THE WHITE HOUSE PROPOSAL FOR THE DISTRICT OF COLUMBIA

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

AND THE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING AND THE DISTRICT OF COLUMBIA

OF THE

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THE WHITE HOUSE PROPOSAL FOR THE DISTRICT OF COLUMBIA

THURSDAY, MARCH 13, 1997

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA, COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT, JOINT WITH THE U.S. SENATE, SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING AND THE DISTRICT OF COLUMBIA, COMMITTEE ON GOVERNMENTAL AFFAIRS,

Washington, DC.

The subcommittees met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the House Subcommittee on the District of Columbia) and Hon. Sam Brownback (chairman of the Senate Subcommittee on Government Management, Restructuring and the District of Columbia) presiding.

Present from the Subcommittee on the District of Columbia: Representatives Davis, Morella, Horn, and Norton.

Present from the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia: Senators Brownback and Lieberman.

Staff present from the House Subcommittee on the District of Columbia: Ron Hamm, staff director; Howard Denis, counsel; Anne Mack, professional staff member; Ellen Brown, clerk; and Cedric Hendricks, minority professional staff member.

Mr. DAVIS. Good morning. Welcome to this joint information hearing on the Pesident's National Capital Revitalization and Self-Government Improvement Plan.

I am particularly pleased today to share the dais with my good friend and colleague, Senator Brownback, who chairs the Senate Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia. As chairmen of the two authorizing subcommittees, we share legislative jurisdiction for our Nation's Capital.

I am always cognizant, and I know Senator Brownback is as well, that our actions have a direct and immediate impact not only on the District of Columbia, but on the entire Washington metropolitan region. That is why we must continue to exercise our leadership with such special diligence and care. For we have a constitutional oversight for an entire city and its region, not just a department or agency.

Two years ago, the District of Columbia faced a spending and management challenge of epic proportions. We began in this subcommittee a critically important process to address serious issues

in a truly bipartisan manner. I am always happy to reiterate my gratitude to Delegate Eleanor Holmes Norton for working with me in such a constructive way.

Two years ago, we got on the right track. Today, we continue our efforts to get the train moving toward the next stop. With patience and perseverance, the control board we created is having the intended effect. The control board has instilled much needed fiscal discipline into the city's budget process. The city's return to the private financial markets is solid evidence that what Congress did is finally producing credible numbers and better performance.

Without the control board, the President's proposals are unlikely to have been made. I commend President Clinton for stepping up to the plate and for directing his administration to work with Congress as we move into the next phase of our quest to revitalize the Nation's Capital. The President's announcement just 2 days ago adds even greater weight to the momentum which has been established. His proposal for an Economic Development Corp., is a significant addition to our deliberations.

I would also like to commend Speaker Gingrich for the extraordinary leadership, time, and attention he has given the District of Columbia. Clearly, the stars appear to be aligning for a truly historic breakthrough in the relationship between the Nation's Capital and the Federal Government. There is a rare opportunity right now to establish a new relationship, to enhance better delivery of essential local services, and to more substantially involve the private sector. We are all stakeholders in the Nation's Capital.

I know that some have expressed legitimate interest in the creation of a city manager form of government here in the District of Columbia. With the greatest respect, based on my own experience as chairman of the Board of Supervisors in Fairfax County, I am not persuaded that we should be moving in that direction at this time.

I was struck by something that Philadelphia Mayor Ed Rendell shared with us just a couple of days ago. Mayor Rendell, whose city we studied so carefully in setting up the control board 2 years ago, spoke about quality of life issues. He said that these issues, such as education and public safety, are the most important ones to focus on in attempting to reverse a downward trend in a big city and restoring health and optimism. Mayor Rendell helped to turn Philadelphia around. He did it in significant part by working with the local control board. I am optimistic that with the same degree of cooperation and bipartisanship, that we can do the same here in Washington.

And let me invite some of our guests here, if you would like to sit down on the floor in the front, we would be happy to do that as well. We welcome our class here. Just come in and make yourself comfortable. I am pleased to have you here.

Today, we look forward to hearing from many of our leading local officials and learning of their reaction to the President's proposals. I have worked with Mayor Marion Barry and Council Chair Pro Tem Charlene Drew Jarvis for 2 years now and look forward to their input and strong leadership.

It is our bill that created the positions that Dr. Andrew Brimmer and Chief Financial Officer Tony Williams hold today, and I look

forward to working with them further as we continue to address the challenges underlying the District's distress.

I thank all of you for working with us as we proceed to fashion a positive and historic restructuring of the Nation's Capital we all share.

I would like to yield now to my friend, my former House colleague and a member who in the House last year who shared a great interest in what was going on in the District.

I remember many different discussions with him, and I think at that point he never dreamed he would be a U.S. Senator this early, at least, in his career and have the responsibility that he does in the Senate. We are very pleased to welcome Senator Sam Brownback back to the House side. Welcome, Senator.

Senator BROWNBACK. Thanks, Tom. I appreciate that, and it is a pleasure to co-chair this committee hearing, this hearing on the District of Columbia. I am delighted to work with you as we craft together proposals to again return the District of Columbia to a shining city and a Nation's Capital worthy of a great Nation. This is my objective as we hold hearings and as we move forward in the legislation on the Senate side.

I am delighted to have all of our witnesses here today, the Mayor, a number of the council members, control board members. And I am particularly tickled and pleased to have the children here, because, to me, that is all of why we are serving, really, it is for the kids and for their future and making this place a better place for them. I have got three myself. One just turned 9 last week, and I am anxious to get home and see them.

It is going to be a good hearing today on the President's proposals, the first one that he put forward on his plan for revitalizing the District, and the second one that came out the day before yesterday. I am looking forward to the witnesses' comments about those. I am very pleased that the President stepped forward and put forward proposals of how we would revitalize the District of Columbia.

I do not know that I agree with all of them, and I have some problems, as I have expressed already, with those, but it does seem to be, Tom, as you pointed out, we have got a moment here where things seem to be lining up that we can actually do something and do something constructive and something positive for the District of Columbia.

We have an old saying in Kansas that you make hay when the sun is out, meaning that when things line up and are set to do something, you move forward, and I think we have got a chance to move forward in a very positive, very caring, and a very appropriate fashion for the District of Columbia.

I am going to be very interested in the witnesses' perspective regarding the President's proposal, which seems to me to be transferring a number of things that used to be in the Federal Government that went to the District of Columbia back to the Federal Government, and I question whether we have not already been there, done that; but let's see and let's hear what you have to say and whether or not the Federal Government can manage it any better than what the city has managed.

We held a hearing last week on Delegate Eleanor Holmes Norton, tax proposal of a progressive, flat tax, if I could put it that way, and zero capital gains in the District of Columbia. It has broad, wide support as an incentive and a tool to move forward with stimulating growth and economic opportunity in the District of Columbia, and I am going to be asking witnesses whether they think that would be a more valuable tool than an Economic Development Corp., or do they think the Economic Development Corp., model of control and incentivizing is a better way to go.

I hope that in the end we can craft together a set of incentive-based policies that could help in the stimulation of the city to begin again to be Eleanor Holmes Norton's city, because she said this is not her city now. It is not the one she remembers, and it is not the one that is going to be there in the future. It is going to be better, and that is why we want this all. That is what we are all about, to try to get this done.

So, I hope you will critically examine these proposals and say what you really think will work and what you do not think will work as we move forward to craft something together that really can help and make a difference in the District of Columbia. I look forward to working with you. Thank you, Mr. Chairman.

Mr. DAVIS. Senator Brownback, thank you very much. I now would like to recognize our ranking member, the delegate from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. And before I welcome our witnesses, may I welcome elected officials who are here this morning, Council Member Frank Smith, Council Member Jack Evans, and Council Member Carol Schwartz? I will welcome our witnesses shortly.

May I also welcome the third grade class from Bunker Hill Elementary School? I have met with them upstairs, but I thought that they might want to hear just a few minutes of a hearing about their city. I told them to watch out, it is going to get boring real fast, but that they might want to see their elected officials come up.

They have responded to a program that I have initiated called "DC Students at the Capitol," or "DCSC." As a fourth-generation Washingtonian, I cannot remember being brought to the Capitol, but I think there was a reason. We could not even vote for President of the United States. We had no government of our own, and so our wonderful teachers, and they were extraordinary, never brought us here, because this was not our Capitol; this was their Capitol. In essence, we were excluded from the Capitol because we were not represented in the Capitol, and we were not even represented in the city.

Well, we are represented, so to speak, both places now, and I have a program that says that every school child should get to visit the Capitol before graduating from high school, that if they were to visit California or New York, one of the first things they would be asked is, "Tell us about the Capitol," and if they had not even been to the Capitol, they would probably be embarrassed.

So I am particularly pleased to welcome the third grade class from Bunker Hill Elementary School and to thank Ms. Carol King, Ms. Eviva Boyd, and Ms. Sohanna Smith and the other parents and teachers for bringing these bright youngsters here today.

I certainly want to thank Chairman Tom Davis and Chairman Sam Brownback for convening this hearing. I appreciate that you are working together to try to keep the several parts of the President's bill from spinning off to so many committees and subcommittees that the bill may never be seen again.

I hope that you succeed. Without the centralizing mechanism that Chairman Tom Davis used for the Financial Authority bill and that your committees provide, it will be difficult to pass any bill this session.

I also want to welcome Mayor Barry, Council Chair Pro Tem Jarvis, Financial Authority Chair Brimmer, and Chief Financial Officer Williams, who will be testifying on the President's plan today. I want to thank city officials and Authority members for their hard work over the past months.

We all know that the city has not revived as much or as quickly as city officials and the Authority desire. Part of the reason is that the District has had to carry the burden of recovery alone, without assistance from the only sources that can help the city: the Congress and the Federal Government. The Congress has given no assistance of the kind that Philadelphia, New York, and Cleveland received at the time that their States imposed tough discipline.

The Congress has been all sticks and no carrots, even with the presence of the strongest control board in the country and one that has shown that it knows how to see that carrots are not wasted. The sole contribution of the Congress, enacting the Financial Authority legislation, was necessary but hardly sufficient to ensure recovery.

Recently, however, the President has put forward a plan to assume the cost of congressionally accumulated pension liability and the cost of some, but not all, State functions. District officials and the Financial Authority have responded with helpful suggestions and criticisms that the Congress needs to hear, even recognizing the difficulty of enacting spending bills this year.

At the same time, the President, in designing his plan, has listened very closely to District officials and the Financial Authority. City officials and the Authority have emphasized the cost of pensions and Medicaid, and the President's plan responds directly. He also has included some other State costs that were not anticipated. What was most unanticipated and most troublesome, however, was the elimination of the Federal payment, on the theory that the District would come out ahead.

While appreciating that this tradeoff was meant to help meet the requirement that the bill be paid for, the elimination of the Federal payment raises questions of both cash-flow and collateral that I hope we will hear discussed in detail today by our witnesses.

Our disagreements notwithstanding, the administration deserves credit for being innovative and flexible. I appreciate the responsiveness and give-and-take of Attorney General Reno, Treasury Secretary Rubin, and OMB Director Raines, in particular. Where disagreements have arisen, they have shown a willingness to work with us to resolve them. I believe that this bodes well for achieving a bill acceptable to all concerned.

An example of the problem-solving approach we are using is apparent in the work that has already begun to bear fruit on the

original proposal in the President's plan to impose the irrationally harsh Federal sentencing guidelines that even the Federal Sentencing Commission has said should be changed. We now have agreed that, instead, the District will draw its own sentencing guidelines.

Although considerable work has yet to be done on the criminal justice section, my own meetings with the Attorney General and with U.S. Attorney Holder lead me to believe that matters of concern can be resolved. We especially need the best thinking of the Mayor and the city council on the criminal justice provisions.

Finally, let me thank Chairman Brownback for initiating a hearing on my bill, the District of Columbia Economic Recovery Act, last week and Chairman Davis for holding a similar hearing during the 104th Congress.

This week, the President filled in some of the details in his own previously announced empowerment zone approach to economic development assistance. I welcome the President's thoughtful work. I remain appreciative of the bipartisan support my bill has received, especially from the leadership of the House and Senate. I will work to see that the best ideas from both proposals are on the table as we work here to design a suitable bill that all can support.

I look forward to the testimony of the city and the Authority today as we continue our vital work on the President's plan. Thank you very much, Mr. Chairman.

Mr. DAVIS. Ms. Norton, thank you very much. Let me recognize Representative Horn who is member of this subcommittee, and ask if he has a statement? I know he has to go somewhere else, and he has a staff here to monitor the hearing.

Mr. HORN. Thank you, Mr. Chairman. I am delighted you called this hearing. I have to leave for a hearing two buildings away, where my principal witness is the Honorable Rudolph Guliani, mayor of the city of New York, so this is the day to hear about local problems.

But what we are doing in that hearing is what my Subcommittee on Government Management, Information, and Technology has stressed for 2 years, which is results-oriented government. We only have one State in the United States where we have that: Oregon. There are only two countries in the world that are leaders in this area: New Zealand and Australia.

As we try to make the Nation's Capital a model city, we should be thinking about results-oriented government, not just adding to budgets because somebody said, "Gee, if you give us more money, we will solve the problem." We have to have the solutions to solve the problem.

My initial inclination is to support the President's plan. I want to hear testimony on it, but the District of Columbia needs to be innovative in terms of tax policies which will attract people back to the District of Columbia and the businesses and the services that we need in this city. Those of us on Capitol Hill go 14 blocks to find a chain grocery store, and that is true all over the city, for the average citizen.

And I think we also have to break the cycle of bad education in our schools and turn that around. We cannot afford to see thousands of young African-Americans getting out of a school system

where they cannot read; and if we do not face up to that, shame on us.

Now, Mr. Chairman, I thank you for letting me say those words, and I have to leave to open my own hearing. Thank you.

Mr. DAVIS. Thank you very much, Mr. Horn. I now recognize the ranking minority member on the Senate side, Senator Lieberman. No stranger to this committee. He came here, Ms. Norton, last year on behalf of your tax proposal. He has been a strong advocate for the city.

Senator LIEBERMAN. Thank you, Mr. Chairman. I am glad to be back. Let me begin by congratulating you and my chairman, Mr. Brownback, for helping to return to the top of Congress's agenda this year both the problems of the District of Columbia and what we can and must do to help solve them. I am also pleased to join in welcoming Mayor Barry and Chairwoman Jarvis and Chairman Brimmer and Chief Financial Officer Williams.

I have some residual—I do not want to say "paternal," to make myself older—interest in the career of Anthony Williams, because I knew him when he was a callow youth at college in my home town of New Haven, CT. I do not know whether I am going to hurt his credibility here, but he then went on to be a highly successful member of the New Haven board of aldermen and then deputy comptroller of the State of Connecticut before he came to Washington, so I have a high regard for his ability, and it is a pleasure to have the opportunity to work with him again.

Mr. Chairman, I have, as you indicated in your remarks, joined Delegate Norton now for the second consecutive Congress and am proud to do so in offering what we think is one innovative and very comprehensive response to the District's financial crisis, which is to say tax relief that we are confident would not only bring more business investment to the District and create more jobs, but uniquely would create a powerful tax incentive to bring people back to the District, to stop the flow of population outward in which people are essentially speaking with their feet about the problems and tax burdens of the District.

The President's plan that we are going to be discussing today, I believe, offers a good complement to Delegate Norton's proposal by addressing some of the structural and management problems now facing the District. Alone among cities in our Nation, the District of Columbia has had to assume and administer functions that elsewhere are borne largely by State governments. That is a fundamental reality, and it is fundamentally unfair.

At the same time, and also alone among our Nation's cities, the large Federal presence and the fact that the District cannot collect a commuter tax has left its government unable to provide adequately for the functions it must perform. These very important, inherent structural deficiencies have been compounded over the years by mismanagement of many aspects of the District's government, mismanagement that I think we in Congress must acknowledge has been made more likely by the lack of District autonomy over and responsibility for many aspects of its own governance.

By proposing to have the Federal Government assume responsibility for many traditional State functions and invest the District with greater responsibility for those functions that the District will

retain, I think the administration's plan will go a long way toward remedying the problems of our great Nation's Capital—our great Nation's great Capital, I would say.

The administration plan, as has been indicated, is not perfect, and I have some of my own ideas about things we might want to do to make it better. But it is a strong start, and, most importantly, I am glad—in fact, proud—to say that we finally seem to have agreement that are Nation's Capital should be our Nation's priority. Even better, I might add, our Nation's bipartisan priority, and that is witnessed by the leadership and interest in both Houses of Congress and both parties. It gives us some pause for hope that we actually will take some critical steps in this session to make the District's situation better.

I look forward to hearing today the reactions to the President's plan from some of the people who are in the best position to know about what faces the District, which is to say those blessed men and women who must deal with the District's problems everyday. Thank you, Mr. Chairman.

[The prepared statement of Hon. Joseph Lieberman follows:]

OPENING STATEMENT OF SENATOR JOSEPH I. LIEBERMAN
The Subcommittee on Oversight of Government Management, Restructuring & the District of Columbia
Joint House-Senate Hearing The White House Proposal for DC -- DC City Government's Perspective
March 12, 1997 at 10:00 a.m.

Thank you Mr. Chairman. I am once again pleased to be participating in a hearing on how we in Congress can help alleviate the tremendous problems facing our nation's Capitol. Let me once again congratulate both Chairman Brownbeck and Chairman Davis for helping to return to the top of Congress agenda ~~the front burner~~ both the problems of the District and what we can do -- and need to do -- to solve them.

~~As you all know,~~ I have joined Delegate Norton in offering one solution to the District's financial crisis: tax relief that we hope will bring more business investment to the District and keep the District's ever diminishing tax base right here, but also -- to bring people back. The President's plan that we will be discussing today, I believe, offers a good complement to our proposal, by addressing the structural and management problems now facing the District. Alone among cities in our nation, the District has had to assume and administer functions that elsewhere are borne largely by State governments. At the same time, and also alone among our nation's cities, the large federal presence and the fact that the District cannot collect a commuter tax has left ~~the District~~ it so unable to provide adequately for the functions it must perform. These inherent structural deficiencies, ~~I think all here would admit,~~ have been compounded over the years by unfortunate ~~and, I have to say, inexcusable~~

mismanagement of many aspects of the District's government -- mismanagement that I think ~~all of us in Congress must acknowledge~~ has been ~~encouraged~~ made more likely by the lack of District autonomy over and responsibility for many aspects of its governance. By proposing to have the Federal government assume responsibility for many traditional State functions *and* invest the District with greater responsibility for those functions the District will retain, I think the Administration's plan would go a long way toward remedying the District's problems.

That plan~~, I think,~~ is not perfect, and I have some of my own ideas about things we might want to do to make it better. But it is a really good start, and, most importantly, I am glad -- in fact proud -- that we finally seem to have agreement that our nation's capitol should be our nation's priority. I look forward to hearing today the reactions to ~~that~~ the plan from some of the people who are in ~~perhaps~~ the best position to know about what faces the District -- officials who have to deal with the District's problems on a day to day basis.

Mr. DAVIS. Thank you very much. Now, I would like to recognize the vice chairman of my committee, the gentlelady from Montgomery County, MD, Mrs. Morella.

Mrs. MORELLA. Thank you. Thank you, Chairman Davis. Chairman Davis and Chairman Brownback—Senator Chairman Brownback, good to have you back over here working with us, and it is always good to have Senator Lieberman over on this side—I want to thank you for holding this important hearing.

Since one of the goals of the White House proposal is to improve prospects for Home Rule to succeed, I quote, it is essential that we take into consideration the views of our local officials. Mayor Barry, Chairwoman Jarvis, Chairman Brimmer, Mr. Williams, I welcome your participation in this hearing. I want to also acknowledge Councilwoman Schwartz, who is here, and Frank Smith, Jack Evans. Thank you all for being here.

Certainly, I plan to be listening very intently to your analysis of the President's plan. You are the defenders of Home Rule. You are the advocates of a better quality of life for the 500,000-plus citizens who live in the District of Columbia and the children who are here assembled.

There are many critics who blame the District government for the city's financial crisis. There are District supporters, however, who place much of the blame for the city's problems on Congress. These same District advocates accuse Federal lawmakers of meddling too much in local affairs, ranging from taxicab rates to the death penalty.

The President's plan would increase the role of the Federal Government in the District's business. It would eliminate the Federal payment meant to compensate the District for lost revenue. Instead of the Federal payment, the Federal Government would relieve the District of certain expenses, among them the growing unfunded pension liability, which was incurred by the Federal Government for District employees that were part of the Federal work force before Home Rule.

The Federal Government also would assume a larger share of the Medicaid costs and take over the operation of the prison system. According to a Brookings Institution study called "The Orphaned Capital," the District assumes responsibilities which in all other jurisdictions are handled by the State. These responsibilities include Medicaid payments, mental health facilities, infrastructure, prison systems, and higher education.

The President's plan would allow the Federal Government to fund the District government much in the same way that State governments support their cities. There is little doubt that our discussions must reflect the uniqueness of the District and that the relationship between the District and the Federal Government must be reshaped and redefined.

Does the form of government make a difference in the District? I believe it does. Congress passed the Home Rule Act in 1973 because citizens fought for the right to participate in government, but I believe that District residents must be better educated about home rule and how to govern their city.

Every day in the local newspapers we all read stories about mismanagement in the District government. Yesterday, there was a

story about overpayments to an HMO that had a contract with the city. The Duke Ellington School was closed because of fire hazards, and students had to be temporarily relocated.

This morning, there was an article about the poor condition of the school buses. A little boy with cerebral palsy has to ride several hours on a rickety bus to his school, which is just a few blocks from his home. The city has hired temporary bus drivers who get paid much more than full-time District employees.

And I recall the American Psychological Association's Commission on Youth and Children a few years ago studied first- and second-graders, 6- and 7-year-olds in the District of Columbia, and discovered 45 percent of them had seen somebody mugged, 31 percent had seen someone shot, and 39 percent had seen dead bodies. Some city children play a game called "Funeral," where they pick out the color of their caskets, the colors of their clothes, and the names of those to be invited to the service.

What have we done to our children? We must do better. I look forward to hearing from our distinguished panel today to gain insights into a brighter future for our Nation's Capital. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you. Thank you very much. I think we have concluded our opening statements.

I now would like to welcome our first panel, and this will consist of the Mayor of the District of Columbia, Marion Barry, and the Council Chair Pro Tem, Charlene Drew Jarvis.

If you would please come forward. You have both testified here many times. I thank you for joining us again. Ms. Jarvis, I believe this is the first time you will be testifying before us in your present capacity.

We are all saddened by council chairman Dave Clarke's illness. We wish him and his family God speed, and our hopes and prayers are with him and his family.

The city is, indeed, fortunate to have someone of your experience and dedication, to step up to the plate at this particular time.

As you know, it is the policy of the committee that witnesses be sworn in before they may testify. Would you rise with me and raise your right hand.

[Witnesses sworn.]

Mr. DAVIS. Thank you. You may be seated. The subcommittee will carefully review any written statements you care to submit. I will first start with Mayor Barry and ask him for his statement and then Councilwoman Jarvis.

STATEMENTS OF MARION BARRY, JR., MAYOR, WASHINGTON, DC; AND CHARLENE DREW JARVIS, CHAIRWOMAN, PRO TEMPORE, WASHINGTON, DC CITY COUNCIL

Mr. BARRY. Good morning, Senator Brownback, Congressman Davis, Morella, and Norton, and other members of the subcommittee. I am pleased to appear before you today at this joint hearing on President Clinton's National Capital Revitalization and Self-Government Improvement Plan for the District of Columbia. I am also delighted to see these young people here who attend one of our public schools. They are very bright-eyed and energetic and eager to learn. I just hope that our system reforms itself to the point

where that eagerness and that bright-eyedness and that energy remains with you until you graduate. So I am glad that you all are here from one of our fine public schools.

Mr. Chairman and members of the committee, my statement is going to be rather extensive, because this is a very serious matter, and I want to take the time to put all of this in the proper context.

