capital expenditures would be accounted for and presented in the operating budget. There would also be presented a city-wide financing plan, reflecting the use of current revenues and borrowing for the upcoming fiscal year and each of the out-years of the financial plan.

The Capital Budget (process and timeline) needs to be separated from the Operating Budget, where it has been so over-shadowed and so rarely treated with the attention and seriousness that its size requires. To repair its "step-child" treatment, we propose that it be put on a separate and *earlier* timetable from the operating budget, with dedicated staffing. We would be glad to work with the city to design a timetable to accomplish this change in sequence and to examine the implications for resource allocations.

DC Public Schools presents a special and important problem for this new capital budget world. It has been isolated, separated from and largely ignored by city government budget and management processes and oversight. As the largest user of DC capital resources, it is too big for this approach to work and its mission too critical for this to be acceptable. At the moment, there is a large vacuum in leadership in the ranks of the senior positions at DCPS and there are also likely to be systems and staff deficiencies at DCPS for the tasks facing them.

Beyond that, the District's current budget process appears to engage DCPS only at the level of the total funds available for school projects in a given year rather than interacting with the school system around its long term needs and helping the system bring forward a well thought out annual plan. There is likely a lack of capacity at the Office of Budget and Planning (OBP) to fully engage the DCPS capital budget. Historically, OBP has not had to understand in detail the DCPS capital planning, design and construction processes. As currently configured, OBP does not interact with DCPS in a detailed way with its capital projects. OBP's current charge appears

to be to check that the DCPS capital budget numbers add up rather than to assess whether the school system has a sensible facilities plan. This situation needs to be remedied.

## **ISSUES TO BE DECIDED ON THE CAPITAL BUDGET**

- 1. How much public involvement should there be in the capital budget process?** In general, public involvement is more essential to the Ten-year Capital Plan process than to the capital budget process. If the TCP has been thoroughly debated, moving projects from the plan into the capital budget should be relatively routine. Nevertheless, one should address the question of whether or not agencies should be required to involve their "public" or clients into the development of their capital budget requests.
- 2. Is there another level of detail or vetting required to move a project from the Ten-year Capital Plan into the capital budget?** In other words, what level of scrutiny will the capital budget process offer of already approved capital projects?
- 3. Should the Council hold hearings on the capital budget in advance of the operating budget?**

## **EXECUTING CAPITAL PROJECTS**

Having the plans and being budgeted for them is not enough. There is much hard work involved in project execution. The ability to manage capital projects in order to meet budget and performance deadlines as well as cost, quality and plan specifications is the essential final element to deliver on promised capital projects.

Project management cost control standards have not been strong elements of the District's capital budget performance. Capital projects are not monitored closely to remain on budget and meet time deadlines. From what we gather, most projects are one time efforts and the in-house management is weak. Historically, there have been considerable implementing bottlenecks. Good agencies avoid many process barriers altogether by setting up their own project management teams or going to the outside market to get such assistance. It is problematic as to their level of ability to manage their contractors or to minimize their costs; there appears to be strong evidence that DC Public Schools is not capable of these tasks and that its contractors generally suit their own needs, not those of DCPS.

In order to deliver capital projects effectively, the District will need to learn to track them, and all related contracts, against completion milestones and budget. It must learn to spot delays and cost over-runs and act on them. Currently, this appears to be the responsibility of the Office of Property Management, with the exception of a number of agencies which have opted out. OPM and the Chief Financial Officer should provide, early on to the oversight team, an examination of the tracking and payment check-off systems in place, to allow for improvements or changes if necessary. If OPM and these agencies require some significant systems and accounting help from the CFO, that should become an immediate priority. Budget examiners and technical experts should be part of the project management team, with oversight to measure cost, quality

and performance. The Office of Budget and Planning and the Integrity and Oversight program team of the CFO, between them, should provide the requisite skills to ensure a regular and dependable system of monitoring of project costs and quality. Of course, problems of capital project implementation always remain subject to public and legislative oversight.

## **TRANSITION**

The process we recommend above cannot be fully implemented in the FY2006 budget cycle. There is neither sufficient time to make a full Ten-year Capital Plan nor the information needed to do so. For example, the inventory and asset of facility conditions does not yet exist. Hence, it will be necessary to stage the new approach over several years, with some aspects going into effect for the FY2006 budget cycle, and the rest coming into place for the FY2007 and FY2008 budget cycles.