The White House proposal comes as the weather gets very pleasant here in Washington, and I hope that the long and hard winter of our experience is facing a new spring. For me, Mr. Chairman, this spring did not just start this year.

Let me also say, Mr. Chairman, you hear complaints, and some of them rightly so and some of them not so, about the social conditions which exist here in Washington, DC, and the environment of violence and killings and other kind of things.

This is no different than the environment of New York City or Richmond or Baltimore or Los Angeles or Chicago. That does not mean we like this environment, but this type of environment where you have too many murders on our streets, too many kids not being educated, too many negative things happening to the lives of our citizens is something that is prevalent in all of our urban areas, so we should not just make it appear that these horrible conditions are just here in the District of Columbia.

We want to do all we can to change the social conditions, to change the causes of poverty, to change the violent nature of some of our people, and to improve the quality of life for everyone who lives here and who visits here.

Let me also put why we are here in context. I took office on January 2, 1995, and I was confronted with a major deficit of disproportionate size. After balancing our budget for 11 of the previous 14 years, the District government overspent its 1994 budget by $335 million, an unacceptable and disgraceful performance. On the other hand, when we examine the nature of that deficit, a lot of it had to do with these State functions.

The Medicaid budget was growing by 10 and 15 percent while the revenues were growing by 2 or 3 percent. The pension payments were growing by 3 and 4 and 5 percent. The prison population was growing by 4 and 5 percent.

In taking office after discovering this deficit, we made it public. We did not run from it. We, in fact, indicated a $722 million shortfall, and in the remaining months of 1995, we moved to avert this calamity. And I am putting this in the context of the State functions in this hearing because there are too many simplistic statements made, too many frivolous statements made about what the District has done, is doing, and will do.

The record shows that in 1995, the actual spending was reduced from 1994 by $151 million. That is quite an achievement in 1995, to spend less money than you did in 1994. If you look at every State government, the Federal Government, you will not find anyplace where the State governments or the Federal Government in a year afterward spent less money than in the year before. And so this is a feat of historical proportions, this event.

The sins of the prior administration precipitated, as we know, this control board. If we had not had this deficit and could not go

to the bond market, we would not have had a control board, would not be sitting here talking about a control board.

If the naysayers and finger pointers who use the District as a convenient door mat for the next sound bite would simply examine the record, they would know that we have been the leadership for trying to transform this government. This mayor presented a well-thought-out transformation strategy that would form the basis for the governmentwide restructuring that is occurring as we speak.

The constant comment from our arm-chair quarterbacks demeans and misconstrues our work. It is ridiculous, and it is harmful, and ought to stop.

We have made great strides and great progress in reducing the size of the government. Just look at the facts. The fiscal year 1995 budget reflected 47,000 FTEs in the city, county, and State functions, and the 1997 allocation stands at 36,000, Mr. Chairman and members of the committee, a decrease of 10,000 position and people since 1995. No other city, no other State in America can say that that has happened.

In New York City, they did not lay off anybody. Over a 4-year period, they reduced their budget and their work force by 15 percent. Philadelphia did not lay off anyone and has not reduced its work force by any significant amount.

And I am saying that we have taken the tough decisions. We have made it possible for us to reduce the size of government. In fact, as of February 26 of this year, we were down to 33,000 people, almost 12, 13,000 in less than a year and a half.

Also, there have been a lot of discussions about we are not privatizing, we are not outsourcing, we are not being creative as they have been in other cities. That is not the case. We have done more outsourcing, more privatization than any other city in America. If you look at Indianapolis, you look at New York, you look at Philadelphia, you look at Los Angeles, you look at Detroit, you will not find the amount of public/private partnership that we have established here in Washington.

And my statement goes through a whole range of those privatizations, from the privatization of the correctional treatment facility in Southeast Washington to the fine, police clinic. We have closed DC Village and placed residents in other places.

Check the record. We have done all this during this last 2 years.

The Barry administration has established a package of comprehensive health services. Again, we have done something that has not been done in any other State in the last 14 years: created a Department of Health to better focus and administer services to our public.

We reduced Medicaid, Mr. Chairman, by $80 million. In 1 year, we have cut the Medicaid cost without reducing the quality of services, but by tightening up our system, by $80 million. No other State in America has done that. No other city that has Medicaid functions has done that. We have saved DC General.

And we could go on and on about the kinds of things that have happened that demonstrate that this Mayor and this administration and this city council have made very tough and painful decisions.

I would like to enter into the record the 2-year budget analysis of the Department of Human Services and urge you all to read it, because it shows the pain and suffering that our people have suffered in the last year and a half because of the tough, yet compassionate, decisions that this Mayor has made.

Mr. DAVIS. Without objection, that will be entered into the record.

[The information referred to follows:]

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES

Two Year Budget Analysis of the Department of Human Services

From FY 1995 - FY 1997

WAYNE D. CASEY
INTERIM DIRECTOR

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES

Two Year Budget Analysis of the Department of Human Services
From FY 1995 - FY 1997

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INTRODUCTION

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES

Impact of Budget and FT Reductions on DHS Programs
From FY 1995 - FY 1997

I. INTRODUCTION

The challenge to reconstruct service delivery responsibilities of the Department of Human Services while simultaneously absorbing cuts and FT losses has been a painful and chaotic process. While positive changes are taking place on an isolated basis, system change and department-wide transformation to a truly performance-based organization is sporadic. True transformation is too often sabotaged by decisions forced by inappropriate and counter-productive funding cuts.

The view that DHS is a $1.5 billion annual cash flow capable of easy manipulation without regard to existing law, and able to finance all the savings desired by the Financial Authority is a false and dangerous view. This view is allowed to survive because of the early decision to work from "gross" budget figures, merging federal program dollars with appropriated dollars. It is a view that is easy to maintain in a climate which ranks social services at the lowest priority of government action. Making decisions on that basis will forever delay true reform. The day of better and broader service in the preventative phases of health and human services -- achieving savings in both money and human suffering -- is still very far away. It can only happen sooner through prudent planning, leadership development, technological innovation, workforce training, procurement reform, and sensible fiscal planning.

The documentation I present here demonstrates four truths which must replace the myths about DHS.

The first truth is that the $19.5 million savings demand must come from less than $142 million in the current budget. When you remove from the gross budget the untouchable items: Medicaid ($780 million), court orders ($467 million), federally funded programs and required D.C. matching funds ($149 million), revenue producing programs, and locally mandated funds, we are left with less than $142 million in which to find the cuts. Taking nearly $20 million from here -- after cuts of more than $122,816 million and FT losses of 1,871 in the past 24 months -- is very near suicidal for these commitments.

The second truth is that the personnel cuts and retirements at DHS (2000 in the past 30 months) have left critical vacancies, too many "battlefield" promotions to supervisors (without appropriate training), and inability to perform suitable leadership and workforce

training throughout the department. The most critical vacancies have been in support areas, such as contracting, procurement, and personnel functions. These are the very functions which must be the cutting edge for transformation, systemic change, privatization, and technological upgrading.

The third truth is that past and present cuts have already decimated the working environment and precluded the normal channels for system change. It has been years since budget items for regular maintenance, capital improvements, or workforce training have been allowed to survive the budget process. As a result, facilities are in disrepair, heating and air-conditioning systems are broken, computers are obsolete and copy machines are inoperative. In addition, workers are not trained in new technology. While efforts are underway to ameliorate some of these problems through the transformation process, full implementation is indefinite given the extent of budget reductions.

The fourth truth is that the 3,000 remaining DHS workers are largely deeply motivated public servants who work beyond the call of duty or time clock to help plan for a new day in human services. They daily improvise to achieve small victories in peoples' lives. They know that their passion for human services is poorly valued by the present political climate. But they also know that what they do saves society money, pain, and future suffering.

I have stated these truths before. But we have not been as persistent as we could have been in providing the documentation which supports these truths. This report hopes to correct this problem. The numbers speak for themselves. Let them speak to all decision makers. Let them speak to the citizens of the District.

There is a way to transform DHS and achieve a smaller, more efficient, more consumer-driven government. Let us look at the facts and, together, find that way.

DEPARTMENT OF HUMAN SERVICES

	FY 1995		FY 1996		FY1997	
BUDGET	POSITIONS	BUDGET	POSITIONS	BUDGET	POSITIONS	BUDGET
APPROPRIATED	4,628	789,219	3528	882,350	3432	825,953
NONAPPROPRIATED	3,130	661,290	2634	705,386	2455	712,247
	7,758	1,450,509	6,162	1,667,736	5,887	1,538,200
MEDICAID	55	687,154	55	775,635	55	780,196
COURT ORDERS	4,159	475,500	3,039	482,384	1,576	466,621
BALANCE (NON-COURT ORDERED FUNCTIONS/ LEGISLATIVE FUNCTIONS)	3,134	187,654	2,488	309,737	2,246	291,333

FY 1997

NON COURT ORDERED FUNCTIONS (INCLUDING LEGISLATED AND STATE FUNCTIONS)	APPR POSITIONS	NON-APPR POSITIONS	TOTAL	APPR BUDGET	NON-APPR BUDGET	TOTAL
MANAGEMENT SUPPORT SERVICES	73	342	415	15,393	20,679	36,072
COMMISSION ON SOCIAL SERVICES						
CS-OFFICE OF THE COMMISSIONER	8	40	48	4,085	7,995	12,080
DC-CHILD DAY CARE SERVICES	5	8	13	19,052	7,255	26,307
FS-FAMILY SERVICES-LESS REC.	14	42	56	3,507	5,430	8,937
SHELTER PROGRAM	0	0	0	9,563	0	9,563
GENERAL PUBLIC ASSISTANCE	0	0	0	5,294	1,500	6,794
INCOME MAINTENANCE ADMIN	45	132	177	6,658	10,738	17,396
CHILD SUPPORT PROGRAM	0	37	37	2,339	16,651	18,990
REHABILITATION SERVICES ADMINISTRATION	1	233	234	6,702	13,822	20,524
TOTAL CSS	73	492	565	57,200	63,391	120,591
COMMISSION ON PUBLIC HEALTH						
COMMISSIONER ON PUBLIC HEALTH	49	151	200	8,292	19,886	28,178
ALCOHOL & DRUG ABUSE SERVICES	100	67	167	21,307	7,698	29,005
AMBULATORY HEALTH CARE	21	51	72	1,850	785	2,635
AGENCY FOR HIV AIDS	8	94	102	6,423	22,215	28,638
LONG TERM CARE ADMIN	19	18	37	3,707	3,011	6,718
PREVENTIVE HEALTH SERVICES	25	97	122	4,682	6,367	11,049
TOTAL CPH	222	478	700	46,261	59,962	106,223
COMMISSION ON MENTAL HEALTH SERVICES						
CHILD AND YOUTH SERVICES ADMIN.	230	29	259	12,997	0	12,997
FORENSIC SERVICES ADMINISTRATION	207	100	307	10,068	5,382	15,450
TOTAL CMH	437	129	566	23,065	5,382	28,447
TOTAL AGENCY	805	1,441	2,246	141,919	149,414	291,333

*INCLUDES AGENCY WIDE APPORTIONMENT FOR OBJECT CLASS 30 EXPENDITURES

CONSOLIDATED AGENCY REDUCTIONS FY 1995-FY 1997

II. CONSOLIDATED AGENCY REDUCTIONS

As a result of Budget and 3,402 FT reductions since FY 1995 to the present, the following programs have been eliminated:

MANAGEMENT SUPPORT SERVICES

- Partners in Education program of the Office of Post Secondary Education, Research and Assistance
- Office of Public Information

COMMISSION ON SOCIAL SERVICES

- Cash Payments to First Time Pregnant Women in First and Second Trimester
- Payments for Persons Between the age of 18 and 21 years who are in school
- Payments for persons on strike due to labor disputes
- Emergency Assistance Program
- MRDDA Program Monitoring and Evaluation Unit
- Chore aid program for 855 elderly citizens
- Burial Assistance program

COMMISSION OF PUBLIC HEALTH

- Closed the Regency Health Care Clinic
- Closed the Garfield Health Care Clinic
- Closed the Arthur Capper Health Care Clinic
- Closed the R Street Health Care Clinic
- Closed the 85 bed, 28-day treatment program at Karrick Hall (substance abuse slots)
- Closed Ward 8 Outpatient Program (240 substance abuse slots)
- Closed Ward 8 Hispanic Outpatient Program (280 substance abuse slots)

- Closed Ward 8 Aftercare Program (200 slots)
- Terminated residential treatment programs with a total of 179 treatment slots; RAP, Inc. (50 slots), CADAC (66 slots) and Second Genesis (63 slots)
- Closed House of Ruth 16 bed Program for Pregnant Women
- Closed the Mass Methadone Program 360 slot treatment center
- Closed methadone clinic (SHACK) with loss of 250 treatment slots
- Closed ADAPT Program with 200 slots; closed Marshall Heights Treatment Center
- Closed the Marshall Heights Outpatient Program with 80 slots
- Eliminated 27 contract residential treatment beds
- Reduction-In-Force of 500 Personal Care Aides
- Closed D.C. Village May 31, 1996
- Eliminated Breast and Cervical Cancer Program which served 200 women annually
- Closed the Northwest STD Clinic

BUDGET AND FTE REDUCTION IMPACT FY 1995-FY 1997

III. BUDGET AND FT REDUCTION IMPACT

A. Between FY 1995 and FY 1997, a total of 1,199 appropriated FTEs were lost to budget reductions; 1,264 FTEs were also lost to Easy Out, Early Out and Voluntary Severance; and 939 FTEs were lost to the FY 1996 Reduction in Force. A breakout of these reductions are as follows:

FT Losses Due to Budget Reductions

Management Support Services		
TOTAL MSS	-	**39**
Commission on Social Services		
Office of the Commissioner	-	7
Day Care	-	7
Family Services	-	54
Income Maintenance	-	127
MRDDA	-	53
Rehabilitation Services	-	1
Youth Services	-	97
TOTAL CSS	-	**346**
Commission of Public Health		
Office of the Commissioner	-	61
APRA	-	45
Ambulatory Health	-	262
Long Term Care	-	19
Preventive Health	-	37
TOTAL CPH	-	**424**
Commission on Mental Health Services		
Office of the Commissioner	-	35
Deputy for Administration	-	146
Adult Services	-	162
Child and Youth Services	-	15
Forensic Services	-	29
TOTAL CMHS	-	**387**
TOTAL AGENCY	-	**1,196**

FT Losses Due to Easy Out and Early Out and Voluntary Severance

CALENDAR YEAR - 1994
Easy Out - 326
Early Out - 308
Voluntary Severance - 46
TOTAL YEAR - 680

CALENDAR YEAR - 1995
Easy Out - 178
Early Out - 301
Voluntary Severance - 71
TOTAL YEAR - 550

CALENDAR YEAR - 1996
Easy Out - 4
Early Out - 29
Voluntary Severance - 1
TOTAL YEAR - 34

GRAND TOTAL - 1,264

FT Losses Due to FY 1996 Reduction in Force

Management Support Services (Including Contracting Officers)	-	25
Commission on Social Services - Teachers	-	31
Commission of Public Health - DC Village	-	364
Commission of Public Health - PCAs	-	517
Commission on Mental Health Services (Contracting Officers)	-	2
TOTAL AGENCY	-	**939**

B. DHS has sustained the following impact as a result of budget and FT reductions since FY 1995:

Management Support Services

1. Down from 5 to a one man plumbing section to maintain and repair all 310 DHS facilities;

2. Down from 3 to a one man electrical section to support 310 facilities, has a current backlog of approximately 125 requests;

3. Down from 15 to one grounds and maintenance worker for all 310 facilities (this staff had also been utilized on small moves of staff to various locations);

4. Reduced ability in collecting defaulted student loans in FY 1995 from $470,737 to $170, 344 in FY 96 because of loss of staff;

5. Unable to Intra District $214,000 to the Fraud Unit at Corporation Counsel. As such, inability to meet federal mandated requirement for fraud investigations and quality control assurance for TANF, Food Stamps and Medicaid;

6. Civil Rights compliance and reconcilement of ATP cards cannot be done;

7. Reduction of 9 positions in the OGC has eroded the capacity of the OGC to be timely, complete and efficient in providing legal and legislative services to program administrators; and litigation support for the Office of Corporation Counsel;

8. Loss of 24 positions in the Office of Information Systems (14 Computer Specialists and 10 Computer Operators) has resulted in limiting the computer application for the following programs: AFDC, GPA, Food Stamps, Medicaid, EAS, Day Care/Foster Care Vital, Statistics; and the Feeling, Motley, and Jones Court Orders. This increases processing time for data entry and mandatory reporting.

Commission on Social Services

1. Mental Retardation/Developmental Disabilities Administration

   - Monitoring has been reduced by 90% for 1600 customers.
   - Reduction in capacity to develop customer placements by 75%.
   - Reduction in ability to provide clerical services due to a lost of 12 contract clerical support personnel and 6 professional staff, including an ability to process and monitor IHP's assessment and treatment within 30 days of due date. As a result we are 60 to 90 days late in consummating IHP's.

- Prioritized clients to target more intensive services to those with greatest need due to loss of 21 day and residential staff.

- Responses to emergencies have been reduced by 40% resulting in the prioritization of emergencies based on their critical nature.

2. Family Services Administration

- Eleven position losses resulted in increased caseloads in Adult Protective Services and In-Home Support Services by 20%; capacity to monitor contracts was reduced and is now the responsibility of one person.

- Loss of two accounting technicians resulted in 2 weeks delays in production and processing of payroll for traditional chore aids and related payroll taxes.

- For eight months the In-Home Support Services intake was closed in FY 95 and FY 96 in order to live within budget but which also prohibited serving new clients. A waiting list of over 70 resulted.

- The cap was imposed on homemaker (6 hours) and Chore Aide clients (4 hours). This resulted in lay-off of 58 traditional Chore Aides, most of whom are District residents and 250 contracted chore aides.

- The Social Services Division Chief position and supporting staff were eliminated and their duties were collapsed to the branch level.

- Five days delay has occurred in responding to sensitive correspondence due to lack of clerical staff who also have to provide coverage for the switchboard.

- The accretion of duties and shortage of staff in APS Intake necessitated the elimination of a second on duty shift (evenings) and change over to an "on call" system for taking reports of neglect, abuse and exploitation during evenings, weekends and holidays. This change has brought complaints about delays in response to emergency calls primarily deferring such to the next business day. Any further reductions in the Adult Protective Services program will necessitate a revision in D. C. Law 5-156 which mandates 24 hours capability to respond.

3. Rehabilitation Services Administration

- The loss of 20 vocational rehabilitation counselor positions has resulted in an increase in counselor caseloads. The average case load is 130 and the national average is 95 to 100. The lack of 10 clerical support has contributed to a delay of 20 to 30 days in preparation and submission of reports.

- The one million dollar reduction in FY' 95 reduced the level of services to persons with disabilities through reduction in contractual services for job training, transportation, psychological and medical consultants, etc., and impacted 250 customers.

4. Youth Services Administration

- A severe loss of 4 case managers, 38 correctional officers and 4 administrative support have impacted the caseworker to client ratios; reduced effectiveness of monitoring and movement of youth from the institution to the community. Overtime rose as a result of these staff losses by approximately 3%. Overtime was used to cover post; transport youth and to staff the Detention overnight facility on the 2nd and 3rd shifts.

- Maintenance and administrative support positions (16) including painters, cooks, clerical, etc. are adversely impacted. None of these positions have been backfilled putting pressure on remaining staff to produce labor intensive duties such as the extensive reporting that must go to the court, medical reports and the social reports that follow the youth.

- Losses of 20 additional correctional officers in FY 96 and the inability to rapidly backfill causes YSA to violate court ordered staff to resident ratios of 1:10.

5. Office of Early Childhood Development

- Loss of 2 temporary clerical and 3 accounting technicians has left Child Care unable to process its approximately 2 million dollar monthly payroll without overtime and the loan of a staff person from the Central Budget Office.

- The loss of approximately 7 million program dollars has resulted in the program having to reduce approximately 1451 children that

effect a 12% contract reduction of children served; has occasioned the need to consider proposing legislation to reorder the priorities of citizens served (such as 800 children of families known to Child Welfare; 200 handicapped children). Most serious impact is that the current Child Care budget will not allow the program to meet expanded child care placement demands for an additional 4500 children of families participating in welfare reform.

- The capacity to monitor has been reduced from 5 program monitors, one eligibility monitor and 1 monitoring supervisor and 2 clerical in FY 95 for 500 providers to 3 program monitors; a ½ time eligibility monitor and no supervisor and clerical support for 962 providers. The increase in providers resulted from consolidation of Transitional Child Care and ARC placement with the Child Care Subsidy Program.

- Due to the increased workload of monitors there has been a delay of at least 6 months in the review of new providers for placement opportunities.

6. Office of Paternity and Child Support Enforcement

- The lost of 100 positions pending privatization has impacted the ability to backfill leadership positions, promote persons acting as supervisors and manage the program efficiently.

7. Income Maintenance Administration

- The 230 positions lost in the Bureau of Program Operations, which is responsible for court ordered compliance and direct services delivery has resulted in a client to worker ratio of 1:580 cases.

- Program reductions have resulted in loss of opportunities for older dependents to remain in school; increased risk of infant mortality as a result of elimination of benefits in the first and second trimester of pregnancy; reduced cash assistance to needy families which has a resulting impact on merchants in the neighborhoods; greater stress on families who are in need of burial assistance for the un-insured; the loss of the safety-net for working poor who are faced with eviction and homelessness as a result of the loss of the Emergency Assistance Program.

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Commission of Public Health

1. Ambulatory Health Care Administration

   - Neighborhood health clinics were reduced from 15 to 11
   - Transfer of the operation of the neighborhood health clinics to the DCGH/PBC, inclusive of medical, dental, laboratory services and services for children with special needs

2. Addiction Prevention and Recovery Administration

   - Reduced residential stay from a maximum of 12 months to four months for all contracted residential treatment programs
   - Reduced contracted residential programs by 15%

3. Long Term Care Administration

   - The authorized FT ceiling for LTCA was reduced from 39 employees to 19 employees
   - Redirection of $5,000,000 in appropriated funds to the Commission on Health Care Finance to support the J.B. Johnson Nursing Home contract
   - Personal care aide program was transferred to CHCF in FY 1996
   - In FY 1997, the Home Care Services Program will be abolished eliminating 24 FTEs and $700,000 appropriated funds
   - The LTCA control center will be reorganized in the new Department of Health; remaining staff will be reassigned to other DOH components

4. Preventive Health Care Services Administration

   - Reduction of 300 children immunized
   - Tuberculosis Control Program operations curtailed with no provision for vehicles and inability to conduct follow-up contacts

- Sexually Transmitted Disease (STD) Control Program curtailed; no vehicles and inability to hire additional investigators and conduct follow-up contacts

- The authorized FT ceiling for PHSA was reduced from 87 positions to 37 positions in FY 1996, a loss of 50 FTEs

- Reductions in the tracing of contacts of patients with STDs, TB, and other communicable diseases

- Curtailment of program to provide directly observed therapy for patients with TB

- Reduction in efforts to detect and treat children with elevated blood lead levels

5. Office of the Commissioner

- Healthy Start Program - inability to hire program staff and perform case management follow-up affecting infant mortality rates

- Office of the Chief Medical Examiner - inability to perform transcription services causing backlog in autopsies; inability to hire appropriate technical staff to perform toxicological tests and complete reports; inability to obtain reagents and necessary equipment and supplies to complete autopsies and reduce backlog of cases which impact on law enforcement function with Metropolitan Police Department and the U.S. Attorney's Office

- Office of Medical Services for Social Services - inability to contract out services for physician assistants and other professional health service for detained and committed youth for the Youth Services Administration (Oak Hill) to facilitate meeting the court mandated requirements of the Jerry M. Consent Decree

- Office of Nutrition Programs - Unable to implement subsidy program for the Farmers' Market Program; over 100 WIC nutritional grants not provided

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Commission on Mental Health Services

1. Office of Administration

   - Preventive maintenance, equipment replacement and support services have been discontinued

2. Adult Services Administration

   - Outpatient Services Contracts reduced by $451,000

REDUCTION COMPARISON FY 1995-FY 1997

DEPARTMENT OF HUMAN SERVICES
OVERVIEW

The following charts depict the reductions in the appropriated budget of the Department of Human Services (DHS) for the last two fiscal years; FY 1995 - FY 1997. All reductions during this two year period are depicted in red brackets.

In FY 1997, the Department of Human Services appropriated budget is $825,953 million and 3,429 FTEs, an increase of $36,374 million or 5 % and a decrease of 1,199 FTEs or 26 % from the FY 1995 appropriated budget of $789,219 million and 4,628 authorized FTEs, respectively.

For FY 1996, the Department's appropriated budget was $862,350 million and 3,432 FTEs, an increase of $73,131 million or 9 % and a decrease of 1,196 FTEs or 26% over the FY 1995 final appropriated budget.

From FY 1995 through FY 1997, the Department has experienced a reduction of 1,199 FTEs in budget allocations. The resulting base of 3,429 positions represents a decline of 26 % in position strength. Over the same period, the Department's appropriated budget increased by $36,734 million or 5 % as a result of an increase in the Medicaid allocation.

Management Support Services

The Management Support Services (MSS) FY 1997 appropriated budget is $15,393 million and 73 FTEs, a decrease of $3,910 million or 34 % and 0 FTEs from the FY 1996 final appropriated budget of $11,483 million and 73 FTEs, respectively.

The FY 1996 appropriated budget reflects a reduction of $716,000 or 6 % and a reduction of 35% or 39 FTEs from the FY 1995 appropriated budget of $12,199 million and 112 FTEs, respectively.

Since FY 1995, the MSS appropriated budget has been reduced by $3,194 million or 26% in appropriated funding. The authorized appropriated FTE ceiling for MSS was reduced from 112 in FY 1995 to 73 in FY 1997, a reduction of 39 FTEs or 35 %.

Commission on Social Services

The Commission on Social Services (CSS) FY 1997 appropriated budget is $271,746 million and 1130 FTEs, a decrease of $16,904 million or 6 % and 0 FTEs from the FY 1996 final appropriated budget of $288,650 million and 1130 FTEs, respectively.

The FY 1996 appropriated budget reflects a reduction of $4,183 million or 15 % and a reduction of 23 % or 346 FTEs from the FY 1995 appropriated budget of $284,467 million and 1476 FTEs, respectively.

Since FY 1995, the CSS appropriated budget has been reduced by $12,721 million or 4.47 % in appropriated funding. The authorized appropriated FTE ceiling for CSS was reduced from 1,476 in FY 1995 to 1130 in FY 1997, a reduction of 346 FTEs or 23 %.

Commission of Public Health

The Commission of Public Health (CPH) FY 1997 appropriated budget is $51,672 million and 320 FTEs, a decrease of $23,384 million and 3 FTEs from the FY 1996 final appropriated budget of $75,056 million and 323 FTEs, respectively.

The FY 1996 appropriated budget reflects a reduction of 16% or $14,660 million and a reduction of 56.7% or 424 FTEs from the FY 1995 appropriated budget of $89,716 million and 747 FTEs, respectively.

Since FY 1995, the CPH appropriated budget has been reduced by $38,044 million or 42 %. The authorized appropriated FTE ceiling for CPH was reduced from 747 in FY 1995 to 320 in FY 1997, a reduction of 427 FTEs or 57 %.

Commission on Mental Health Services

The Commission on Mental Health Services (CMHS) FY 1997 appropriated budget is $97,545 million and 1,906 FTEs, a decrease of $6,726 million or 6 % in appropriated funding from the FY 1996 budget of $104,271 million and 1,906 FTEs. There was no change in the number of 1,906 FTEs during this period.

For FY 1996, the CMHS appropriated budget was reduced 12.6 % below the FY 1995 appropriated budget of $119,339 million and 2,293 FTEs or 16.9 %, respectively.

From FY 1995 through FY 1997, the CMHS has experienced a reduction of appropriated funding in the amount of $21,794 million and 387 FTEs. The resulting base of 1,906 positions in appropriated funding sources represents a decline of 17 % in position strength in CMHS during this period and an 18.6 % reduction in appropriated funding.

Department of Human Services
FY 1995 - 1997
Appropriated Funds

Control Center	FY 1995 Final		FY 1995 - 1996 Adjustments		FY 1996 - 1997 Adjustments		FY 1997 Final		FY 1995-1997 Adjustments	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Management Support (MS)	**112**	**12,199**	**(39)**	**(716)**	**0**	**3,910**	**73**	**15,393**	**(39)**	**3,194**
Office of the Commissioner (CS)	15	2,713	(7)	(214)	0	1,586	8	4,085	(7)	1,372
AFDC/EA (AF)	0	64,672	0	394	0	(8,022)	0	57,044	0	(7,628)
Daycare (DC)	12	22,638	(7)	(1,445)	0	(2,141)	5	19,052	(7)	(3,586)
Foster Care (FC)	0	36,120	0	8,488	0	0	0	44,608	0	8,488
Family Services (FS)	372	46,437	(54)	(7,335)	0	(404)	318	38,698	(54)	(7,739)
General Public Assistance (GP)	0	13,271	0	(7)	0	(1,482)	0	11,782	0	(1,489)
Income Maintenance (IM)	405	26,063	(127)	(910)	0	(1,105)	278	24,048	(127)	(2,015)
MRDDA (MR)	173	27,442	(53)	(1,229)	0	(604)	120	25,609	(53)	(1,833)
Rehabilitation Services (RS)	2	7,086	(1)	(517)	0	133	1	6,702	(1)	(384)
Youth Services (YS)	497	38,025	(97)	6,958	0	(4,865)	400	40,118	(97)	2,093
Total Social Services	**1,476**	**284,467**	**(346)**	**4,183**	**0**	**(16,904)**	**1,130**	**271,746**	**(346)**	**(12,721)**
Health Care Finance (MM)	**0**	**283,498**	**0**	**99,392**	**0**	**6,707**	**0**	**389,597**	**0**	**106,099**
Office of the Commissioner (CH)	131	10,405	(61)	(1,325)	0	1,612	70	10,692	(61)	287
APRA (AD)	145	26,746	(45)	(3,568)	0	(1,871)	100	21,307	(45)	(5,439)
Ambulatory Health (AH)	363	22,943	(262)	(6,950)	(2)	(11,132)	99	4,861	(264)	(18,082)
D.C. Village (CV)	0	12,028	0	(3,175)	0	(8,853)	0	0	0	(12,028)
HIV/AIDS (HA)	8	6,423	0	0	0	0	8	6,423	0	0
Long Term Care (LT)	38	6,239	(19)	(48)	0	(2,484)	19	3,707	(19)	(2,532)
Preventive Health (PH)	62	4,932	(37)	406	(1)	(656)	24	4,682	(38)	(250)
Total Public Health	**747**	**89,716**	**(424)**	**(14,660)**	**(3)**	**(23,384)**	**320**	**51,672**	**(427)**	**(38,044)**
Office of the Commissioner (CM)	128	6,756	(35)	(2,194)	0	(1,462)	93	3,100	(35)	(3,656)
Deputy for Administration (OA)	650	31,377	(146)	(1,724)	0	(2,693)	504	26,960	(146)	(4,417)
Adult Services (AS)	1,034	44,255	(162)	(2,243)	0	1,021	872	43,033	(162)	(1,222)
Child & Youth Services (CY)	245	22,379	(15)	(4,477)	0	(3,518)	230	14,384	(15)	(7,995)
Forensic Services (FO)	236	14,572	(29)	(4,430)	0	(74)	207	10,068	(29)	(4,504)
Total Mental Health	**2,293**	**119,339**	**(387)**	**(15,068)**	**0**	**(6,726)**	**1,906**	**97,545**	**(387)**	**(21,794)**
Total Agency	**4,628**	**789,219**	**(1,196)**	**73,131**	**(3)**	**(36,397)**	**3,429**	**825,953**	**(1,199)**	**36,734**

01/21/97

Department of Human Services
FY 1996 - 1997
Appropriated Funds

Control Center	FY 1996 Base		Adjustments		FY 1996 Final		Adjustments		FY 1997 Base		Adjustments		FY 1997 Final		FY 1996-1997 Adjustments	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Management Support (MS)	73	13,878	0	(2,395)	73	11,483	0	1,945	73	13,428	0	1,865	73	15,293	0	1,515
Office of the Commissioner (CS)	8	2,552	0	(153)	8	2,499	0	153	8	2,652	0	1,433	8	4,085	0	1,433
AFDC/EA (AF)	0	75,663	0	(10,597)	0	65,066	0	3,067	0	68,133	0	(11,089)	0	57,044	0	(18,619)
Daycare (DC)	5	22,379	0	(1,186)	5	21,193	0	1,186	5	22,379	0	(3,327)	5	19,052	0	(3,327)
Foster Care (FC)	0	44,608	0	0	0	44,608	0	1	0	44,609	0	(1)	0	44,608	0	0
Family Services (FS)	318	42,053	0	(2,951)	318	39,102	0	5,769	318	44,871	0	(5,173)	318	38,698	0	(3,355)
General Public Assistance (GP)	0	14,266	0	(1,004)	0	13,264	0	399	0	13,663	0	(1,881)	0	11,782	0	(2,485)
Income Maintenance (IM)	299	25,667	(21)	(434)	278	25,153	0	(42)	278	25,111	0	(1,063)	278	24,048	(21)	(1,539)
MRDDA (MR)	120	28,653	0	(320)	120	28,213	0	2,521	120	28,734	0	(3,125)	120	25,609	0	(924)
Rehabilitation Services (RS)	1	6,754	0	(185)	1	6,569	0	185	1	6,754	0	(52)	1	6,702	0	(52)
Youth Services (YS)	400	47,397	0	(2,414)	400	44,983	0	(3,658)	400	41,325	0	(1,207)	400	40,118	0	(7,279)
Total Social Services	1,151	307,934	(21)	(19,264)	1,130	288,670	0	9,581	1,130	298,251	0	(26,485)	1,130	271,766	(21)	(36,168)
Health Care Finance (MM)	0	417,282	0	(34,593)	0	382,690	0	64,933	0	447,623	0	(88,226)	0	359,397	0	(27,685)
Office of the Commissioner (CH)	70	10,691	0	(1,611)	70	9,080	0	1,611	70	10,691	0	1	70	10,692	0	1
APRA (AD)	100	28,608	0	(5,430)	100	23,178	0	1,329	100	24,507	0	(3,200)	100	21,307	0	(7,301)
Ambulatory Health (AH)	119	21,493	(18)	(5,500)	101	15,993	0	5,282	101	21,275	(2)	(16,414)	99	4,861	(20)	(16,632)
D.C. Village (CV)	0	12,349	0	(3,496)	0	8,853	0	(8,853)	0	0	0	0	0	0	0	(12,349)
HIV/AIDS (HA)	8	6,423	0	0	8	6,423	0	0	8	6,423	0	0	8	6,423	0	0
Long Term Care (LT)	19	7,791	0	(1,600)	19	6,191	0	1,600	19	7,791	0	(4,084)	19	3,707	0	(4,084)
Preventive Health (PH)	37	6,474	(12)	(1,136)	25	5,338	0	1,136	25	6,474	(1)	(1,792)	24	4,682	(13)	(1,792)
Total Public Health	353	93,829	(30)	(18,773)	323	75,056	0	2,105	323	77,161	(3)	(25,489)	320	51,672	(33)	(42,157)
Office of the Commissioner (CM)	93	4,562	0	0	93	4,562	0	242	93	4,804	0	(1,704)	93	3,100	0	(1,462)
Deputy for Administration (OA)	549	32,503	(45)	(2,850)	504	29,653	0	682	504	30,335	0	(3,375)	504	26,960	(45)	(6,543)
Adult Services (AS)	872	42,112	0	(100)	872	42,012	0	2,552	872	44,564	0	(1,531)	872	43,033	0	921
Child & Youth Services (CY)	230	26,527	0	(8,625)	230	17,902	0	(2,828)	230	15,074	0	(690)	230	14,384	0	(12,143)
Forensic Services (FO)	207	10,142	0	0	207	10,142	0	(74)	207	10,068	0	0	207	10,068	0	(74)
Total Mental Health	1,951	115,846	(45)	(11,575)	1,906	104,271	0	574	1,906	104,845	0	(7,300)	1,906	97,545	(45)	(18,301)
Total Agency	3,628	948,785	(96)	(86,419)	3,432	862,366	0	79,138	3,432	941,486	(3)	(115,535)	3,429	825,953	(99)	(122,816)

01/21/97

Department of Human Services
FY 1995 - 1996
Appropriated Funds

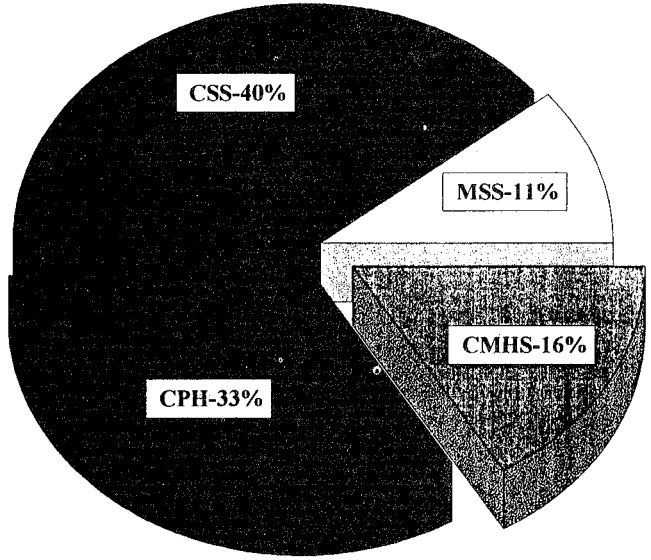
Control Center	FY 1995 Final		Adjustments		FY 1996 Base		Adjustments		FY 1996 Final		FY 1995-1996 Adjustments	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Management Support (MS)	112	12,199	(39)	1,679	73	13,878	0	(2,395)	73	11,483	(39)	(716)
Office of the Commissioner (CS)	15	2,713	(7)	(61)	8	2,652	0	(153)	8	2,499	(7)	(214)
AFDC/EA (AF)	0	64,672	0	10,991	0	75,663	0	(10,597)	0	65,066	0	394
Daycare (DC)	12	22,638	(7)	(259)	5	22,379	0	(1,186)	5	21,193	(7)	(1,445)
Foster Care (FC)	0	36,120	0	8,488	0	44,608	0	0	0	44,608	0	8,488
Family Services (FS)	372	46,437	(54)	(4,344)	318	42,093	0	(2,991)	318	39,102	(54)	(7,335)
General Public Assistance (GP)	0	13,271	0	997	0	14,268	0	(1,004)	0	13,264	0	(7)
Income Maintenance (IM)	405	26,063	(106)	(476)	299	25,587	(21)	(434)	278	25,153	(127)	(910)
MRDDA (MR)	173	27,442	(53)	(909)	120	26,533	0	(320)	120	26,213	(53)	(1,229)
Rehabilitation Services (RS)	2	7,086	(1)	(332)	1	6,754	0	(185)	1	6,569	(1)	(517)
Youth Services (YS)	497	38,025	(97)	9,372	400	47,397	0	(2,414)	400	44,983	(97)	6,958
Total Social Services	1,476	284,467	(325)	23,467	1,151	307,934	(21)	(19,284)	1,130	288,650	(346)	4,183
Health Care Finance (MM)	0	283,498	0	133,784	0	417,282	0	(34,392)	0	382,890	0	99,392
Office of the Commissioner (CH)	131	10,405	(61)	286	70	10,691	0	(1,611)	70	9,080	(61)	(1,325)
APRA (AD)	145	26,746	(45)	1,862	100	28,608	0	(5,430)	100	23,178	(45)	(3,568)
Ambulatory Health (AH)	363	22,943	(244)	(1,450)	119	21,493	(18)	(5,500)	101	15,993	(262)	(6,950)
D.C. Village (CV)		12,028	0	321	0	12,349	0	(3,496)	0	8,853	0	(3,175)
HIV/AIDS (HA)	8	6,423	0	0	8	6,423	0	0	8	6,423	0	0
Long Term Care (LT)	38	8,239	(19)	1,552	19	7,791	0	(1,600)	19	6,191	(19)	(48)
Preventive Health (PH)	62	4,932	(25)	1,542	37	6,474	(12)	(1,136)	25	5,338	(37)	406
Total Public Health	747	89,716	(394)	4,113	353	93,829	(30)	(18,773)	323	75,056	(424)	(14,660)
Office of the Commissioner (CM)	128	6,756	(35)	(2,194)	93	4,562	0	0	93	4,562	(35)	(2,194)
Deputy for Administration (OA)	650	31,377	(101)	1,126	549	32,503	(45)	(2,850)	504	29,653	(146)	(1,724)
Adult Services (AS)	1,034	44,255	(162)	(2,143)	872	42,112	0	(100)	872	42,012	(162)	(2,243)
Child & Youth Services (CY)	245	22,379	(15)	4,148	230	26,527	0	(8,625)	230	17,902	(15)	(4,477)
Forensic Services (FO)	236	14,572	(29)	(4,430)	207	10,142	0	0	207	10,142	(29)	(4,430)
Total Mental Health	2,293	119,339	(342)	(3,493)	1,951	115,846	(45)	(11,575)	1,906	104,271	(387)	(15,068)
Total Agency	4,626	789,219	(1,100)	159,650	3,528	948,769	(96)	(86,419)	3,432	862,350	(1,196)	73,131

01/21/97

DATA GRAPHS

Breakout of DHS FY 1997 Non-Mandated Appropriated Budget

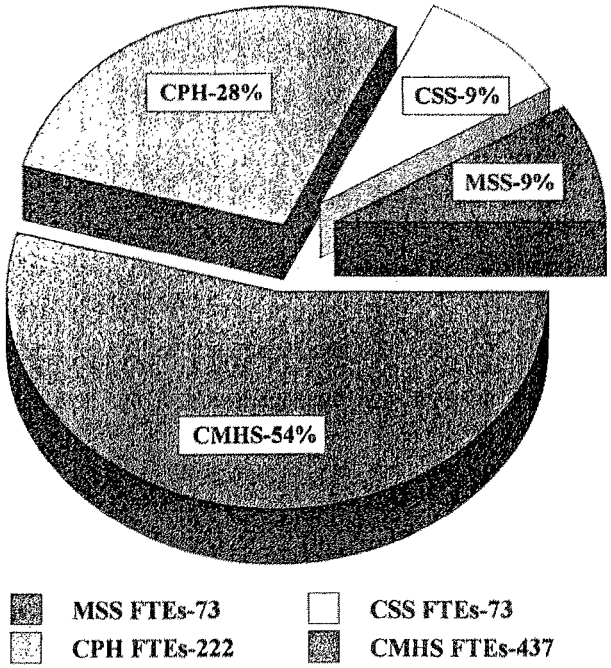
Total Budget $141,919 [Excludes Medicaid and Mandated Programs]



MSS-$15,393
CSS-$57,200
CPH-$46,261
CMHS-23,065

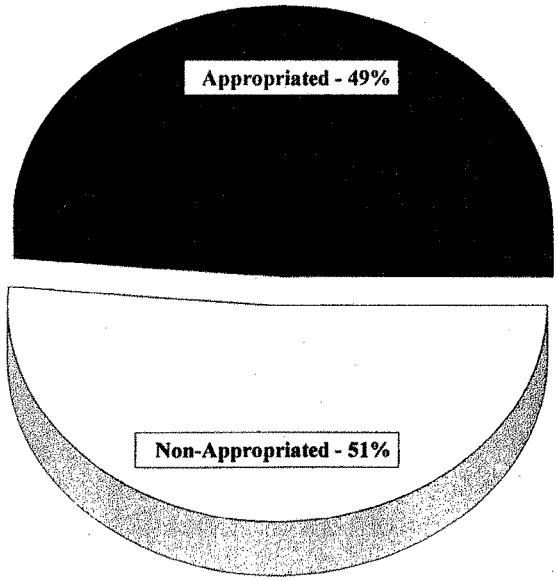
Breakout of DHS FY 1997 Non-Mandated Appropriated Budget

FTEs - 805



Department of Human Services

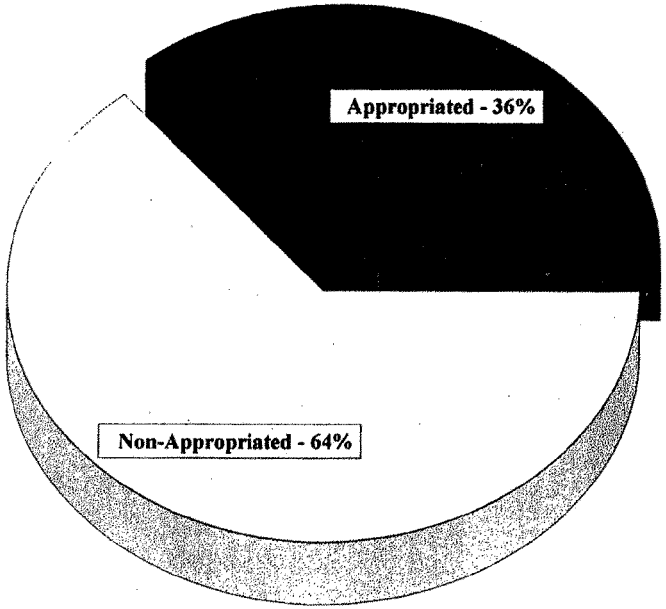
Total Non-Mandated Budget - FY 1997 - $291,333



Appropriated - $141,919 **Non-Appropriated - $149,414**

Department of Human Services

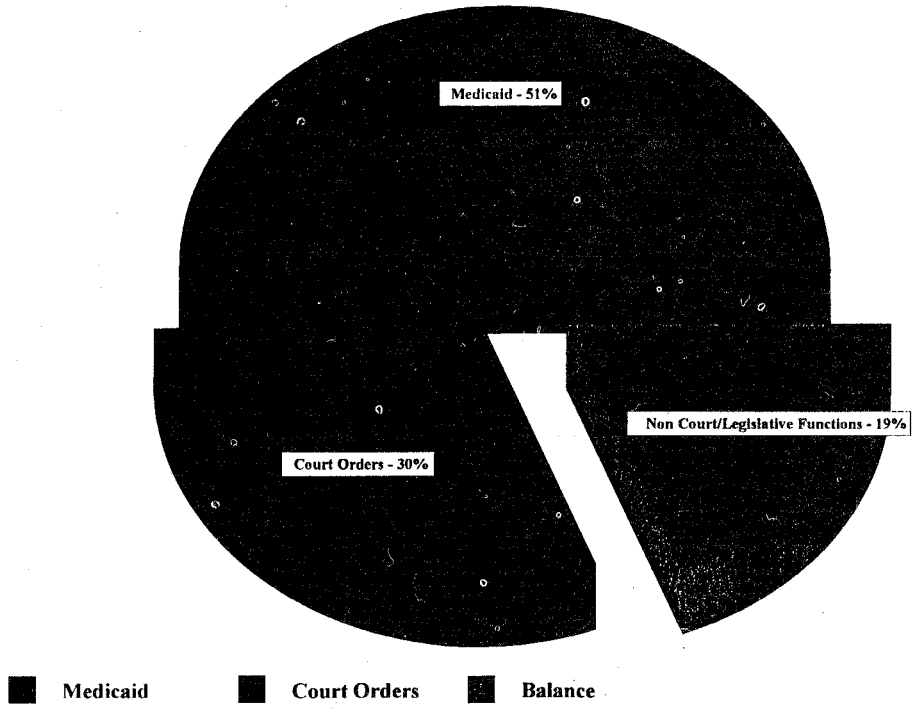
Total Non-Mandated FTEs - FY 1997 - 2,246