We believe that the District's Budget Review Team process for FY2005 should be seen as the preliminary move in the direction we are proposing. For many of the actors and decision makers it marks a water-shed, and should be built upon, broadened and improved.

We propose, as the first step in moving to a full, multi-year capital plan, the creation of a two year capital budget (for fiscal years 2006 and 2007) in this coming year. This would provide all participants in the process an opportunity to move incrementally toward longer term presentations in FY2007 and thereafter and to understand and improve the process as it unfolds.

For the capital budget process for FYs 2006/07, we think the following steps should be achievable:

- **The City Administrator should issue written instructions to all agencies, including independent agencies such as DC Public Schools and the Library, setting forth the new requirements for the annual capital budget process.** These instructions should describe the various deadlines for the submission of requests and related materials to the OBP. The instructions should also describe the composition and role of the Budget Review Team that will review all requests and make recommendation to the Mayor. The cross-cutting roles to be played by the City Administrator's Office, the Office of Budget and Planning, the Office of Planning and the Office of Property Management should be set forth.
- **The City Administrator's instructions should also provide the criteria that will be used to evaluate agency proposals.** These criteria should include the degree of priority that will be assigned to (1) emergency health and safety projects, (2) projects meeting Congressional, judicial or administrative mandates, (3) projects which respond to Mayoral initiatives, and (4) projects in which multiple agencies are collaborating to produce more effective, efficient and responsive programs and services. The instructions should describe the fiscal constraints that will guide the 2006/07 capital budget review. Agencies should be required to give detailed justifications for each request, referencing the city's overall criteria.

- **OPM should provide, to each agency using its services, data on at least all major facilities owned and managed by that agency.** Data should include basic details about the size, condition and use of all such major facilities.
- **The OP should provide each agency likely to submit requests through the capital budget with an overview of all major plans and projects in the city, organized by area of the city.** Each agency requesting capital funds should be required to describe how its project supports and enhances the city's plans for the particular neighborhood where the facility is or will be located. OP should also provide each agency with basic demographic data about the city. In turn, each agency request should be accompanied by a presentation of data about the projected need for the services to be provided at the facility in question.
- **Each agency requesting capital funds should be required to submit a two-year capital budget request, identifying all projects that the agency proposes for FY2006 and the year to follow (FY2007).** As mentioned above, agencies should be required to give detailed justifications for each request, referencing the city's overall criteria and each agency request should be accompanied by a presentation of data about the projected need for the services to be provided at the facility in question. All of these requirements should extend to all agencies, including independent bodies whose capital budgets are approved by the City Council such as DC Public Schools and the Library.

**Timing.** As we noted above, we believe that when the new process is fully up and running, the capital budget decisions should come earlier in the budget process than the operating budget. The Budget Review Team could meet in the fall and finish the capital budget before the principals had to turn their attention to the operating budget in January. This schedule would give the capital budget a more serious, separate focus and would allow debt service and other operating costs of capital budget decisions to be accurately reflected in the operating budget. Once the Ten-year Capital Plan existed, moreover, capital budget decisions should be both better informed and less time-consuming.

With this ultimate schedule in mind, we would suggest that the capital budget covering FYs 2006/07 be on an accelerated time schedule so that the capital budget decisions are made in the fall of calendar 2004 (i.e., the beginning of FY2005). This would allow the technical staff time to start on the first full TCP and for the District to have it ready for the FY2007 budget cycle.

## **TRAINING, STAFFING AND SKILLS**

A major component of the Ten-year Capital Plan will be the human capability to bring it to fruition. Whether the talent must be present within District government from the inception of this effort is not clear. However, the need to focus on the quantity and quality of the human resources is.

We cannot assess the depth or breadth of knowledge and skills resident among District government personnel at the moment. However, embarking on this new approach will provide the opportunity to identify those skills and any shortages. The Office of Property Management has expressed the need for there to be resident staff, particularly in non-capital intensive agencies, which will be familiar with and understand facilities issues at a high enough level to engage with OPM experts. Cross-training might ensure that this function is met in smaller agencies. Further, they have identified a need to train and upgrade their own staff to handle issues, such as zoning, which are new to the District's public facilities planning process.

It may take time to bring all actors up to the same state of readiness. Contractors can supply some of the needed skills if they are adequately supervised by qualified District employees. These skills are well established in the private sector; many cities and states draw on them, largely as construction and facilities managers.