Appropriated FTEs - 805 **Non-Appropriated FTEs - 1,441**

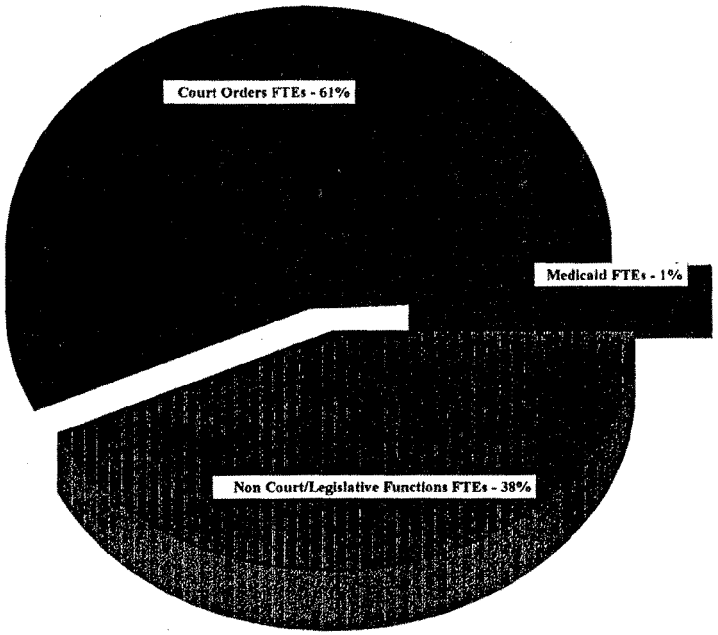
Department of Human Services Budget

Fiscal Year 1997 - Gross Budget - $1,538,200



Department of Human Services Budget

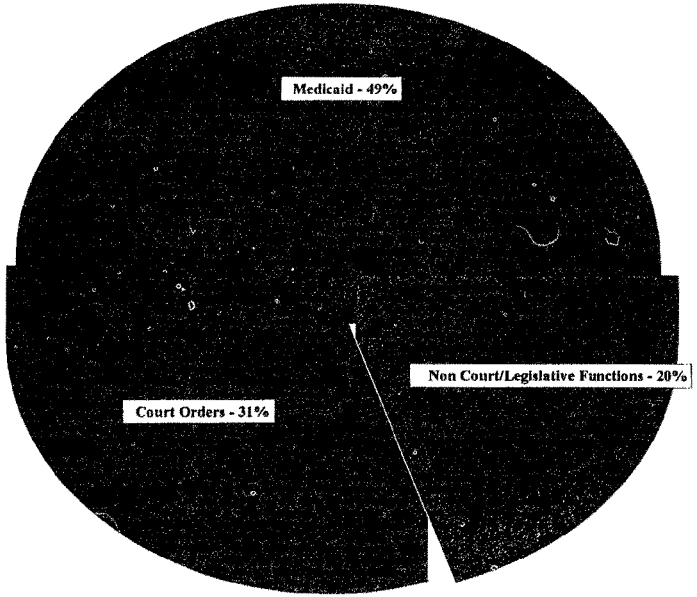
Fiscal Year 1997 - FTEs - 5,887



Medicaid FTEs Court Orders FTEs Balance FTEs

Department of Human Services Budget

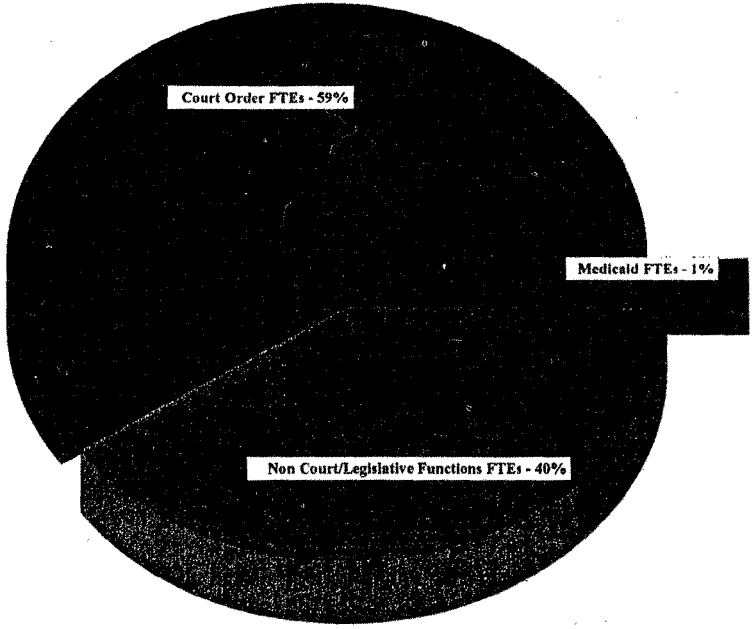
Fiscal Year 1996 - Gross Budget - $1,567,736



Medicaid Court Orders Balance

Department of Human Services Budget

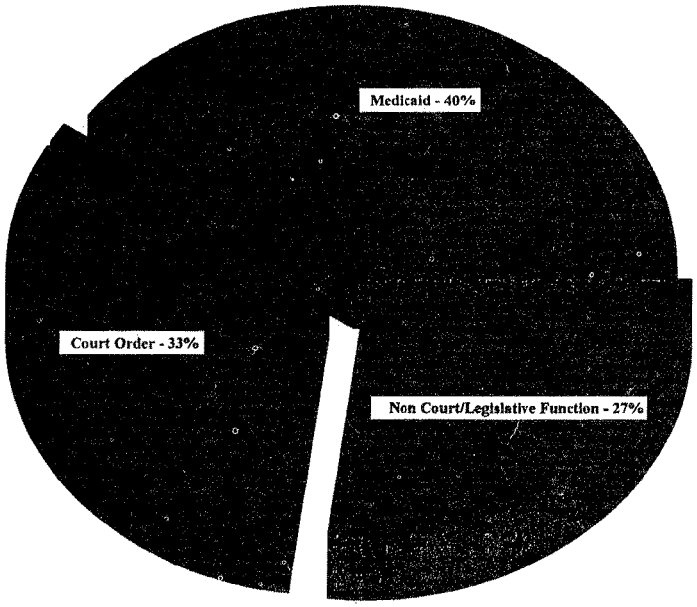
Fiscal Year 1996 - FTEs - 6,162



Medicaid FTEs Court Orders FTEs Balance FTEs

Department of Human Services Budget

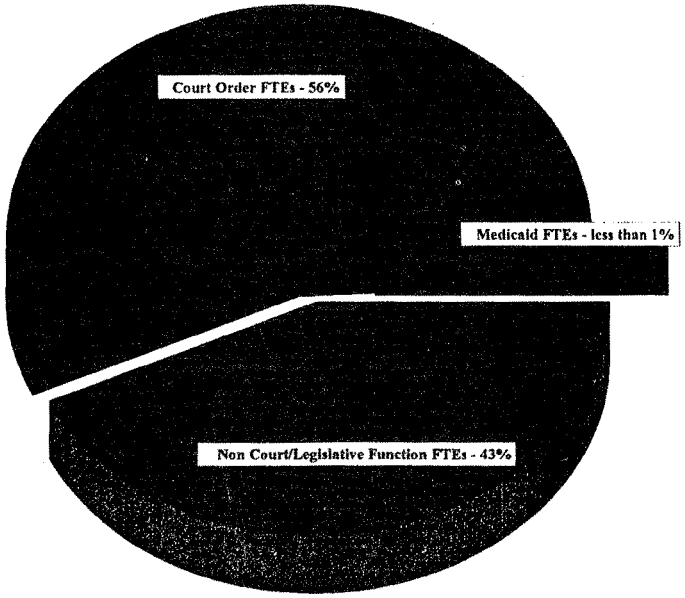
Fiscal Year 1995 - Budget - $1,450,509



Medicaid Court Orders Balance

Department of Human Services Budget

Fiscal Year 1995 - FTEs - 7,758



Medicaid FTEs Court Orders FTEs Balance FTEs

COURT ORDERS

FY 1997

COURT ORDER	PROGRAM	POS CEILINGS	APPR BUDGET	NON-APPR BUDGET	TOTAL
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	AFDC-AID TO FAMILIES WITH D/C	0	57,044	64,375	121,419
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	GPPA-GENERAL PUBLIC ASSIST	0	6,488	600	7,088
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	IMPO-INCOME MAIN PROG OPER	530	15,051	8,564	23,615
LASHAWN	FC-FOSTER CARE	0	44,608	8,475	53,083
LASHAWN	FSCF/AR-CHILD AND FAMILY SERV	412	25,628	9,837	35,465
EVANS	MR-MENTAL RETARDATION	120	25,609	1,500	27,109
JERRY M.	YS-YOUTH SERVICES	412	40,118	1,195	41,313
	TOTALS	1,474	214,546	94,546	309,092

PROGRAM	POS CEILINGS	APPR BUDGET	NON-APPR BUDGET	TOTAL
MEDICAID	65	389,597	390,599	780,196

COMMISSION ON PUBLIC HEALTH

COURT ORDER	PROGRAM	POS CEILINGS	APPR BUDGET	NON-APPR BUDGET	TOTAL
SCHOOL HEALTH NURSES	AMBULATORY HEALTH	80	3,011	0	3,011
JERRY M COURT DECREE	COMMISSIONER OF PUBLIC HEALTH	21	2,400	0	2,400
	TOTAL	101	5,411	0	5,411

COMMISSION ON MENTAL HEATLH

	PROGRAM	POS CEILINGS	APPR BUDGET	NON-APPR BUDGET	TOTAL
DIXON	AS-ADULT SERVICES	1,198	43,750	46,467	90,217
DIXON	CM-COMMISSIONER OF MENT'L HLTH	214	4,804	6,330	11,134
PETTIES	CYRS-RESIDENTIAL SERVICES	0	1,000	7,600	8,600
DIXON	OA-DEP FOR ADMINISTRATION	589	26,960	15,257	42,217
	TOTALS	2,001	76,514	75,654	152,168
	AGENCY TOTAL FY 1997	3,641	686,068	560,799	1,246,867

FY 1996

COURT ORDER	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	AFDC AID TO FAMILIES WITH DEPC	0	0	0	61,296	59,625	1,671	66,072	62,276	3,796	127,368	121,901	5,467
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	GPPA GENERAL PUBLIC ASSIST	0	0	0	6,595	7,193	(598)	2,098	1,789	309	8,693	8,982	(289)
FRANKLIN, SALAZAR, JOAN JONES, MOTLEY	IMPD INCOME MAIN PROG OPER	[illegible]	504	58	16,775	13,871	2,904	11,444	9,470	1,974	28,219	23,341	4,878
LASHAWN	FC FOSTER CARE	0	0	0	44,408	43,784	624	8,475	8,558	(83)	53,083	52,342	741
LASHAWNE	FSCHAR CHILD AND FAMILY SERV	[illegible]	469	(56)	23,319	23,068	251	18,923	17,668	1,255	42,242	40,736	1,506
EVANS	MR MENTAL RETARDATION	120	116	4	26,213	23,938	2,275	0	0	0	26,213	23,938	2,275
JERRY M	YS YOUTH SERVICES	412	364	48	41,033	34,512	6,521	993	743	250	42,026	35,255	6,771
	TOTALS	1,507	1,453	54	219,639	205,991	13,648	108,005	100,504	7,501	327,644	306,495	21,149

COMMISSION ON PUBLIC HEALTH

COURT ORDER	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
SCHOOL HEALTH NURSES	AMBULATORY HEALTH	80	80	0	3,011	3,011	0			0	3,011	3,011	0
JERRY M COURT DECREE	COMMISSIONER OF PUBLIC HEALTH	21	21	0	2,698	2,002	696			0	2,698	2,002	696
	TOTAL	101	101	0	5,709	5,013	696	0	0	0	5,709	5,013	696

COMMISSION ON MENTAL HEALTH

	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
DIXON	AS-ADULT SERVICES	1,198	1,078	120	41,517	44,112	(2,595)	46,470	44,127	2,343	87,987	88,239	(252)
DIXON	CM-COMMISSIONER OF MENTL HLTH	214	156	58	4,562	5,592	(1,030)	7,219	5,641	1,578	11,781	11,233	548
PETTIES	CFRS-RESIDENTIAL SERVICES	0	0	0	0	0	0	8,600	8,600	0	8,600	8,600	0
DIXON	OA-DEP FOR ADMINISTRATION	589	542	47	9,629	5,792	3,837	33,807	30,755	3,052	43,436	36,547	6,889
	TOTALS	2,001	1,776	225	55,708	55,496	212	95,096	89,123	5,973	151,804	144,619	7,185
	AGENCY TOTAL FY 1996	3,609	3,330	279	281,256	266,500	14,756	204,101	189,627	14,474	485,357	456,127	28,230

FY 1995

COURT ORDER	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
FRANKLIN SALAZAR JOAN JONES MOTLEY	AFDC AID TO FAMILIES WITH DIC	0	0	0	61,659	62,849	(1,190)	66,326	65,290	1,036	127,985	128,139	(154)
FRANKLIN SALAZAR JOAN JONES MOTLEY	GPPA GENERAL PUBLIC ASSIST	0	0	0	8,050	7,545	505	2,055	2,499	(444)	10,105	10,044	61
FRANKLIN SALAZAR JOAN JONES MOTLEY	IMPO INCOME MAIN PROG OPER	972	906	66	19,683	19,105	578	12,725	12,219	506	32,408	31,324	1,084
LASHAWN	FC FOSTER CARE	0	0	0	36,120	43,997	(7,877)	8,179	6,623	1,556	44,299	50,620	(6,321)
LASHAWN	FSC/IAR CHILD AND FAMILY SERV	461	511	(50)	21,106	15,499	5,607	11,794	12,560	(766)	32,900	28,059	4,841
EVANS	MR MENTAL RETARDATION	112	145	47	27,442	26,966	476	0	0	0	27,442	26,966	476
JERRY M	YS YOUTH SERVICES	599	493	106	38,025	35,845	2,180	1,249	1,001	248	39,274	36,846	2,428
	TOTALS	1,826	1,657	169	212,085	211,806	279	102,328	100,192	2,136	314,413	311,998	2,415

COMMISSION ON PUBLIC HEALTH

COURT ORDER	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
SCHOOL HEALTH NURSES	AMBULATORY HEALTH	80	80	0	3,011	0	3,011			0	3,011	0	3,011
	COMMISSIONER OF PUBLIC HEALTH	21	21	0	2,698	0	2,698			0	2,698	0	2,698
	TOTAL	101	101	0	5,709	0	5,709	0	0	0	5,709	0	5,709

COMMISSION ON MENTAL HEALTH

COURT ORDER	PROGRAM	POS CEILINGS	POS ACTUALS	VARIANCE	APPR BUDGET	APPR ACTUALS	VARIANCE	NON-APPR BUDGET	APPR ACTUALS	VARIANCE	TOTAL BUDGET	TOTAL ACTUALS	VARIANCE
DIXON	AS-ADULT SERVICES	1,399	1,040	359	44,255	45,978	(1,723)	43,953	41,658	2,295	88,208	87,636	572
DIXON	CM-COMMISSIONER OF MENT'L HLTH	280	165	115	6,756	6,551	205	8,087	9,038	(951)	14,843	15,589	(746)
PETTIES	CYRS-RESIDENTIAL SERVICES	0	0	0	8,600	8,600	0	0	0	0	8,600	8,600	0
DIXON	OA-DEP FOR ADMINISTRATION	753	535	218	31,377	28,323	3,054	13,115	12,195	920	44,492	40,518	3,974
	TOTALS	2,432	1,740	692	90,988	89,452	1,536	65,155	62,891	2,264	156,143	152,343	3,800
	AGENCY TOTAL FY 1996	4,359	3,498	861	306,782	301,258	7,524	167,483	163,083	4,400	470,265	464,341	11,924

Department of Human Services
FY 1995 – 1997
Appropriated Funds

Control Center	FY 1995 Final		FY 1995 – 1996 Adjustments		FY 1996 – 1997 Adjustments		FY 1997 Final		FY 1995 – 1997 Adjustments	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Management Support (MS)	112	12,199	(39)	(716)	0	3,910	73	15,393	(39)	3,194
Office of the Commissioner (CS)	15	2,713	(7)	(214)	0	1,586	8	4,085	(7)	1,372
AFDC/EA (AF)	0	64,672	0	394	0	(8,022)	0	57,044	0	(7,628)
Daycare (DC)	12	22,638	(7)	(1,445)	0	(2,141)	5	19,052	(7)	(3,586)
Foster Care (FC)	0	36,120	0	8,488	0	0	0	44,608	0	8,488
Family Services (FS)	372	46,437	(54)	(7,335)	0	(404)	318	38,698	(54)	(7,739)
General Public Assistance (GP)	0	13,271	0	(7)	0	(1,482)	0	11,782	0	(1,489)
Income Maintenance (IM)	405	26,063	(127)	(910)	0	(1,105)	278	24,048	(127)	(2,015)
MRDDA (MR)	173	27,442	(53)	(1,229)	0	(604)	120	25,609	(53)	(1,833)
Rehabilitation Services (RS)	2	7,086	(1)	(517)	0	133	1	6,702	(1)	(384)
Youth Services (YS)	497	38,025	(97)	6,958	0	(4,865)	400	40,118	(97)	2,093
Total Social Services	1,476	284,467	(346)	4,183	0	(16,904)	1,130	271,746	(346)	(12,721)
Health Care Finance (MM)	0	283,498	0	99,392	0	6,707	0	389,597	0	106,099
Office of the Commissioner (CH)	131	10,405	(61)	(1,325)	0	1,612	70	10,692	(61)	287
APRA (AD)	145	26,746	(45)	(3,568)	0	(1,871)	100	21,307	(45)	(5,439)
Ambulatory Health (AH)	363	22,943	(262)	(6,950)	(2)	(11,132)	99	4,861	(264)	(18,082)
D.C. Village (CV)	0	12,028	0	(3,175)	0	(8,853)	0	0	0	(12,028)
HIV/AIDS (HA)	8	6,423	0	0	0	0	8	6,423	0	0
Long Term Care (LT)	38	6,239	(19)	(48)	0	(2,484)	19	3,707	(19)	(2,532)
Preventive Health (PH)	62	4,932	(37)	406	(1)	(656)	24	4,682	(38)	(250)
Total Public Health	747	89,716	(424)	(14,660)	(3)	(23,384)	320	51,672	(427)	(38,044)
Office of the Commissioner (CM)	128	6,756	(35)	(2,194)	0	(1,462)	93	3,100	(35)	(3,656)
Deputy for Administration (OA)	650	31,377	(146)	(1,724)	0	(2,693)	504	26,960	(146)	(4,417)
Adult Services (AS)	1,034	44,255	(162)	(2,243)	0	1,021	872	43,033	(162)	(1,222)
Child & Youth Services (CY)	245	22,379	(15)	(4,477)	0	(3,518)	230	14,384	(15)	(7,995)
Forensic Services (FO)	236	14,572	(29)	(4,430)	0	(74)	207	10,068	(29)	(4,504)
Total Mental Health	2,293	119,339	(387)	(15,068)	0	(6,726)	1,906	97,545	(387)	(21,794)
Total Agency	4,628	789,219	(1,196)	73,131	(3)	(36,397)	3,429	825,953	(1,199)	36,734

Department of Human Services
FY 1995 – 1996
Appropriated Funds

Control Center	FY 1995 Final		Adjustments		FY 1996 Base		Adjustments		FY 1996 Final		FY 1995–1996 Adjustments	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Management Support (MS)	112	12,199	(39)	1,879	73	13,678	0	(2,395)	73	11,463	(39)	(716)
Office of the Commissioner (CS)	13	2,713	(7)	(61)	6	2,652	0	(153)	6	2,499	(7)	(214)
AFDC/EA (AF)	0	64,672	0	10,991	0	75,663	0	(10,597)	0	65,066	0	394
Daycare (DC)	12	22,638	(7)	(259)	5	22,379	0	(1,186)	5	21,193	(7)	(1,445)
Foster Care (FC)	0	36,120	0	8,488	0	44,608	0	0	0	44,608	0	8,488
Family Services (FS)	372	46,437	(54)	(4,344)	318	42,093	0	(2,991)	318	39,102	(54)	(7,335)
General Public Assistance (GP)	0	13,271	0	997	0	14,268	0	(1,004)	0	13,264	0	(7)
Income Maintenance (IM)	405	26,063	(106)	(476	299	25,587	(21	(434)	278	25,153	(127)	(910)
MRDDA (MR)	173	27,442	(53)	(909)	120	26,533	0	(320)	120	26,213	(53)	(1,229)
Rehabilitation Services (RS)	2	7,086	(1)	(332)	1	6,754	0	(185)	1	6,569	(1)	(517)
Youth Services (YS)	497	38,025	(97)	9,372	400	47,397	0	(2,414)	400	44,983	(97)	6,958
Total Social Services	1,476	284,467	(325)	23,467	1,151	307,934	(21)	(19,284)	1,130	288,650	(346)	4,183
Health Care Finance (MM)	0	283,498	0	133,784	0	417,282	0	(34,392)	0	382,890	0	99,392
Office of the Commissioner (CH)	131	10,405	(61)	286	70	10,691	0	(1,611)	70	9,080	(61)	(1,325)
APRA (AD)	145	26,746	(45)	1,862	100	28,608	0	(5,430)	100	23,178	(45)	(3,568)
Ambulatory Health (AH)	363	22,943	(244)	(1,450)	119	21,493	(18)	(5,500)	101	15,993	(262)	(6,950)
D.C. Village (CV)		12,028	0	321	0	12,349	0	(3,496)	0	8,853	0	(3,175)
HIV/AIDS (HA)	8	6,423	0	0	8	6,423	0	0	8	6,423	0	0
Long Term Care (LT)	38	6,239	(19)	1,552	19	7,791	0	(1,600)	19	6,191	(19)	(48)
Preventive Health (PH)	62	4,932	(25)	1,542	37	6,474	(12)	(1,136)	25	5,338	(37)	406
Total Public Health	747	89,716	(394)	4,113	353	93,829	(30)	(18,773)	323	75,056	(424)	(14,660)
Office of the Commissioner (CM)	128	6,756	(35)	(2,194)	93	4,562	0	0	93	4,562	(35)	(2,194)
Depu'y for Administration (OA)	650	31,377	(101)	1,126	549	32,503	(45)	(2,850)	504	29,653	(146)	(1,724)
Adult Services (AS)	1,034	44,255	(162)	(2,143)	872	42,112	0	(100)	872	42,012	(162)	(2,243)
Child & Youth Services (CY)	245	22,379	(15)	4,148	230	26,527	0	(8,625)	230	17,902	(15)	(4,477)
Forensic Services (FO)	236	14,572	(29)	(4,430)	207	10,142	0	0	207	10,142	(29)	(4,430)
Total Mental Health	2,293	119,339	(342)	(3,493)	1,951	115,846	(45)	(11,575)	1,906	104,271	(387)	(15,068)
Total Agency	4,628	789,219	(1,100)	159,550	3,528	948,769	(96)	(86,419)	3,432	862,350	(1,196)	73,131

Department of Human Services
FY 1996 – 1997
Appropriated Funds

Control Center	FY 1996 Base FTE	FY 1996 Base Amount	Adjustments FTE	Adjustments Amount	FY 1996 Final FTE	FY 1996 Final Amount	Adjustments FTE	Adjustments Amount	FY 1997 Base FTE	FY 1997 Base Amount	Adjustments FTE	Adjustments Amount	FY 1997 Final FTE	FY 1997 Final Amount	FY 1996–1997 Adjustments FTE	FY 1996–1997 Adjustments Amount
Management Support (MS)	73	13,878	0	(2,395)	73	11,483	0	1,945	73	13,428	0	1,965	73	15,393	0	1,915
Office of the Commissioner (CS)	8	2,652	0	(153)	8	2,499	0	153	8	2,652	0	1,433	8	4,085	0	1,433
AI DC/EA (AT)	0	75,663	0	(10,597)	0	65,066	0	3,067	0	68,133	0	(11,089)	0	57,044	0	(18,619)
Daycare (DC)	5	22,378	0	(1,186)	5	21,193	0	1,186	5	22,379	0	(3,327)	5	19,052	0	(3,327)
Foster Care (FC)	0	44,608	0	0	0	44,608	0	1	0	44,609	0	(1)	0	44,608	0	0
Family Services (FS)	316	43,083	0	(2,981)	316	39,102	0	5,769	316	44,871	0	(9,773)	316	35,098	0	(3,995)
General Public Assistance (GPA)	0	14,268	0	(1,004)	0	13,264	0	599	0	13,863	0	(1,081)	0	11,782	0	(2,085)
Income Maintenance (IM)	299	25,587	(21)	(434)	278	25,153	0	(42)	278	25,111	0	(1,063)	278	24,048	(21)	(1,539)
MRDDA (MR)	120	26,533	0	(320)	120	26,213	0	2,521	120	28,734	0	(3,125)	120	25,609	0	(824)
Rehabilitation Services (RS)	1	8,754	0	(185)	1	8,569	0	185	1	8,754	0	(52)	1	8,702	0	(52)
Youth Services (YS)	400	47,397	0	(2,414)	400	44,983	0	(3,868)	400	41,325	0	(1,207)	400	40,118	0	(7,279)
Total Social Services	1,151	307,934	(21)	(19,284)	1,130	288,650	0	9,581	1,130	298,231	0	(26,485)	1,130	271,746	(21)	(36,188)
Health Care Finance (MM)	0	417,262	0	(34,392)	0	382,870	0	64,933	0	447,823	0	(58,226)	0	389,597	0	(27,665)
Office of the Commissioner (CH)	70	10,691	0	(1,811)	70	8,880	0	1,811	70	10,691	0	1	70	10,692	0	1
APHA (AD)	100	28,608	0	(5,430)	100	23,178	0	1,329	100	24,507	0	(3,200)	100	21,307	0	(7,301)
Ambulatory Health (AH)	119	21,493	(18)	(5,500)	101	15,993	0	5,282	101	21,275	(2)	(16,414)	99	4,861	(20)	(16,632)
D.C. Village (CV)	0	12,349	0	(3,496)	0	8,853	0	(8,853)	0	0	0	0	0	0	0	(12,349)
HIV/AIDS (HA)	8	8,423	0	0	8	8,423	0	0	8	8,423	0	0	8	8,423	0	0
Long Term Care (LT)	19	7,791	0	(1,600)	19	6,191	0	1,600	19	7,791	0	(4,094)	19	3,797	0	(4,094)
Preventive Health (PH)	37	8,474	(12)	(1,136)	25	5,338	0	1,130	25	6,474	(1)	(1,792)	24	4,682	(13)	(1,792)
Total Public Health	353	93,828	(30)	(18,773)	323	75,056	0	2,105	323	77,161	(3)	(25,489)	320	51,672	(33)	(42,157)
Office of the Commissioner (CM)	93	4,582	0	0	93	4,582	0	242	93	4,824	0	(1,724)	93	3,100	0	(1,482)
Deputy for Administration (DA)	549	32,805	(45)	(2,850)	504	29,955	0	882	504	30,335	0	(3,375)	504	26,960	(45)	(5,845)
Adult Services (AS)	872	42,112	0	(100)	872	42,012	0	2,552	872	44,564	0	(1,531)	872	43,033	0	921
Child & Youth Services (CY)	230	26,527	0	(8,825)	230	17,902	0	(2,628)	230	15,274	0	(690)	230	14,584	0	(12,143)
Forensic Services (FO)	207	10,142	0	0	207	10,142	0	(74)	207	10,068	0	0	207	10,068	0	(74)
Total Mental Health	1,951	115,648	(45)	(11,575)	1,906	104,271	0	574	1,906	104,845	0	(7,300)	1,906	97,545	(45)	(18,301)
Total Agency	3,529	948,789	(96)	(86,419)	3,432	862,350	0	78,138	3,432	941,488	(3)	(115,535)	3,429	825,953	(99)	(122,838)

Mr. BARRY. We have closed half a dozen health clinics. We have closed emergency assistance programs. We have closed almost a thousand slots for drug treatment facilities. Mr. Chairman, when it gets to the point where this government does not even offer burial expenses for those who pass and do not have any income to bury their dead, we really have come to the end of the road in terms of how we have managed to make these very tough and difficult decisions.

If you do not think we made those difficult decisions, ask the 700 older citizens who do not get chore aides to come to their homes 4 hours a day, 4 or 5 days. If you do not think we have made tough decisions, ask the DC government employees who have not had a raise in the last 3 years, many of whom have had cuts. Ask the 1,000 DC government employees who have been fired from their jobs, if we have not made tough decisions about trying to create a more efficient, a better-managed, and a better-run DC government.

We also have moved programmatically to make our city safer. We all talk about the quality of life. We know that Ms. Norton's plan, in and of itself, the President's plan, in and of itself, will not change the very nature of our city until we change some of the quality-of-life issues here. We know we must do more to make our streets safer for those who walk on them and businesses who do business here, and we are making great and steady progress in doing that.

We are investing more in community policing now by restructuring police beats to take into account neighborhood boundaries, developing greater linkages between police teams. That is working. We have had a reduction in homicides by some 20-some percent. Not enough for me, but certainly any reduction in any murder is something to be proud of.

We have had a 14-percent reduction in stolen automobiles, a 9-percent reduction in robberies, so we are working as hard as we can with our citizens to make public safety a high priority and make our streets safe.

Even though it is not in my statement, we are working with General Becton to do all we can to reform our public schools. Our public schools need reform. I have a son who is in 11th grade in one of our public schools, so I know as a parent firsthand what we need to do to improve the quality of our educational system.

On the other hand, this educational system is facing the same pressures, the same challenges as Baltimore, which has asked the State to assist it in its efforts, the same as in Richmond or Chicago or New York and all over.

In terms of, again, the kind of progress we are making to make sure that we are an accountable government, we are developing a comprehensive performance-measurement system for the District. I agree with Congressman Horn, we need a results-oriented government. That is my desire. That is my philosophy. That is what we are beginning to do.

The DC government is operating much more efficiently now than ever before. Our trash is being picked up more efficiently. A number of other things are happening, but this performance evaluation system will allow us to measure outcomes, to measure what people

are doing, and so we are building a culture of accomplishment, agency by agency.

Also, Mr. Chairman, a couple of days ago, you heard testimony from several of my colleagues from around the country. First of all, I regret that you did not invite this Mayor to come to be part of that discussion, but we will get over that. But most of these officials were Republicans who have not the faintest idea of what we are trying to achieve here in the District.

None of them had to lay off as many employees as I have. None of them have had these State responsibilities to fulfill that I have. None have implemented to the degree that I have a massive transformation and city-wide restructuring.

I hope in the future you invite persons who not only can give an analysis of what they have done, but are more involved and knowledgeable about the steady and persistent progress the District has made to make our government better managed and more efficient.

Now, to the President's plan. Mr. Chairman, let me state that the last 2 months have been momentous occasions for the District of Columbia's residents. For a long time, many of us, including Ms. Norton and others, have advocated a transfer of these State functions over a period of time. I was among those in 1973, who lobbied the Congress, who worked awfully hard to try to get this measure of self-government.

We were so eager to get it, we did not look at the details of it. We did not look at the burdens of the future that may be placed upon us. For instance, in 1973, when we took over—1975, when we took over the city government in terms of Mayor and city council, we were spending about $17 million on our Medicaid program, both local and Federal, $17 million; yet, in 1996, this government spent over $800 million in Medicaid payments, $400 of our own local money and $400 of the Federal Government's. It had nothing to do with mismanagement. Medicaid all over America was growing by 10 and 15 percent, and ours was no exception.

The same thing was true in our prisons. We were spending $32 million in 1975, for the upkeep and custody and care of our sentenced prisoners, and yet, in 1996, we spent over $240 million of our own local money to do that.

The point I am making here is that the President has initiated a bold, new push to right the economic and structural deficiencies of America's first city. The President's plan is both welcome and long overdue. It is a good first step. It recognizes that Federal Government's responsibility and Congress's complicity in perpetuating the District's longstanding structural constraints, constraints that have hamstrung our collapsing fiscal infrastructure.

Just to go back again to the Federal Government's role in the past, when we took over the government in 1975, the Federal Government left us in a deficit of $279 million and has not paid its bills yet. So if you all want to do something to right these wrongs, they ought to at least put this in the plan, to pay our $279 million that was left with us when we took over the government.

Also, the government, the National Government arbitrarily left us with an unfunded pension plan, with laws passed by the National Government that made police and fire pensions the most

generous in America: 20 years, and no age for retirement, a liability that is still unfunded today of some $5 billion.

But the tragedy of that is that the DC taxpayers are paying for that unfunded pension system, not the firefighters or police officers or the judges or teachers who are in it. We are paying over $300 million this year as our contribution to that unfunded pension plan left over from the Federal Government.

Mr. Chairman, the Federal Government has prohibited us from taxing income earned here in the District. This is not a frivolous argument. This is a very serious discussion about not being able to tax the $19 billion earned here in Washington. Seventy percent of all the work force, 400,000 of the 600,000-odd jobs in the District, are held by non-DC residents.

In Baltimore, if one lives outside of Baltimore and moves into or works in Howard County or Baltimore County or Prince George's or Montgomery County, the State captures that income and redistributes it back to Baltimore. The same is true with Richmond or New York City.

If I lived in Camden, NJ and worked in Philadelphia, where Mayor Rendell is the mayor, I would have to pay a 4 percent wage tax and take that off my income taxes in New Jersey. And so what happens here is that because we cannot collect that tax, some $750 million if we tax it at the Philadelphia rate, we now sit before you.

If we could tax nonresident income, I do not believe we would be asking for many of these State functions to be taken over by the Federal Government because we will have the State authority to raise revenue to maintain those State functions.

The only area we would probably be asking you to take over would be the unfunded pension liabilities because that is outside of anybody's purview. We would be unable to do that, because we cannot tax this income, because we cannot raise this $750 million. Our corporate income tax is the highest in the region, over 9 percent, our personal income tax is over 9 percent, and our commercial property taxes are higher. This means if we could tax these residents, we could lower our property taxes, lower our income taxes, lower our business taxes, and as the "Orphan Child" analysis stated, we could become more competitive in this region.

So this is not just a discussion about philosophy, whether you ought to tax people, should tax people or not. Moreover, we have over 300,000 cars coming into Washington, using our streets and our roads, not paying any taxes, not 1 cent to fix these potholes. In fact, they create a lot of these potholes.

And so all of this has to be taken into context about why we need the transfer of these States' functions, why we need and why I continue, in spite of the political odds against it, taxing income at its source, because it is so critical. Not only are these cars coming into Washington, Ms. Jarvis, but when you have to get up in the morning to move your cars by 7 o'clock so commuters can come in, it is inconveniencing our local citizens. So this is a very serious problem.

Also, Mr. Chairman and members of the committee, the Federal Government assigned significant State-level functions to the local government without the appropriate resources.

Mr. Chairman, when you were a member of the board of supervisors of Fairfax County, you did not have any responsibility for State prisons or for welfare, as I do, or for food stamps or for Medicaid or for State mental institutions.

Mr. DAVIS. Actually, we did in some of those areas.

Mr. BARRY. Not much.

Mr. DAVIS. Fairfax was the only government in the State that——

Mr. BARRY. Most did not.

Mr. DAVIS [continuing]. We did have some of this.

Mr. BARRY. Right. I think you get the point, though. And so every morning I wake up, I have to worry about 46 percent of our functions being State functions. I am not complaining, but explaining. I would like to enter into the record a detailed analysis of our budget for 1996—I mean, 1997.

We had a budget of $5,108,000,000; 32,787 people working, and you will find that $2.4 billion of this money was spent on State functions, 47 percent. You can go through it line item by line item. It is good work. You can see that no other city in America is burdened with these responsibilities without the appropriate financing mechanism.

I would like to ask that this chart be entered into the record.

Mr. DAVIS. Without objection, it will be entered into the record.

Mr. BARRY. And so for the President to suggest that our unfunded pension liability be transferred is supported unequivocally. It should have happened a long time ago, but it is finally being proposed. And we believe that the entire unfunded pension, the entire pension plan should be taken over by the Federal Government. It is about $360 million contemplated for 1998, with an additional 60-some-million-dollars in contributions from our employees.

Also, I support the takeover of the criminal justice system. On the other hand, there are some serious reservations about some parts of it. We are beginning to work out the sentencing guidelines that would be acceptable to the council and the Mayor, but most of us in Washington oppose the inequities of the sentencing guidelines in the Federal Government as it applies to drug use, drug possession.

In the Federal guidelines, if you are arrested with 5 grams of crack cocaine, you receive a mandatory 5 years in jail, but yet it takes 500 grams of powdered cocaine to get you those same 5 years. Of those arrested for crack cocaine, 95 percent are African-American and Hispanics, and 95 percent of those who are arrested for powdered cocaine are non-African-American, non-Hispanics; and so that inequity, we could never accept.

In the District of Columbia, we are working on that. Most of us in the District are opposed to a general death penalty for those who would kill people. Now, some of us are beginning to look at a different sentencing for those who kill police officers, but, again, we would never be able to accept that, and there are some others. But we are working on those guidelines.

We support the takeover of our Lorton facilities, which house almost 7,000 sentenced prisoners. We support the taking over of the courts system. The judges are now appointed by the President, confirmed by the Senate. We do not have any say about that.

The U.S. attorney prosecutes our local crime. In no other place in America does that happen, so it is logical if you are going to have control of the appointment of judges and the control of the appointment of the U.S. attorney, in the judicial philosophy, you ought to pay for that, so we support that.

The present proposal to increase the Federal Government's share of Medicaid—long overdue. We are the only city in America that pays 50 percent of this payment. There are some States where the Federal Government reimburses them up to 80 percent, 75 percent. I would like for this to have been 80 percent, but certainly 70 percent is a step in the right direction. It would save us about $162 million in 1998.

Senator BROWNBACK. Mayor, if I could break in for just a moment?

Mr. BARRY. Yes.

Senator BROWNBACK. We appreciate your statement and your thoughts on this, and we would like to, if we could, let's hone them in on some of the specific points. We have a number of people we have got——

Mr. BARRY. I see.

Senator BROWNBACK [continuing]. To get testifying, and I think there will be some questions up here as well, so if you could, we will certainly enter all of that into the record, then, as well.

Mr. BARRY. Well, I was speaking about the President's plan, so I will just support the income tax collections. The infrastructure investments are very important. The new Economic Development Corp.; we do not know enough about all what it would do, but it appears to be headed in the right direction in terms of the Economic Development Corp.

But let me just say, Mr. Chairman and members of the committee, that this Economic Development Corp., is no substitute for Ms. Norton's plan. This Economic Development Corp., obviously can assist in developing opportunities for development in our neighborhoods, for housing, and for office buildings, and other commercial ventures, but it gives no relief to the average DC citizens who are overburdened and overtaxed.

We need Ms. Norton's plan with the 15-percent flat tax. We need the capital gains, zero capital gains not only just for Washington; I mentioned in your hearing, Mr. Brownback, that we ought to look at how you extend that to the Nation so we do not limit investments and investment opportunity for the people who live in the District of Columbia.

Early on, Senator, you indicated some concern about whether or not the Federal Government could operate these entities. The Federal Government has never operated our felony prison system. All crimes prior to 1970 were tried in Federal court, so, therefore, people went to Federal institutions.

I think the Federal Bureau of Prisons can operate our prisons. It is a big industry. It is a big part of the Federal Government's budget, and they have good experience in doing that.

For Medicaid; it is just a matter of formula change, so there is no problem with that. The pensions are certainly easy to do. The Federal Government operates Civil Service pensions, Social Security, and a whole range of other retirement funds, and so I do not

think that we are going back to the past in terms of been there, done that; we are going to the future in terms of the Federal Government being able to take this over.

They ought to take over our mental institutions, too. St. Elizabeth's Hospital is a State institution. We are spending $190 million there. They ought to take that over. No other mayor has that responsibility.

They also ought to support UDC. UDC is our State university. We cannot seem to get the local support that we need, but it is a State university. It ought to be put into the President's plan for 1998, some support financially for our State institutions.

And, finally, Mr. Chairman, let me speak about the Federal payment. It is our view that the Federal payment is not a gift. It is not a stipend. It is not a handout. Of all the land in the District, 56 percent is tax exempt, 56 percent; 41 percent of that is federally owned land; the other of these foreign governments, though we certainly welcome them here, and our own nonprofit organizations.

Then you have got the incredible situation where over 30 organizations in the District, including the National Geographic and the National Education Association and others, that do not contribute anything to the life of Washington, are exempted from taxes by the Congress. Ms. Norton has introduced a bill to right that wrong.

In conclusion, we believe that the Federal payment ought to be part of this package. Ms. O'Cleireacain, in her analysis, said it should remain as part of this package—maybe not $660, but certainly $382, as a part of it.

I have been rather long, Mr. Chairman. I ask your tolerance of this, but this is a very serious subject, and very rarely do I have an opportunity to put it all in perspective in the way that we are doing here. Thank you very much.

[The prepared statement of Mr. Barry follows:]

HONORABLE MARION BARRY, JR.
MAYOR

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GOOD MORNING SENATOR BROWNBACK, CONGRESSMAN DAVIS AND OTHER SUBCOMMITTEE MEMBERS. I AM PLEASED TO APPEAR BEFORE YOU TODAY AT THIS JOINT HEARING ON PRESIDENT CLINTON'S *NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN* FOR THE DISTRICT OF COLUMBIA. THE WHITE HOUSE PROPOSAL COMES AS THE WEATHER GETS VERY PLEASANT HERE IN WASHINGTON. WE CAN ONLY HOPE THAT THE LONG AND HARD WINTER OF OUR EXPERIENCE FACES A NEW SPRING. FOR ME, AND THE CITIZENS OF THE DISTRICT, THE SPRING OF OUR EXPERIENCE IS VERY LATE ARRIVING. BUT I BELIEVE IT IS FINALLY AT HAND. SINCE JANUARY 2, 1995, WE HAVE:

...CONFRONTED OUR DIFFICULTIES;

...STOPPED THE FINANCIAL HEMORRHAGING;

...PARTNERED WITH STAKEHOLDERS; AND,

...EMBARKED ON STRUCTURAL CHANGES AT SEVERAL LEVELS.

OUR PROGRESS, HOWEVER, CONTINUES TO BE CLOUDED BY WAVES OF "DOOMSDAY" RHETORIC THAT IS INCONSISTENT WITH THE FACTS AND COUNTERPRODUCTIVE TO ALL OF OUR EFFORTS AND PROGRESS. AND

YET, IN THE FACE OF ABSOLUTE LIES ABOUT OUR RECORD OF ACCOMPLISHMENT, WE STILL RISE AND MANAGE TO TRANSFORM AND CHANGE IN THE MIDST OF AN OFTEN HOSTILE AND DEFEATIST POLITICAL ENVIRONMENT.

AFTER BALANCING ITS BUDGET FOR 11 OF THE PREVIOUS 14 YEARS, THE DISTRICT GOVERNMENT OVERSPENT ITS 1994 BUDGET BY $335 MILLION, AN UNACCEPTABLE AND DISGRACEFUL PERFORMANCE. IN FEBRUARY 1995, SOON AFTER TAKING OFFICE, IT WAS THIS MAYOR WHO ANNOUNCED TO THE CITIZENS THE DESPERATE AND SORRY STATE OF THE DISTRICT'S FINANCES. *I* ANNOUNCED THE $335 MILLION IN OVERSPENDING AND, MUCH TO MY HORROR, DISCOVERED THAT THE SPENDING CURVE WOULD CONTINUE, GIVING US A $722 MILLION SHORTFALL IF DRASTIC ACTION DID NOT TAKE PLACE.

IN THE REMAINING MONTHS OF FY95, WE MOVED TO AVERT THIS CALAMITY. THE RECORD SHOWS THAT ACTUAL SPENDING WAS REDUCED BY $151 MILLION--A FEAT OF HISTORICAL PROPORTION. THIS EVENT--THE SINS OF THE PRIOR ADMINISTRATION, PRECIPITATED THE ESTABLISHMENT OF A CONTROL BOARD FOR THE DISTRICT, EVEN THOUGH OUR SITUATION WAS FAR LESS CRITICAL

THAN THAT OF NEW YORK CITY, PHILADELPHIA, ORANGE COUNTY, CALIFORNIA OR MANY OTHER JURISDICTIONS FACING SIMILAR FINANCIAL PERIL.

IF THE NAYSAYERS AND FINGER POINTERS WHO USE THE DISTRICT AS A CONVENIENT DOORMAT FOR THEIR NEXT SOUND BYTE WOULD SIMPLY EXAMINE THE RECORD, THEY WOULD KNOW THAT ON FEBRUARY 14TH, 1996, THIS MAYOR PRESENTED A WELL-THOUGHT OUT TRANSFORMATION STRATEGY THAT HAS FORMED THE BASIS FOR THE GOVERNMENT-WIDE RESTRUCTURING THAT IS OCCURRING AS WE SPEAK. THE CONSTANT COMMENT FROM ARMCHAIR QUARTER BACKS DEMEANING AND MISCONSTRUING OUR WORK IS RIDICULOUS AND HURTFUL.

CONSIDER THE FACTS:

- ***THIS MAYOR ANNOUNCED HIS INTENT TO REDUCE THE SIZE OF GOVERNMENT*- THE FY95 BUDGET REFLECTED 47,079 FTES CITY-WIDE. THE FY97 ALLOCATION STANDS AT 36,604 FTES,–*A DECREASE OF 10,475 FTES SINCE 1995.* AND, ACCORDING TO OUR**

MOST RECENT FIGURES, AS OF FEBRUARY 26, 1997, OUR ON BOARD FTES ARE 33,524.[1] THESE FIGURES ARE TRUE, VERIFIED WITH THE INSPECTOR GENERAL, INDEPENDENT AUDITORS, CFO AND THE CONTROL BOARD. THIS IS PHENOMENAL CHANGE. THIS IS TRANSFORMATION! IS THIS NOT LEADERSHIP?

- ***THIS MAYOR DEVELOPED A PRIVATIZATION PLAN TO OUTSOURCE CITY SERVICES FOR GREATER EFFICIENCIES AND COST SAVINGS.*** **SO FAR, WE HAVE OUTSOURCED THE 898-BED CORRECTIONAL TREATMENT FACILITY, THE EDUCATIONAL ACADEMY AT OAK HILL, FOOD SERVICES FOR THE CORRECTIONAL POPULATION AND THE POLICE AND FIRE CLINIC. WE HAVE ALSO CLOSED D.C. VILLAGE NURSING HOME, HAVING PLACED 256 RESIDENTS IN LONG-TERM CARE FACILITIES. CHECK THE RECORD! EXAMINE THE FACTS! ALL OF THIS HAS OCCURRED WITHIN THE FRAMEWORK OF TRANSFORMATION DURING THE TWO YEARS OF MY TENURE. AGAIN, ASTONISHING CHANGE FOR A DISENFRANCHISED AND FINANCIALLY TROUBLED CITY.**

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[1] Excluding D.C. Housing Authority (831 FTEs), WASA (1142 FTEs), Sports Commission (97 FTES), an D.C. General Hospital (1,753 FTEs).

- ***THE BARRY ADMINISTRATION HAS*** **ESTABLISHED A PACKAGE OF COMPREHENSIVE HEALTH SERVICES - I HAVE CREATED A DEPARTMENT OF HEALTH TO BETTER FOCUS AND ADMINISTER SERVICES TO OUR PUBLIC; WE HAVE REDUCED MEDICAID EXPENSES BY $80 MILLION IN FY96/97; WE HAVE CREATED A "PUBLIC BENEFIT CORPORATION" AND TRANSFERRED PUBLIC HEALTH CLINICS TO THE CORPORATION FOR MORE COORDINATED AND FOCUSED HEALTH SERVICE DELIVERY.**

  LET THE RECORD REFLECT EXTRAORDINARY CHANGE, AND COMPETENCE IN TRANSFORMING THIS GOVERNMENT AND BRINGING ABOUT CHANGE.

- **THIS MAYOR RESTRUCTURED HUMAN DEVELOPMENT INITIATIVES - WE HAVE REDUCED AFDC BENEFITS, PRIVATIZED PERSONAL CARE AIDS, REDUCED UNEMPLOYMENT BENEFITS AND WORKERS' COMPENSATION BENEFITS. IS THIS NOT LEADERSHIP? DOES THIS NOT REQUIRE TOUGH DECISION MAKING? ASK OUR MOST NEEDIEST RESIDENTS IF TIMES AREN'T TOUGH. WE HAVE**

LITERALLY CUT THE LIFE LINE AND SUPPORT STRUCTURE FOR OUR MOST VULNERABLE RESIDENTS. ASK THE AIDS PATIENT, THE HOMELESS AND THE RECOVERING DRUG ADDICT TRYING TO TURN HIS OR HER LIFE AROUND IF THESE ARE NOT TOUGH CUTS. ASK OUR RESIDENTS WHO ARE FACED WITH LOSING GENERAL PUBLIC ASSISTANCE BENEFITS IF WE HAVE NOT CUT TOO DEEP. THE DEPARTMENT OF HUMAN SERVICES HAS LOST 2,000 POSITIONS SINCE 1995. WE HAVE HIT THE WALL ON THE HUMAN SERVICES DELIVERY STRUCTURE AND CAN CUT NO MORE.

- THIS ADMINISTRATION HAS DECIDED TO INVEST MORE IN COMMUNITY POLICING. WE ARE INVESTING MORE IN THE COMMUNITY POLICING MODEL BY RESTRUCTURING POLICE BEATS TO TAKE INTO ACCOUNT NEIGHBORHOOD BOUNDARIES AND DEVELOPING GREATER LINKAGES BETWEEN POLICE TEAMS AND THE NEIGHBORHOODS THEY SERVE, AND WE ARE ASSIGNING MORE POLICE OFFICERS TO THE STREETS THAN EVER BEFORE.

- THIS MAYOR SENT TO THE COUNCIL AND THE COUNCIL PASSED LEGISLATION CREATING AN INDEPENDENT WATER AND SEWER

AUTHORITY TO ENSURE IMPROVED WATER QUALITY. THE BARRY ADMINISTRATION HAS IMPLEMENTED THE COUNCIL'S LEGISLATION AND CREATED A BETTER MANAGED, INDEPENDENT WATER AND SEWER AUTHORITY WITH REGIONAL REPRESENTATION TO ENSURE CLEANER DRINKING WATER AND MORE EFFICIENT OPERATIONS. JUST LAST MONTH, EPA REGION III ADMINISTRATOR, MICHAEL MCCABE, CAME TO THE DISTRICT AND PRAISED THE AUTHORITY FOR THE RAPID IMPROVEMENTS THAT HAVE BEEN MADE SINCE ITS ESTABLISHMENT LAST OCTOBER.

- THE BARRY ADMINISTRATION HAS ALSO TAKEN A MAJOR STEP IN DEVELOPING A COMPREHENSIVE PERFORMANCE MEASUREMENT SYSTEM FOR THE DISTRICT. THIS SYSTEM WILL ALLOW US TO MONITOR, EVALUATE AND REPORT ON THE EFFECTIVENESS OF PROGRAMS FOR WHICH CORE AGENCIES ARE RESPONSIBLE. THE FINANCIAL AUTHORITY RECENTLY APPROVED A CONTRACT WITH DELOITTE AND TOUCHE WHO WILL ASSIST US WITH DEVELOPING THE INFRASTRUCTURE AND THE CAPACITY TO DEVELOP AND MAINTAIN SUCH A SYSTEM.

IF YOU EXAMINE THE RECORD, YOU WILL SEE THAT WE ARE BUILDING A CULTURE OF ACCOMPLISHMENT AGENCY-BY-AGENCY. YES WE MAY STUMBLE, -- EVEN FALL, JUST AS ALL GREAT CITIES DO. BUT FOR THE MOST PART WE ARE MAKING REMARKABLE PROGRESS.

IF YOU ARE SINCERELY INTERESTED IN THE WELFARE AND FUTURE OF THE DISTRICT, THEN SPEAK THE TRUTH AND STOP THE LIES-- WHEREVER THEY MIGHT ORIGINATE. EXAMINE THESE FACTS. THEY ARE WELL DOCUMENTED AND A MATTER OF RECORD. LETS WORK TOGETHER TO SAVE THE DISTRICT AND THE REGION.

A COUPLE OF DAYS AGO, YOU HEARD TESTIMONY FROM SEVERAL OF MY COLLEAGUES FROM AROUND THE COUNTRY. MOST OF THESE OFFICIALS WERE REPUBLICANS WHO HAD NOT THE FAINTEST IDEA OF WHAT WE ARE TRYING TO ACHIEVE HERE IN THE DISTRICT. NONE OF THEM HAVE HAD TO LAY OFF AS MANY EMPLOYEES AS I HAVE. NONE HAVE ALL OF THESE STATE RESPONSIBILITIES TO FULFILL THAT I HAVE. NONE HAVE IMPLEMENTED TO THE DEGREE THAT I HAVE, MASSIVE TRANSFORMATION AND CITY-WIDE RESTRUCTURING.

I HOPE IN THE FUTURE, YOU WILL INVITE PERSONS WHO NOT ONLY CAN GIVE AN ANALYSIS OF WHAT THEY HAVE DONE, BUT ARE MORE INVOLVED AND KNOWLEDGEABLE ABOUT THE STEADY AND CONSISTENT PROGRESS THE DISTRICT HAS MADE TO MAKE OUR GOVERNMENT BETTER MANAGED AND MORE EFFICIENT.

DISCUSSION ON PRESIDENT'S PLAN

WITH RESPECT TO THE WHITE HOUSE PROPOSAL, LET ME SIMPLY STATE THAT THE LAST TWO MONTHS HAVE BEEN MOMENTOUS FOR THE DISTRICT OF COLUMBIA GOVERNMENT AND ITS RESIDENTS. OUR CITY HAS BEEN ENERGIZED BY PRESIDENT CLINTON'S BOLD, NEW PUSH TO RIGHT THE ECONOMIC AND STRUCTURAL DEFICIENCIES OF AMERICA'S FIRST CITY, WASHINGTON, D.C. THE PRESIDENT'S PLAN IS BOTH WELCOMED AND LONG OVERDUE. IT RECOGNIZES THE FEDERAL GOVERNMENT'S RESPONSIBILITY AND CONGRESS'S COMPLICITY IN PERPETUATING THE DISTRICT'S LONG-STANDING STRUCTURAL CONSTRAINTS. CONSTRAINTS THAT HAVE HAMSTRUNG OUR COLLAPSING FISCAL INFRASTRUCTURE.

- **FOR THE RECORD, THE FEDERAL GOVERNMENT TURNED OVER RESPONSIBILITY FOR LOCAL AFFAIRS LEAVING $279 MILLION IN UNPAID BILLS.**

- **FOR THE RECORD, THE FEDERAL GOVERNMENT ARBITRARILY ASSIGNED PAYMENT RESPONSIBILITY TO THE NEW DISTRICT GOVERNMENT FOR MASSIVE PENSION FUND LIABILITIES, WHICH COST OUR DC RESIDENTS $250 MILLION A YEAR.**

- **FOR THE RECORD THE FEDERAL GOVERNMENT HAS PROHIBITED LOCAL GOVERNMENT FROM TAXING INCOME EARNED HERE IN THE DISTRICT--THE ONLY JURISDICTION IN AMERICA SO PENALIZED--WHICH LEADS TO A SITUATION WHERE 300,000 CARS FROM OUR SUBURBAN NEIGHBORS CREATE POTHOLES EACH DAY ON OUR MAIN THOROUGHFARES AND NEIGHBORHOOD STREETS THAT SCARCE LOCAL DOLLARS MUST FIX.**

- **FOR THE RECORD, OUT OF THE 6,000 JOBS IN THE DISTRICT, 400,000 ARE HELD BY NON-DISTRICT RESIDENTS. THESE NON D.C. RESIDENTS EARN OVER $19 BILLION. IF WE COULD TAX THIS**

INCOME AT THE SAME RATE AS THE CITY OF PHILADELPHIA TAXES ITS NON-RESIDENTS, WE WOULD GENERATE $750 MILLION EACH YEAR. IN FACT, MR. CHAIRMAN, IF THIS WERE THE CASE--IF THIS WERE AT ALL POSSIBLE, WE WOULD NOT HAVE A NEED TO ASK THE FEDERAL GOVERNMENT TO TAKE OVER THESE STATE FUNCTIONS. WE SIMPLY WOULD NOT BE SITTING HERE TODAY.

- **FOR THE RECORD, THE FEDERAL GOVERNMENT ASSIGNED SIGNIFICANT STATE-LEVEL FUNCTIONS TO THE LOCAL GOVERNMENT WITHOUT APPROPRIATE RESOURCES--INCLUDING PRISONS, A MENTAL HEALTH SYSTEM, AND MUCH MORE. UNLIKE OTHER CITIES, WE HAVE NO GOVERNOR TO SUMMON FOR HELP OR TO REDISTRIBUTE REVENUES IN THE FORM OF STATE AID. INSTEAD, WE GO QUIETLY ABOUT, SHOULDERING THE BURDEN OF SUBSIDIZING NOT ONLY THE REGION, BUT THE FEDERAL GOVERNMENT AS WELL. DID YOU KNOW THAT THE BENEFITS AND RETIREMENT PACKAGES FOR THE U.S. SECRET SERVICE , AND U.S. PARK POLICE ARE PROCESSED BY THE DISTRICT GOVERNMENT? DID YOU KNOW THIS?**

FOR THE RECORD, MR. CHAIRMAN, I WELCOME THIS TARDY AND SUBSTANTIVE INTEREST AND COMMITMENT BY THE WHITE HOUSE TO ADDRESS OUR STRUCTURAL NEEDS--PARTICULARLY GIVEN THE VULNERABILITY OF OUR ECONOMIC CLIMATE.

DISTRICT'S POSITION ON WHITE HOUSE PLAN

UNFUNDED PENSION LIABILITY - I SUPPORT THE PRESIDENT'S ASSUMPTION OF THE DISTRICT'S UNFUNDED PENSION LIABILITY FOR POLICE, FIREFIGHTERS, TEACHERS AND JUDGES. IN 1980, THE DISTRICT PAID $107.7 MILLION TO THE RETIREMENT BOARD--AMOUNTING TO 7.8 PERCENT OF THE DISTRICT'S TOTAL BUDGET. THIS FIGURE IS BUDGETED AT $321.1 MILLION FOR FY97, AND IS ESTIMATED TO GROW TO $393.4 MILLION BY THE YEAR 2000.

TAKE OVER PRISON SYSTEM AND RELATED CAPITAL NEEDS - THE DISTRICT ALSO SUPPORTS THE PRESIDENT'S PLAN ON PRISON TAKE-OVER. HOWEVER, WE SHOULD NOT RUSH TO APPLY FEDERAL SENTENCING STANDARDS BY LOCAL COURTS AS A CONDITION FOR SUCH ASSISTANCE.

INCREASE FEDERAL SHARE OF MEDICAID PAYMENTS - THE PRESIDENT'S PROPOSAL TO INCREASE THE FEDERAL GOVERNMENT'S SHARE OF MEDICAID PAYMENTS FROM 50 PERCENT TO 70 PERCENT IS A GOOD ONE. BASED ON CURRENT MEDICAID PROJECTIONS, SAVINGS FROM THE NEW MATCHING RATE WILL BE $162.4 MILLION IN FY98; $166.78 MILLION IN FY99 AND $172.76 MILLION IN FY2000.

ASSUME LOCAL INCOME TAX COLLECTION AND PAYROLL TAXES - SIMILARLY, I SUPPORT THE PROPOSAL'S PLAN TO ASSUME RESPONSIBILITY FOR LOCAL INCOME TAX COLLECTION AND PAYROLL TAXES. WE MUST CRITICALLY ASSESS, HOWEVER, THE IMPACT THIS ACTION WOULD HAVE ON THE DISTRICT'S CASH FLOW.

INFRASTRUCTURE INVESTMENT - THE PRESIDENT'S PROPOSAL TO ESTABLISH AN INFRASTRUCTURE FUND, AND ESTABLISH AN INDEPENDENT *NATIONAL CAPITAL INFRASTRUCTURE AUTHORITY* TO OVERSEE SELECTED TRANSPORTATION CONSTRUCTION PROJECTS, REQUIRES FURTHER ANALYSIS AND CONSIDERATION. AS PROPOSED, THE AUTHORITY WOULD BE GOVERNED BY A BOARD OF BOTH DISTRICT AND U.S. DEPARTMENT OF TRANSPORTATION MEMBERS.

THE PROPOSAL UNFORTUNATELY ASSERTS, HOWEVER, THAT THE $125 MILLION PROVIDED BY THE FUND, *PLUS* THE $42 MILLION CURRENTLY USED AS LOCAL MATCH FOR FEDERAL-AID ELIGIBLE ROADS, WOULD BE DIRECTED TOWARDS THE NATIONAL HIGHWAY SYSTEM ROADS, WHICH REPRESENTS *ONLY 7 PERCENT OF THE DISTRICT'S TOTAL ROAD MILES.* THESE ROADS ARE NOT ON OUR LOCAL ROAD SYSTEM AND ALREADY ARE THE BEST MAINTAINED ROADS IN THE DISTRICT. WE ARE WORKING CLOSELY WITH OMB AND OTHERS, TO ENSURE THAT THERE IS GREATER FLEXIBILITY IN THE PRESIDENT'S PLAN TO USE SOME OF THE $125 MILLION FOR LOCAL ROADS.

NEW ECONOMIC DEVELOPMENT CORPORATION - THIS PROPOSAL, COMBINED WITH THE PROPOSED TAX CREDITS WILL GO A LONG WAY IN ENCOURAGING BUSINESS INVESTMENT AND NEIGHBORHOOD REVITALIZATION. HOWEVER, I WOULD LIKE TO FURTHER EXPLORE THE MAKE-UP OF THE PROPOSED NINE MEMBER BOARD OF DIRECTORS, OF WHICH ONLY TWO ARE PROPOSED TO BE APPOINTED BY LOCAL ELECTED OFFICIALS. GIVEN THE CRITICAL ROLE THAT THE NEW CORPORATION WILL PLAY IN ADDRESSING COMMUNITY INVESTMENT ISSUES, I BELIEVE THAT A MORE BALANCED AND LOCAL

REPRESENTATIVE BOARD IS NEEDED.

SHORT COMINGS IN THE PRESIDENT'S PLAN

THE PRESIDENT'S PLAN IS EXTREMELY STRONG AND HELPFUL IN STABILIZING THE EXPENDITURE SIDE OF THE DISTRICT'S BUDGET, YET, IT FALLS SHORT, HOWEVER, IN DEVELOPING A COMPREHENSIVE PLAN FOR REVENUE STABILITY. THE PROBLEMS ASSOCIATED WITH RECONSTRUCTING THE TAX AND REVENUE SYSTEM REMAIN UNRESOLVED. OTHER PROPOSALS AND STUDIES HAVE RECENTLY EMERGED WHICH ACCURATELY CAPTURE THE DISTRICT'S FISCAL LIMITATIONS AND OFFER WORKABLE REMEDIES FOR RESOLVING OUR FRAGILE AND UNSUSTAINABLE REVENUE STRUCTURE.

I AM HOPEFUL THAT THE PRESIDENT'S PROPOSAL WILL BE FLEXIBLE ENOUGH TO ADOPT POLICIES WHICH NOT ONLY REDUCE EXPENDITURES AND OPERATIONAL COSTS, BUT ALSO REDUCE TAXES TO SPUR LONG-TERM ECONOMIC DEVELOPMENT AND GROWTH.

AND THEN THERE IS THE QUESTION OF THE FEDERAL PAYMENT. LET'S BE CLEAR ABOUT THIS OFTEN MISUNDERSTOOD ALLOCATION. THE FEDERAL PAYMENT IS NEITHER A GIFT, NOR IS IT A STIPEND OR HAND-OUT. BY CONTRAST, IT IS *SUPPOSED* TO BE A PAYMENT IN LIEU OF TAXES--OUR "COMPENSATION" FOR NOT BEING ABLE TO TAX INCOME AT ITS SOURCE OR TO TAX THE 41 PERCENT OF DISTRICT LAND THAT IS OWNED BY THE FEDERAL GOVERNMENT. IT IS NO SECRET THAT THE FEDERAL PAYMENT HAS ROUTINELY FALLEN SHORT OF COMPENSATING THE DISTRICT FOR THE NET IMPACT OF THE FEDERAL PRESENCE OR FOR LOST REVENUES ASSOCIATED WITH TAXES FOREGONE. IN ALL CANDOR, IT HAS ALWAYS BEEN AN INADEQUATE MECHANISM TO DEAL WITH THESE STRUCTURAL INEQUITIES. WE MUST THEREFORE, EXAMINE THE FEDERAL PAYMENT ISSUE MUCH MORE CAREFULLY, RECOGNIZING ITS HISTORICAL ROLE AND TRADITIONAL SHORTCOMINGS.

THE PRESIDENT'S PLAN IS ALSO SILENT ON ANOTHER MAJOR STATE FUNCTION, THAT BEING OUR MENTAL HEALTH SERVICES--ST. ELIZABETH'S HOSPITAL. I STRONGLY BELIEVE THAT THIS FUNCTION MUST ALSO BE RECONSIDERED WITHIN THE CONTEXT OF THE

PRESIDENT'S PLAN.

FINALLY, THE PRESIDENT'S PLAN SHOULD REFLECT SUPPORT FOR THE UNIVERSITY OF THE DISTRICT OF COLUMBIA. UDC IS OUR STATE UNIVERSITY. THOMAS JEFFERSON, ONE OF THIS NATION'S FOUNDING FATHERS, STIPULATED IN HIS WILL THAT ONLY ONE CREDIT BE PLACED ON HIS TOMBSTONE: THAT HE WAS THE FOUNDER OF THE UNIVERSITY OF VIRGINIA. LIKE ALL LEADERS OF TRUE VISION, I CAN CANNOT BUCKLE NOR WAIVER IN STANDING UP FOR EVERY POSSIBLE EDUCATIONAL OPPORTUNITY THAT OUR UDC WILL PROVIDE FOR GENERATIONS TO COME.

CONCLUSION

ONCE AGAIN, THE DISTRICT FACES AN HISTORIC CROSSROAD, A MOMENT OF TRUTH, A GREAT TURNING POINT. WHILE WE HAVE NOT BEEN WILLING TO FIND THE ANSWER TO LONG-TERM FISCAL STABILITY FOR THE DISTRICT IN THE PAST, THE INGREDIENTS FOR A SOLUTION ARE CLOSE AT HAND. I AM CONFIDENT THAT FOR ONCE, WE ARE ALL ON THE RIGHT PATH AND THAT TOGETHER, WE WILL NOT LOSE THIS GOLDEN OPPORTUNITY TO MAKE A LASTING CHANGE FOR

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OUR BELOVED NATION'S CAPITAL--AMERICA'S FIRST CITY. I THANK YOU FOR INVITING ME TODAY.

Mr. DAVIS. Thank you very much, Mr. Mayor.

Chairwoman Jarvis, welcome.

Ms. JARVIS. Good morning, Mr. Chairman. Thank you for the opportunity to testify. Good morning to Senator Brownback, Senator Lieberman, Mrs. Morella, Congresswoman Norton, our fighter on the Hill.

I am pleased that my colleagues, Council Members Schwartz, Smith, and Evans, were able to join us this morning, along with young people from the District of Columbia.

I feel that I am looking into the faces of people who care about the Nation's Capital, and I am pleased to be here this morning.

The President's proposal provides a historic opportunity to address the city's financial crisis in a way that begins to address fundamental inequities that have long existed in the relationship between the District government and the Federal Government. We who represent the residents of the District embrace this effort that is both enticing and problematic.

As we continue to make difficult but steady progress to improve the accountability of the District government for improved delivery of public services and improved financial management, and I might add that we are determined to balance the District's budget in fiscal 1998, for the first time in years and 1 year ahead of the schedule envisioned by the control board legislation. We are pleased to be at the table to ensure that all of the political and financial inequities which exist in the relationship between the District and the Federal Government and which exist in the relationship between the District and its surrounding jurisdictions are at least raised and discussed, even if they are not all addressed at this time.

Although the District, under the 1973 Home Rule Charter, has attempted to perform State functions and to provide State-like services, we have done so without the revenue base of a State, which has been constrained severely and primarily by the Federal presence or by congressionally imposed restrictions.

Recognizing the status of the District as the Nation's Capital and recognizing the financial constraints uniquely applied to the District, the President has proposed that the Federal Government increase its budgetary responsibility, and sometimes management responsibility, for some very costly District operations which are either State-like functions which virtually no other city in the Nation performs or which are burdens which the Federal Government itself created and unfairly transferred to the District as a part of home rule.

We agree with you, Congressman Davis, when you noted at your hearing last month that the President's proposal is an excellent foundation upon which we can build and to which we hope to add value. Several aspects of the proposal are enticing because they will clearly have a positive effect on the fiscal health of the city. However, other aspects of the proposal are quite problematic because they will further isolate local citizens from the process by which their voices can be heard at decisionmaking levels of the government.

With that overall framework, I would like to express comments or concerns about each of the individual components of the Presi-

dent's proposal. I will also specify additional elements which we think would add value to the President's proposal.

On the unfunded liability, no financial difficulty faced by the District is more serious than this mushrooming $5 billion, unfunded liability. We enthusiastically support adoption of the framework of the President's pension proposal and want to ensure that the Federal Government reassumes the entire, unfunded pension liability that it created. It is important to remember that DC taxpayers spent $1.9 billion to pay for pensioneers who earned those benefits under the Federal system prior to Home Rule. If that inequity, along with the unfunded liability, were to be righted, I could stop my testimony now and go home.

The bottom line of the pension problem is this: If the District is to be responsible for any future costs associated with the past unfunded liability, we must make sure that enough of the District's assets are left in the District's pension fund so that we can afford to pay off such costs over time.

On Medicaid, the council also supports an increase in the Federal share of Medicaid costs from the current level of 50 to at least 70 percent, but as you know, no city currently pays more than 25 percent. The U.S. Department of Health and Human Services has offered to provide more intensive technical assistance to help the District improve management of our Medicaid program, and we look forward to that assistance.

The council believes that the Federal Government should also provide increased budgetary support for other State-like health and human services provided by the District. In the case of the Temporary Assistance for Needy Families, TANF program, the same considerations that underlie the proposed change in the Medicaid match would warrant review of the TANF block grant to allow for a larger Federal contribution.

It should also be noted, the District's unique status as a city without a State will make it more difficult to meet the work requirement contained in the new welfare reform legislation, which provides additional justification for reconsidering the calculation of this block grant for the District.

In the case of St. Elizabeth's Hospital, the Federal Government unfairly transferred responsibility for the operations of this State-like function, a State-like facility 10 years ago without providing the $56 million promised by the Feds for infrastructure repairs, and we hope that there would be a reassumption of that.

On the accumulated deficit, the council supports the President's plan for the $400 to $500 million U.S. Treasury borrowing, with a 10- to 15-year term to finance the District's accumulated deficit, because without such financing, it will be extremely difficult to solve our cash-flow problems.

When figuring out the overall, net benefit of the President's proposal, OMB must recognize that there are future annual costs associated with this financing. We want to ensure: (1), that the District maintains sufficient liquidity to operate; and, (2), that any financing must not impair the District's ability to finance its future capital needs.

Economic development; the council strongly supports the establishment of an Economic Development Corp., with considerable

local participation. Broad authority would be given to spur economic development, the use of tax credits for hiring District residents, and for business loans and investments, and including the use of tax-exempt, revenue bonds.

The economic turnaround of the District depends upon the private sector, to a great extent, and the government can provide the catalyst for this redevelopment. If we are really serious about revitalizing our Nation's Capital, we must reverse the hemorrhaging of jobs and residents from the economic core. We believe Ms. Norton's bill can help to do that and enthusiastically support it.

Transportation infrastructure investment; the council supports the President's proposal to establish a National Capital Infrastructure Fund, with $125 million in Federal seed money in fiscal 1998 for capital projects only if it can be spent primarily for our badly deteriorating local roads and bridges. We do not need this separate entity if it is going to be directed toward the 7 percent—that is only 75 miles—of our roads that are part of the well-funded Federal Highway System and not toward the 665 miles of local roads that had been traditionally underfunded and are among the District's worst roads.

In addition to the $125 million in Federal seed money, the council supports the redirection of much of the $200 million in Federal dollars previously authorized for the Barney Circle project if there is a final decision at the local level about that, again, to be used primarily for local infrastructure projects, including the new convention center's infrastructure.

The council is working with OMB to ensure that any independent authority that might be established to administer this fund would have sufficient District representation so that local priorities are properly reflected in the selection of capital improvement projects.

The council also would like the Federal seed money in the fund to be able to be used to leverage additional negative, an important point which we have put to Frank Raines. But I want to re-emphasize here that if that money, $125 million, could be used for the repayment of bond holders and used as leverage to issue further bonds, then we remarkably augment our capacity to do local road and bridge repairs.

Finally, the council is working to encourage the negotiation of pilot agreements with tax-exempt organizations so that contributions by these organizations can be deposited into the infrastructure fund or, and this is another interesting alternative, these pilots could be made a contribution to the Economic Development Corp. So you have two options there.

And if it turns out that the infrastructure fund, that $125 million is not going to be made available for local funds, it seems to me we do not need it as much as we need to put the pilots in the Economic Development Corp., and let the Federal Government continue to do its road repair in the way it has in the past if those dollars are not made available for local roads.

On the courts, the council supports Federal assumption of the responsibility for the cost of the judicial system, which is another function typically borne by States in other jurisdictions. However, the council believes that there needs to be continued local involve-

ment in the courts programs, including pretrial services, probation, and parole.

In light of the recognition in the President's proposal that the courts are run well currently, we are working with OMB to ensure that innovative and effective sentencing alternatives to incarceration are still available, such as the drug court, the multidoor dispute resolution program, the boot camp program, and the new domestic violence calendar.

As an added value item, the council would like the Federal budgetary responsibility for the courts in the President's proposal to be expanded beyond operations to include financial support for capital improvements as well.

Prisons; we support Federal assumption of the budgetary and management responsibility for the District's prison operations that are typically State functions. As you know, no other city in the country operates a prison with felony inmates. The council suggests that Lorton be phased out over a 5-year period, during which time the District will develop an independent capacity to handle the non-State prisoners, that is, those convicted of misdemeanors.

At the same time, the council asks that: (1), the District be given the ability to sell the lease it holds on the land at Lorton; (2), that compensation be given for the improvements made by the District on buildings at Lorton to enable the District to pay off the general obligation bonds associated with these improvements; (3), that the location of Federal prisons to which District inmates may be relocated be limited to a certain radius; and (4), that the District be compensated if it ends up housing any class of felons under the President's proposal.

In supporting Federal assumption of the State prison system, the council at this time has serious concerns about the condition associated with this element of the President's proposal, i.e., that the District must adopt sentencing standards that are comparable to Federal sentencing standards. Such a condition would infringe upon the sentencing discretion of experienced DC Superior Court judges who are Presidentially appointed and upon the legislative authority of the council to enact criminal sanctions.

Such a condition does nothing to revitalize the National Capital, and it runs totally counter to the goal of the President's proposal to improve the prospects for Home Rule to succeed.

We frankly do not understand the need for requiring the application of Federal sentencing standards by local courts as a prerequisite to Federal assumption of responsibility for the prison system. OMB Director Frank Raines testified before your committee last month that this requirement was necessary because the Bureau of Prisons had management concerns about housing criminals convicted of identical crimes with different sentences in the same prison.

However, since the beginning of Home Rule, large numbers of District prisoners, as many as 2,500 District inmates, have been housed in the Federal prison system with different sentences and subject to local laws regarding parole eligibility without any apparent management problem.

Moreover, there are thousands of District prisoners currently in the system who were sentenced under current law and who will not

be released for decades. Thus, even if the goal is to have a single-sentencing structure for all prisoners in Federal penal systems, achievement of this goal is so remote, it is very remote.

It also should be remembered that the Congress already has the ability to reject any legislation passed by the council and, in fact, has a longer review period, 60 days, for criminal code enactments. For the locally elected legislator to cede forever our limited authority over criminal sanctions to the Congress, especially when District residents continue to have no voting representation in the House on the floor or the Senate, would be a further diminution of the Democratic rights of our citizenry, which may not be worth the benefit of Federal budgetary and management support of our criminal justice system.

Tax administration and other technical assistance. The President's proposal provides that the IRS would assume responsibility from the District for the collection of local, individual income and payroll taxes. Although we would like assistance from the IRS in the area of compliance with the payment of local taxes, the council is concerned that IRS collection of local taxes might cause a delay in the District's cash receipts, thereby further exacerbating our liquidity and our cash-flow problems.

We are working with OMB to address this issue, but we suggest that the question of IRS collection of local taxes be deferred until after the council has an opportunity to consider forthcoming recommendations of our local tax revision commission. In general, we appreciate the availability of technical assistance in the District which is normally a part of Federal/State programs.

As the leading employer in the city, the Federal Government has the additional responsibility, exercised in other cities by their major employers, to provide assistance and support to the local government. Moreover, the Federal Government needs to reverse the flight of its agencies from the Nation's Capital and to restore the historic relative distribution of Federal employment between the District and elsewhere in the region in order to strengthen the core.

Capital investment in schools—another added value. In addition to capital investments identified in the President's proposal for economic development and transportation infrastructure, school construction is another area which, if not 100 percent a State function, is usually subsidized by the States. As another of our requested added-value items, the council is seeking Federal assistance for new school construction and reconstruction of existing schools.

And last, but not least, the Federal payment. You are familiar with the mantra, but let me repeat it once more. The annual Federal payment to the District represents compensation for services rendered to the Federal Government and compensation for restrictions on our revenue-raising options by the Federal Government. We are restricted in our ability to tax Federal properties and the many federally chartered entities and other nonprofits. We are restricted by our height limitation on buildings. We are restricted in our ability to have reciprocal taxation upon income at its source.

In addition, elimination of the Federal payment will create significant cash-flow problems for the District, but I should note that OMB is working with us to identify alternative, short-term financ-

ing vehicles to provide the collateral or liquidity that has been traditionally provided by the Federal payment.

Furthermore, and this is extremely important and pointed out to us by the treasurer, the Federal payment is part of the District's revenue and, as such, is a component of how the District's debt ceiling is calculated. The debt ceiling, as you are aware, is the amount of debt repayment which the District can legally carry in any fiscal year and is capped at 14 percent of our revenues. Elimination of the Federal payment will reduce our financing ability that has already been severely reduced.

OMB is working with us on possible solutions to this problem as well, including a possible amendment to the Home Rule Act to raise the debt limit.

In summary, unless Congress removes restrictions on the District's revenue-raising capability, we on the council strongly believe that the Federal payment must be maintained.

Further, we believe that consideration should be given to either increasing the Federal payment to reflect the actual costs of revenue restricted and services provided, which two recent, independent studies by Brookings & Appleseed each estimated to be $1.2 billion, not $660 million, or more realistically, adding value to the package of State-like functions to which the Federal Government could provide financial assistance to the District.

Chairman Davis, Chairman Brownback, Ms. Norton, and others, thank you again for this opportunity to testify and to work with your committees and the administration on this historic restructuring.

[The prepared statement of Ms. Jarvis follows:]

TESTIMONY OF COUNCILMEMBER CHARLENE DREW JARVIS

CHAIRMAN PRO TEMPORE OF THE D.C. COUNCIL

BEFORE THE SENATE AND HOUSE

DISTRICT OF COLUMBIA SUBCOMMITTEES

ON "THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION

AND SELF-GOVERNMENT IMPROVEMENT PLAN"

March 13, 1997

Good Morning, Congressman Davis and Senator Brownback, and Members of the House and Senate Subcommittees on the District of Columbia. On behalf of the Council of the District of Columbia, I am very pleased to have this opportunity to testify at this joint hearing today on "The President's National Capital Revitalization and Self-Government Improvement Plan."

The President's Proposal provides a historic opportunity to address the city's financial crisis in a way that begins to address fundamental inequities which have long existed in the relationship between the District of Columbia and the Federal government. We who represent the residents of the District embrace this effort.

As we continue to make difficult but steady progress to improve the accountability of the District government for improved delivery of public services and improved financial management (and I might add that we are determined to balance the District's budget in FY 1998 for the first time in several years, and one year ahead of the schedule envisioned by the Control Board legislation), we are pleased to be at the table to ensure that all of the political and financial inequities which exist in the relationship between the District and the Federal government, and which exist in the relationship between the District and its surrounding jurisdictions, are at least raised and discussed, even if they are not all addressed at this time.

Although the District under the 1973 Home Rule Charter has attempted to perform state functions and to provide state-like services, we have done so without the revenue base of a state, which has been constrained severely and primarily by the Federal presence or by Congressionally imposed restrictions.

Recognizing the unique status of the District as the National Capital, and recognizing the financial constraints uniquely applicable to the District, the President has proposed that the Federal government increase its budgetary responsibility -- and in some cases management responsibility -- for some very costly District operations which are either state-like functions which virtually no other city in the nation performs, or which are burdens which the Federal

government itself created and unfairly transferred to the District government as part of the home rule deal.

We agree with you, Congressman Davis, when you noted at your hearing last month, that the President's Proposal is an excellent foundation upon which we can build, and to which we hope to add value. Several aspects of the proposal are enticing because they will clearly have a positive effect on the fiscal health of the city. However, other aspects of the proposal are quite problematic because they will further isolate local citizens from the process by which their voices can be heard at decision-making levels of the government.

With that overall framework, I would like to express comments or concerns about each of the individual components of the President's Proposal. I also will specify additional elements which we think would "add value" to the President's Proposal.

1. UNFUNDED PENSION LIABILITY

No financial difficulty faced by the District is more serious -- and there is no clearer area of total Federal responsibility -- than the mushrooming $5 billion unfunded liability of the pension plans that cover the District's police officers, firefighters, teachers, and judges.

We enthusiastically support adoption of the framework of the President's pension proposal and want to ensure that the Federal government reassumes the entire unfunded pension liability that it alone created. It is important to remember that D.C. taxpayers spent $1.9 billion to pay for pensioners who earned those benefits under the Federal system prior to Home Rule. If that inequity, along with the unfunded liability, were to be righted, I could stop my testimony right now and go home.

The bottom line on the pension problem is this: If the District is to be responsible for any future costs associated with the past unfunded liability, we must make sure that enough of the District's assets are left in the District's pension fund so that we can afford to pay off such costs over time.

2. MEDICAID

The Council also enthusiastically supports an increase in the Federal share of Medicaid costs from the current level of 50 percent to at least 70%. As you know, most cities in the nation do not pay anything directly for Medicaid costs, and no city currently pays more than 25%.

The U.S. Department of Health and Human Services has offered to provide more intensive technical assistance to help the District improve management of our Medicaid program, and we look forward to this assistance.

The Council believes that the Federal government should also provide increased budgetary support for other state-like health and human services provided by the District.

In the case of the Temporary Assistance for Needy Families (TANF) program, the same considerations that underlie the proposed change in the Medicaid match rate would warrant review of the TANF block grant to allow for a larger Federal contribution. It should also be noted that the District's unique status as a city without a state will make it more difficult to meet the work requirements contained in the new welfare reform legislation, which provides additional justification for reconsidering the calculation of this block grant for the District.

In the case of Saint Elizabeths Hospital, the Federal government unfairly transferred responsibility for the operations of this state-like facility 10 years ago without providing the $56 million dollars promised by the Federal government for infrastructure repairs, and without additional millions of dollars needed for environmental remediation. The Council supports Federal reassumption of both the budgetary and management responsibilities for this hospital. If the Federal government does not want to get back in the business of running this mental health facility, then we would request at least budgetary support for this state function.

3. ACCUMULATED DEFICIT FINANCING

The Council supports the President's plan for $400-$500 million U.S. Treasury borrowing with a 10-15 year term to finance the District's accumulated deficit, because without such financing it will be extremely difficult to solve our cashflow problems. When figuring out the overall net benefit of the President's Proposal, OMB must recognize that there are future annual costs associated with this financing.

We also want to ensure that: (1) The District maintains sufficient liquidity to operate; and that (2) Any financing must not impair the District's ability to finance its future capital needs.

4. ECONOMIC DEVELOPMENT

The Council strongly supports the establishment of an economic development corporation, with considerable local participation and input, to guide and direct development opportunities throughout the city. The corporation would be capitalized, in part, with Federal and District funds and land grants, in order to leverage private sector development projects throughout the city.

Under the President's Proposal, the corporation would be given broad authority to spur private development, including the use of Federal tax credits for both hiring District residents and for business loans and investments, and including the use of tax-exempt revenue bonds. I

believe that economic turnaround in the District depends upon the private sector, and that government can provide the catalyst for this development.

If we really are serious about revitalizing our nation's capital, we must reverse the hemorrhaging of both jobs and residents from the economic core of this region. On the local level, this of course requires a greater commitment to focus our priorities on obtaining safe and clean neighborhoods with good schools, along with safe, clean and attractive business districts. It also means local tax and regulatory reforms, which we are actively pursuing.

On the Federal level, we believe that there is another proposal pending in the Congress that is specifically designed to bring back residents and jobs to the city, namely the District of Columbia Economic Recovery Act reintroduced by Congresswoman Eleanor Holmes Norton. We believe that this bill, or the companion measure in the Senate which has been co-sponsored by Senator Brownback, would provide the jolt that is desperately needed to expand the District's revenue base. Therefore, we recommend that the President's proposal be expanded to incorporate some version of Congresswoman Norton's tax cut legislation.

5. TRANSPORTATION INFRASTRUCTURE INVESTMENT

The Council supports the President's Proposal to establish a National Capital Infrastructure Fund with $125 million in Federal seed money in Fiscal Year 1998 for capital projects, only if it can be spent primarily for our badly deteriorating local roads and bridges. We do not need this separate entity if it is going to be directed towards the 7% (75 miles) of our roads that are part of the well-funded Federal highway system -- and not towards the 665 miles of local roads that have been traditionally underfunded and are among the District's worst roads.

In addition to the $125 million in Federal seed money, the Council supports redirection of most of the $200 million in Federal dollars previously authorized for the Barney Circle project to the Infrastructure Fund, again to be used primarily for local infrastructure projects, including the new Convention Center's infrastructure.

The Council is working with OMB to ensure that any independent authority that might be newly established to administer this fund would have sufficient District representation so that local priorities are properly reflected in the selection of capital improvement projects. The Council also would like the Federal seed money in the Fund to be able to be used to leverage additional financing, for the purpose of funding the deferred maintenance of the our local roadway infrastructure.

Finally, the Council is working to encourage the negotiation of PILOT agreements with tax-exempt organizations, so that contributions by these organizations could be deposited either into the Infrastructure Fund or the Economic Development Corporation's fund.

6. COURTS

The Council supports Federal assumption of the responsibility for the cost of the judicial system, which is another function typically borne by states in other jurisdictions. However, the Council believes that there needs to be continued local involvement in the courts' programs, including pretrial services, probation and parole.

In light of the recognition in the President's Proposal that the courts are run well currently, we are working with OMB to ensure that innovative and effective sentencing alternatives to incarceration are still available, such as the drug court, the multi-door dispute resolution program, the "boot camp" program and the new domestic violence calendar.

As an "added value" item, the Council would like the Federal budgetary responsibility for the courts in the President's Proposal to be expanded beyond operations to include financial support for capital improvements as well.

7. PRISONS

We support Federal assumption of the budgetary and management responsibility for the District's prison operations that are typically state functions.

As you know, no other city in the country operates a prison with felony inmates. The Council suggests that Lorton be phased out over a five year period, during which time the District will develop an independent capacity to handle the non-state prisoners (those convicted of misdemeanors). At the same time the Council asks that: (1) the District be given the ability to sell the lease it holds on the land at Lorton; that (2) compensation be given for the improvements made by the District on buildings at Lorton, to enable the District to pay off the general obligation bonds associated with these improvements; that (3) the location of Federal prisons to which District inmates may be relocated be limited to a certain radius of the District; and that (4) the District be compensated if it ends up housing any class of felons under the President's proposal.

In supporting Federal assumption of the state prison system, the Council at this time has serious concerns about the condition associated with this element of the President's proposal; i.e., that the District must adopt sentencing standards that are comparable to Federal sentencing standards. Such a condition would infringe upon the sentencing discretion of experienced D.C. Superior Court judges (who are Presidentially appointed) and upon the legislative authority of the Council to enact criminal sanctions. Such a condition does nothing to revitalize the national capital, and it runs totally counter to the goal of the President's Proposal "to improve the prospects for home rule to succeed."

We frankly do not understand the need for requiring the application of Federal sentencing

standards by our local courts as a pre-requisite to Federal assumption of responsibility for the prison system. OMB Director Frank Raines testified before your committee last month that this requirement was necessary because the Federal Bureau of Prisons had management concerns about housing criminals convicted of identical crimes with different sentences in the same prison system. However, since the beginning of home rule, large numbers of District prisoners (at times as many as 2,500 District inmates) have been housed in the Federal prison system with different sentences and subject to local laws regarding parole eligibility -- without any apparent management problem.

Moreover, there are thousands of District prisoners currently in the system, who were sentenced under current law and who will not be released for decades. Thus, even if the goal is to have a single sentencing structure for all prisoners in Federal penal institutions, achievement of this goal is so remote in time as to be meaningless.

It also should be remembered that the Congress already has the ability to reject any legislation passed by the Council and, in fact, has a longer review period -- 60 days -- for criminal code enactments. For the locally elected legislature to cede forever our limited authority over criminal sanctions to the Congress -- especially when District residents continue to have no voting representation in the House or Senate -- would be a further diminution of the democratic rights of our citizenry which may not be worth the benefit of Federal budgetary and management support of our criminal justice system.

8. TAX ADMINISTRATION AND OTHER TECHNICAL ASSISTANCE

The President's Proposal provides that the IRS would assume responsibility from the District for the collection of local individual income and payroll taxes. Although we would like assistance from the IRS in the area of compliance with the payment of local taxes, the Council is concerned that IRS collection of local taxes might cause a delay in the District's cash receipts, thereby further exacerbating our liquidity and cashflow problems. We are working with OMB to address this issue, but we suggest that the question of IRS collection of local taxes be deferred until after the Council has an opportunity to consider forthcoming recommendations of our local Tax Revision Commission.

In general, we appreciate the availability of technical assistance to the District, which is a normal part of Federal-state programs. As the leading employer in the city, the Federal government has the additional responsibility, exercised in other cities by their major employers, to provide assistance and support to the local government.

Moreover, the Federal government needs to reverse the flight of its agencies from the nation's capital and to restore the historic relative distribution of Federal employment between the District and elsewhere in the region in order to strengthen the core.

9. CAPITAL INVESTMENT IN SCHOOLS

In addition to the capital investments identified in the President's Proposal for economic development and transportation infrastructure, school construction is an area which, if not 100% a state function, is usually subsidized by states. As another of our requested "added value" items, the Council is seeking Federal assistance for new school construction and reconstruction of existing schools.

10. AND LAST BUT NOT LEAST -- THE FEDERAL PAYMENT

You are familiar with the mantra, but let me repeat it once more: The annual Federal Payment to the District represents compensation for services rendered to the Federal government and compensation for restrictions on our revenue raising options by the Federal government. We are restricted in our ability to tax Federal properties and the many Federally-chartered entities and other non-profits; we are restricted by a height limitation on buildings; and we are restricted in our ability to have a reciprocal taxation upon income at its source.

In addition, elimination of the Federal Payment will create significant cash flow problems for the District (but I should note that OMB is working with us to identify alternative short-term financing vehicles to provide the collateral or liquidity that has traditionally been provided by the Federal Payment).

Furthermore, the Federal Payment is part of the District's revenue and as such is a component of how the District's debt ceiling is calculated. The debt ceiling as you are aware, is the amount of debt repayment which the District can legally carry in any fiscal year and is capped at 14% of our revenues. Elimination of the Federal Payment will reduce our financing ability. (OMB is working with us on possible solutions to this problem as well, including a possible amendment to the Home Rule Act to raise the debt limit.)

In summary, unless Congress removes restrictions on the District's revenue raising capability, we on the Council strongly believe that the Federal Payment must be maintained. Further, we believe that consideration should be given either to:

- Increasing the Federal Payment to reflect the actual costs of revenue restricted and services provided (which two recent independent studies, by Brookings and Appleseed, each estimated to be $1.2 billion, not $660 million), or, more realistically,

- Adding value to the package of state-like functions to which the Federal government should provide financial assistance to the District.

Chairman Davis and Chairman Brownback, thank you again for this opportunity to testify and to work with your Committees and the Administration on this historic restructuring of the relationship between the Federal government and the District of Columbia.

Ms. JARVIS. Mr. Chairman, if I could, I would like to make available for the record the testimony at a public roundtable which the council held on Tuesday, February 25, 1997, which is testimony about the President's package at which local and Federal officials, as well as community leaders and experts, testified. I'd like to make that a part of the record, Mr. Chairman.

Mr. DAVIS. Without objection, so ordered.

[Note.—The information referred to can be found in subcommittee files.]

Ms. JARVIS. I would like to also make as a part of the record, the DC Appleseed Center Report on the District of Columbia's pension dilemma, "An Immediate and Lasting Solution," of June 26, 1996. I would like to make a part of the record, the DC Appleseed Center for Law and Justice's study, "The Case for more Fair and Predictable Federal Payment for the District" of November 2, 1995.

Mr. DAVIS. Without objection, it will be entered into the record.

[Note.—The information referred to can be found in subcommittee files.]

Ms. JARVIS. I'd like to make available for the record a document which I know you have because it was mentioned this morning, "The Orphaned Capital," the Brookings Institution, Carol O'Cleireacain. I would like to make available to the record a resolution, P.R. 12–109, the Charter Review Sense of the Council Resolution that was introduced into the council on which a hearing was held by Council Member Schwartz yesterday.

[The information referred to follows:]

THE ORPHANED CAPITAL

Adopting a Revenue Plan for the District of Columbia

The District of Columbia's revenue structure is collapsing—but it can be fixed. Unlike other cities, the capital's tax base is severely restricted by federal law. There is no state aid, and government, the hometown industry, is tax exempt.

A sustainable revenue system is key to the survival of Washington, D.C. First, however, services must improve dramatically. Public officials must show that the District can live within its means. But as painful management reforms are made, District residents, employees, and political leaders should expect a tangible payoff: a rational and stable revenue base on which the city's budget will rest.

This study offers workable remedies. It proposes a budget-neutral revenue structure more like that of a typical American city, with the federal government playing the role of a state. We propose that four business taxes be eliminated and that commercial property and personal income taxes be cut. The federal government should increase aid in three specific ways: a payment in lieu of taxes to make up for the 41 percent of property that is tax exempt; "state" aid comparable to that received by similar-sized cities; and coverage of 50 percent of the cost of state-type services provided to District residents.

The DC Revenue Project's plan is fair and manageable. It is the least that the nation can do to ensure the viability of its own capital city.

CAROL O'CLEIREACAIN

POLICY BRIEF

January
1997
No. 11

COMMON AND UNCOMMON SENSE FROM THE BROOKINGS INSTITUTION

CAROL O'CLEIREACAIN

THE ORPHANED CAPITAL

ıdopting a Revenue Plan for the District of Columbia

The nation's capital is in a fiscal crisis. A presidentially appointed Control Board has been charged with balancing the budget of the District of Columbia by 1999. If the budget is to remain in balance, a number of structural changes will be necessary. This study offers the adjustments required on the revenue side. It presupposes that the Control Board and the District's chief financial officer will bring spending under control and deliver District services efficiently, thus making possible the proposals offered here.

The District's long-term fiscal problems stem from its being the nation's capital. By intention, it is neither a state nor a city within a state. To avoid the inherent conflicts between local and national interests and to ensure the federal government's independence from any state, the drafters of the Constitution established the capital as a "district," and in Article 1, section 8, clause 17, retained for Congress the authority "to exercise exclusive legislation in all cases whatsoever, over such district."

This unique status and congressional oversight have familiar ramifications. Congress has defined the District's physical presence, setting its boundaries and stipulating its appearance, including the height of its buildings. Congress has also defined the political landscape. While District citizens are now allowed to vote for the president, the vice president, and a nonvoting delegate to the House of Representatives, they do not have voting representation in either house of Congress, even though Congress ultimately determines the District's budget and its taxes.

The District's unique status has less familiar revenue implications. As both the nation's capital and a city that is not part of a state, the District has a limited tax base. As an entity unto itself it must provide a range of nonfederal services to its residents, including welfare and the state portion of Medicaid, financed from that limited tax base. In its oversight capacity, Congress has limited the District's taxing powers and revenue sources. The more limited the tax base, the heavier the tax burden on the remaining parts of the District's economy. Increasingly, businesses and residents are leaving town. Truly, this is an orphaned capital.

Carol O'Cleireacain is a visiting fellow in the Economic Studies program of the Brookings Institution. She is the former budget director and finance commissioner of the City of New York (Dinkins adm.).

The DC Revenue Project represents dedicated work by Martha Stark, Stephen Mark, Robert Zahradnik, and Jeremy White. They have proved to be a remarkable team. Responsibility for any errors, of course, remains with the author. The Brookings Institution began the DC Revenue Project in the spring of 1996. The goal has been to devise a revenue structure compatible with long-term budget balance for the District of Columbia. The complete study will be available in book form, with selected data on the Brookings web-site, in March 1997.

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THE FINDINGS

The District of Columbia's *present revenue structure is not sustainable*, as explained below.

The Tax Structure Is a Dysfunctional Hybrid

As a small, open economy, the District *functions like a city*. However, because of its unique nature, its budget is a hybrid of city- and state-type taxes and fees as well as state and city service responsibilities (see figure 1).

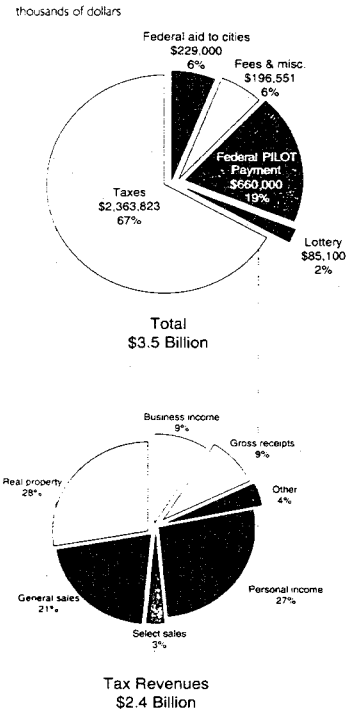
Compared with cities, the District levies many more, and higher, taxes on resident households and businesses. For example, the District is one of only a handful of cities to levy a full personal income tax (on unearned as well as earned income). *Compared with states*, the District lacks both the constitutional standing and the state sovereignty to determine whom and what it taxes. For example, its personal income tax looks like a state income tax. But *unlike any state*, the District is not allowed to tax nonresident earnings. The courts have ruled that this exclusion extends to nonresidents' income from professional partnerships—the legal, accounting, management, and political consulting firms clustered in the nation's capital.

For households, the tax burden becomes progressively higher as income levels rise, and at $100,000 and above is the highest in the metropolitan area. For businesses, the District tax bill is at least 25 percent greater than elsewhere in the region. The District's high commercial property tax and sales tax rates are probably a significant factor accounting for the city's declining share of metropolitan-area private employment.

The Hometown Industry Is Tax Exempt

The District's tax base is significantly reduced because it is the nation's capital. Forty-one percent of the property in the District is *exempt from property taxes*.

Figure 1. District of Columbia Discretionary Revenues, Fiscal Year 1995



Source: District of Columbia 1995 Comprehensive Annual Financial Report

Sixty-five percent of the exempt property belongs to the federal government. The rest, exempted by Congress or by executive order, includes property of churches, libraries, hospitals, and universities, plus that of foreign governments, multilateral institutions, and national nonprofit organizations.

Most employment in the District does not generate income tax revenue for the District. It generates it for Maryland and Virginia. Every day, almost half a million workers flow into the District, but Congress does not allow the District to tax their earnings. We estimate a $20 billion earnings gap between suburban commuters into the District and residents who work outside, which is worth about $1 billion in revenue: $366 million to Virginia and $619 million to Maryland and its counties.

Finally, other economic transactions, by military and diplomatic personnel as well as by the federal government, go exempt from *sales, income, and personal property taxes*. The District estimates annual revenue forgone, at present tax rates, at $120 million.

The District Lacks State Aid

In the rest of America, states redistribute tax revenues to localities in the form of aid. State aid accounts for 28 percent to 38 percent of general revenues for Boston, Memphis, and Baltimore, cities of similar population and area. This state aid is not available to the District.

The District does receive a unique federal payment of $660 million ($2.50 annually from every taxpaying American). But at 19 percent of District revenues, that payment represents only half the share of help that Maryland provides Baltimore through state aid. The *federal payment is not large enough* to cover the revenue shortages resulting from the unique character of the nation's capital.

The Revenue Collection System Is Broken

Moreover the District does not have the capacity to enforce and fairly collect the more than 20 different taxes and 115 fees and charges now on the books. Enforcement is arbitrary and unsystematic, resulting in unfair tax burdens. Voluntary tax compliance is languishing, evasion is significant, and business tax revenues derive largely from audits.

High turnover in management—the District's tax agency has had nine directors in the past twenty years—has resulted in lack of leadership, leaving tax collectors no match for the private sector. Internal appraisals indicate that the District's auditors and assessors have not kept up with the technological developments that have revolutionized tax collecting and have not been trained to use even the outmoded technology that is available to them.

Finally, there is a serious risk of corruption. Neither an internal auditor nor a resident inspector general watches over tax collections. External audits point to serious deficiencies in the accuracy of the tax collection numbers and in the accountability for money received. Many properties are underassessed, some perhaps intentionally. Growing backlogs (in part the result of a 22 percent decrease in staff since 1990 and the lack of technological or management improvements) offer easy opportunities for outstanding tax bills to remain uncollected.

THE PROPOSALS

The DC Revenue Project proposes cutting some taxes, eliminating others, streamlining the tax structure, and creating a new federal-District revenue relationship. To produce a revenue structure comparable to that of other American cities, the project takes as given the present size of the

District's budget, which has been approved by Congress.

Our proposal would completely eliminate four taxes including the personal property tax, the professional license fee, the corporate income (franchise) tax, and the unincorporated income (franchise) tax. In addition, two broadly based taxes would be cut significantly. Real property tax revenues would be cut by 27 percent, with five classes reduced to two, and the timing of assessments and payments would be simplified to improve cash flow. The personal income tax would be cut by 30 percent, meaning that all residents with federal adjusted gross income of less than $200,000 would have their taxes cut and that 36 percent of District residents would pay no income tax. The new income tax would be a single rate of 28 percent of federal liability, with collection and enforcement delegated to the IRS. The plan would also increase the broadly based gross receipts tax by $50 million.

The new fiscal relationship with the federal government would have three distinct elements. Each addresses a particular part of the revenue shortage resulting from the unique nature of the nation's capital. The first is a payment in lieu of taxes, amounting to $382 million, to compensate the District for the reduction of its tax base by federally owned, tax-exempt property. This would allow property taxes to be reduced for all other owners. The second is state aid of $434 million, an amount comparable to that received from their state governments by cities of similar size. The third is a 50-50 sharing of state-type spending, on Medicaid and welfare ($220 million) and on general programs ($158 million), which together amount to an additional $378 million. This partially compensates the District for the fact that it has no state to provide a range of state services. The compensation would not be necessary, of course, if the federal government chose to provide these services directly to District residents. Federal resources in this proposal total $1.2 billion.

DETAILED PROPOSALS FOR LONG-RUN BUDGET BALANCE

Adjusting Washington's revenue structure will not change its unique status as a city-state, but it can change a dysfunctional hybrid revenue structure into one that more closely resembles that of cities of similar size.

The proposed structure has been governed by the practical constraint of the tax burdens in the surrounding jurisdictions. The District already has the highest per capita tax burden in the region, as well as the highest tax costs of doing business. As a result, businesses and households have been voting with their feet.

The revenues shown here should be treated as orders of magnitude or general neighborhoods rather than budgetable amounts since they are estimates based on the less-than-perfect data available to this study.

Table 1 shows both existing and proposed structures for the District of Columbia's general fund discretionary revenues. Table 2 demonstrates budget neutrality.

City-Type Taxes

City-type taxes could be reduced by almost half a billion dollars by reforming the real property tax; by eliminating two city-type business taxes (the personal property tax and professional license fee); and by increasing one city-type business tax (the gross receipts tax).

Real Property Tax

None of the jurisdictions surrounding Washington has property classification systems or effective commercial

Table 1. District of Columbia General Fund Discretionary Revenues, Current and Proposed, Fiscal Year 1995

millions of dollars

	CURRENT	PROPOSED	DIFFERENCE	percent CURRENT	percent PROPOSED
City-type taxes	1,653.171	1,179.123	(474.048)	47	38
Property	654.284	477.104	(177.180)	19	15
Personal property	61.305	0	(61.305)	2	0
Gross receipts	210.269	260.269	50.000	6	8
Other	67.313	59.271	(8.042)	2	2
PILOT	660.000	382.479	(277.521)	19	12
Intergovernmental aid	229.364	663.530	434.166	7	21
Federal aid to cities	229.364	229.364		7	7
State aid	0	434.166	434.166	0	14
Fees	188.509	188.509		5	6
City revenues(total)	2,071.044	2,031.162	(39.882)	59	65
State-type taxes	1,370.652	1,015.973	(354.679)	39	32
Personal income	643.676	449.676	(194.000)	18	14
Sales (selective and general)	549.490	549.490		16	18
Business income	160.679	0	(160.679)	5	0
Other	16.807	16.807		0	1
State fees-lottery	85.100	85.100		2	3
State revenues(total)	1,455.752	1,101.073	(354.679)	41	35
State and city revenues[a]	3,526.796	3,132.235	(394.561)	100	100

Sources: *District of Columbia 1995 Comprehensive Annual Financial Report*, and author's calculations.

a. Also called general fund discretionary revenue; see table 2.

We propose reducing the five-class system to two classes—a residential rate of $0.90 and a commercial rate of $1.35—with a maximum 150 percent ratio between the two rates, to be set by statute, to prevent a creeping increase in the commercial rate. We also offer a series of structural reforms and calendar changes in collecting and budgeting the property tax, including a reserve for delinquencies, that will improve cash flow and budget stability. These lowered rates, holding other things constant, will result in increased property values and lower rents, for both households and businesses.

property taxes as high as the District's. The present five-class system in the District has resulted in a $2.15 (per $100 of market value) effective commercial rate on occupied property and $5.00 on vacant property. These rates result in commercial tax liabilities that are, on average, 40 percent higher than those in the suburbs. Our econometric analysis indicates that these differences are significant in explaining some of the District's declining share of the region's jobs and showing that a property tax cut may increase employment in the District.

Simplicity argues for a single-class system, but the District's present rate structure makes it very difficult to get from here to there. The District's lowest (residential) rate is now $0.96, and its highest is $5.00. The suburban rates range from $0.90 to $1.45 (with the modal rate at $1.07). Imposing a single-class system at the current residential rate would reduce commercial rates in the core of downtown office buildings (now at $2.15) to a level far below that of the surrounding area. Alternatively, imposing a single rate system at the suburban rates would require a tax increase on all homeowners, which this study has ruled out given

the present low quality of District services, looming assessment changes, and our proposals for an income-targeted relief program. Thus the inevitability of a two-class system.

Personal Property Tax

Having accepted two classes, we determined that the District would be able to meet a further goal of eliminating unenforceable taxes by setting the commercial property tax at a rate that would allow for elimination of the business personal property tax ($61 million), a burdensome and increasingly unenforceable tax. The resulting $1.35 commercial rate is a significant reduction from current burdens and a rate on a par with that in Prince William County. Since surrounding jurisdictions still impose a personal property tax, eliminating the District's tax provides some competitive advantage.

Table 2. Budget Reconciliation, Fiscal Year 1995

millions of dollars

	CURRENT	PROPOSED	DIFFERENCE
General fund, discretionary revenue[a]	3,527	3,132	(395)
Federal categorical grants[b]	653	653	0
Other revenues[c]	142	142	0
Federal aid for state-type spending			0
Medicaid and welfare at 75 percent	0	220	220
All other state services at 50 percent	0	158	158
General fund, budgeted revenue	4,322	4,305	(17)
Enterprise funds[d]	848	848	0
Total budget	5,170	5,153	(17)

Sources: *District of Columbia 1995 Comprehensive Annual Financial Report* (*CAFR*), and *District of Columbia 1997 Budget and Financial Plan*.

a. Includes $3,248 million of appropriated revenues as defined in the *CAFR*, plus $65 million in lottery revenue, plus $229 million in federal aid to cities (total federal grants of $882 million less $653 million in categorical human services grants), less the $35 million motor fuel tax, less the $175,000 health care provider fee, and less the $4,868,000 general fund portion of the arena fee (*CAFR*, p. 23, 46).
b. Federal grants for human support services, primarily Medicaid and welfare (*CAFR*, p. 46).
c. Nonappropriated charges for services and miscellaneous revenues (*CAFR*, p. 23).
d. Total expenditures for the enterprise funds as reported in the budget (*Budget*, p. 35).

Professional License Fee

The professional license fee applies largely to professionals doing business in the District and is the remnant of attempts to tax the thousands of legal, accounting, political, and management consulting partnerships that cluster in the nation's capital. It is not well enforced, which makes it unfair and discourages potential payers from acknowledging self-employment in the District. It should be eliminated.

Gross Receipts Tax

The Rivlin Commission, in its 1990 report to the mayor on budgetary reform, recommended a broadly based gross receipts tax, in large measure because it is so easy to audit and enforce and, at low rates, issues of fairness are minor. The District has implemented a small tax and dedicated the $10 million in revenue to financing the downtown sports arena now under construction. From data provided by the Department of Finance and Revenue, we determined that collecting five times the current amount for general revenue, while continuing the portion designated for the arena, would still keep the burden comparable to that in the surrounding area.

PILOT

We propose that the federal government make a payment in lieu of taxes (PILOT) covering the 41 percent of the property base of the nation's capital that is tax exempt and receives local services. The federal government should compensate the District for the cost of the tax exemptions by paying a full tax-equivalency PILOT on the value of the tax-exempt property.

Unlike the present federal payment, the amount of the PILOT should not be negotiable. Its value should be determined by assessments and by the commercial property tax rate. It should be a permanent part of the federal budget, incorporated into the grants section with other PILOTs.

Based on existing assessments and the proposed commercial property tax rate of $1.35, the federal PILOT would be $382 million. Like a state, the federal government has determined which local properties are exempt from taxation. In this proposal we have included all tax-exempt properties, except those belonging to the government of the District of Columbia, as part of a federal PILOT. About 65 percent of the PILOT would compensate for federal government property, with the remainder covering property owned by traditional tax-exempt organizations and diplomatic, national nonprofit, and multilateral institutions. Many consider these institutions part of the fabric of the nation's capital. If some people question whether the federal government should pick up the costs of the one-third of the property that is not federally owned, the option always exists for the federal government to negotiate to share the burden with those receiving this benefit.

The values for tax-exempt property should be treated with caution. Because the assessments of exempt property have never been used for a material purpose, neither the District nor the owners have had an incentive to ensure their accuracy. Under this proposal, there might be an advantage for both the federal and District governments to form a partnership with the International Association of Assessing Officers (IAAO) to ensure state-of-the-art valuation for some of the unique properties of the nation's capital. Similar valuation techniques are used by New York City to value Central Park and to arrive at the PILOTs that New York State pays for the World Trade Center and Battery Park City.

State-Type Taxes

We propose eliminating unenforceable and arbitrary business income taxes and converting the personal income tax into a flat percentage of the federal income tax liability, administered by the Internal Revenue Service. While these actions would cost the District revenue, they would improve markedly the fairness of the tax structure and the enforcement and collection process.

The Personal Income Tax

Most cities do not levy a personal income tax on unearned and earned income; states do. Even by state standards, District residents pay a greater share of their income toward an income tax. The District's income tax is higher than Virginia's and similar to that in the Maryland suburbs. The income base requires numerous adjustments from the federal form 1040, and the tax, though progressive, is less progressive than the federal tax, which causes some residents who receive the federal earned income tax credit to pay District income tax.

Washington should follow the lead of two small East Coast states, Rhode Island and Vermont, and piggyback on the federal income tax. We also recommend that the IRS administer the tax for the District.

Under this proposal, the District would raise about $200 million less than it does now. District residents would pay a flat 28 percent of federal liability. Virtually no taxpayers would be worse off; the effective tax rate would decrease for all income classes. The average effective rate in the District would fall from 5.15 percent to 4.33 percent, with the largest drop (from 5.42 percent to 3.34 percent) occurring for those with federal adjusted gross incomes of $30,000–$50,000. Those with federal adjusted gross incomes of $100,000–200,000 would see a reduction of their effective rate from 6.73 percent to 5.29 percent. Those with incomes greater

than $200,000 would receive only marginal reductions in their District tax liability.

The strongest reason for this simplification is to have the IRS, headquartered in the Washington area and acknowledged as the best tax agency in the world, administer this tax on behalf of the District. While it could take as long as two years to put the programming and administration in place, this proposal offers significant administrative and enforcement relief to the District.

Business Income Taxes

The two income-based general business taxes, each flawed in its own way, should be eliminated. The reform would cost about $160 million in revenue. However, to the extent that S-corporation owners and partners of unincorporated businesses are residents of the District, some revenue would flow back through the personal income tax.

The District's corporate franchise tax, structured like typical state corporate income taxes, has an effective rate of 9.975 percent (including two surcharges). This is significantly higher than the 7 percent and 6 percent marginal rates in Maryland and Virginia, respectively; the franchise tax generates only 5 percent of the District's tax revenue and is exceedingly complicated and poorly administered. The data are so incomplete that the tax collectors do not know who the biggest taxpayers are, what industries bear the heaviest burdens, or how tax liabilities vary by size or type of corporation. The revenues, largely audit driven, are erratic and unpredictable. Increasingly, the District is being subjected to blackmail by corporations that seek special treatment for remaining in Washington.

The unincorporated franchise tax should also be eliminated. The remaining model for it is New York City's unincorporated business tax (UBT). Levied at the same rate as the corporate tax, it was intended to create parallel tax treatment regardless of the form of the business and to reach, primarily, the lucrative 4.5 percent of private employment represented by legal services. However, as a result of a court ruling in 1979, the District exempts professional partnerships from this tax, which has effectively been reduced to a levy on small proprietors. About 8,000 payers produce $39 million in revenue.

The already mentioned gross receipts tax would take the place of these two flawed taxes. The broadly based gross receipts tax is simple, enforceable, and, with a graduated payment structure, not unduly burdensome. It also does not violate the prohibition on the taxation of nonresident income. It would be patterned after the existing arena fee. The net revenue loss would be no more than $119 million.

State Aid

As a city, the District needs a state. States provide aid to cities in large part to ensure fair treatment for the residents of all jurisdictions in a metropolitan area. At present this does not happen in the District of Columbia, where 44 percent of the metropolitan area's poor people live.

We propose that the federal government take on the role of state to the United States' orphaned capital city. One way states help their localities is by providing aid in the form of general revenue. It comes from state taxes and is distributed in recognition of special spending burdens and as compensation for services that localities are expected to provide. Like other localities, the District contributes to federal collections. In this way the District has the same relationship to the federal "state" that many small counties have to their states. They pay taxes; they receive aid.

Table 3 summarizes the proposed fiscal relationship between the federal government and the District. In addition to the PILOT, the federal government would provide two distinct sources of budget funding,

Table 3. Proposed Restructured Relationship between the Federal Government and the District of Columbia, Fiscal Year 1995

millions of dollars

PILOT[a]		382.5
Federal government property	280.9	
Traditional local exemptions required by Congress	69.5	
Foreign property	14.0	
Special act of Congress and executive order exemptions	18.1	
Direct state aid		434.2
Shared costs for state redistributive services (Medicaid and welfare)[b]		220.4
Shared costs for other state services		158.2
TOTAL		1,195.3

Sources: Authors' calculations based on District of Columbia Department of Finance and Revenue, *Study of Property, Income and Sales Tax Exemptions in the District of Columbia*, 7 April 1995; District of Columbia Department of Finance and Revenue, "Schedule of Organizations in the District of Columbia Exempted from Real Property Taxation by Acts of Congress," 1995 assessment; Philip Dearborn and Carol Myers, "The Investment and Cost of District of Columbia Services," August 1996; and FY 1995 *Boston Comprehensive Annual Financial Report*.

a. Not included in PILOT are other tax exemptions that reduce the District's tax base and the estimated revenue foregone: sales tax on military purchases, $3.29 million; sales tax on diplomatic purchases, $[illegible].2 million; income tax on military purchases, $3.09 million; sales tax on diplomatic purchases, $[illegible].2 million; income tax on military purchases, $2[illegible] million; income tax on diplomatic purchases, $2.3 million; federal and special act of Congress personal property, $32.6 million; and federal sales tax (not available).

b. State services provided by the District include the following: SSI supplements, general relief, need determination, foster care, development disabilities, rehabilitation, child support, health, aids, long-term care, mental health, higher education, parole, and service registration.

helping the District's revenue sources to resemble more closely those of typical cities, allowing a reduction in taxes for District residents of more than one-half billion dollars, and making the District more competitive with the surrounding region.

We calculated an annual state aid payment of $434 million. To determine the amount of state aid that would be appropriate for the District, we took the amount that Massachusetts provides to Boston and adjusted for the small difference in population between the two cities.

State-Type Services (Medicaid)

The absence of a state also means the District provides a range of state-type services. We are proposing that the federal government act as a state for these services, although it is useful to distinguish between redistributive services, such as Medicaid and welfare, and all others. In the case of Medicaid, for example, there is no perfect model for the federal-District relationship because this is a national program in which the federal government already provides at least 50 percent of the funding. With the exception of New York City, cities do not pay for Medicaid; states do. At the moment, the federal government is treating the District of Columbia as if it were a state. The federal government pays half the costs and the District picks up the other half.

Acting as the state, the federal government would provide Medicaid directly to the District of Columbia. However, these may not be services the federal government wants to provide or believes itself equipped to provide. Compensating the District fully for performing these state functions would give no incentive for the District (with none of its own resources at stake) to provide this service efficiently. A better, though not perfect, model is that of New York City, where the federal government picks up an additional 25 percent state share. That would leave the District to provide the service and cover 25 percent of the cost.

State-Type Services (Others)

Finally, there remains a range of general state-type services that the District is presently providing. In a recent study for the Control Board, Philip Dearborn

and Carol Meyers of the Greater Washington Research Center estimate these at an annual cost of $277 million. Here, too, there should be a sharing of costs—a 50-50 split. Again, the option always remains for direct federal provision. The judgment lies with the federal government as to what it may be able to provide efficiently.

The Norton Plan

At the moment the only alternative proposal for restructuring the federal relationship with the District is Delegate Eleanor Holmes Norton's 15 percent federal flat income tax for District residents. Given the structure of District incomes and the progressivity of the federal income tax, the Norton proposal generates the largest benefits for those with the largest incomes. For example, taxpayers with incomes in excess of $200,000 (1.8 percent of the District federal returns) would receive 28.5 percent of the benefits. For middle-income families earning $40,000 to $75,000 a year, about 17 percent of present District taxpayers, the cut would be $2,100 to $2,700 a year. For those earning $100,000 a year, the cut would be worth $6,500 to $7,000. As to whether the Norton tax cut is, on average, big enough to affect individuals' decisions on whether to live in the District, there is no empirical evidence. In contrast to the Norton proposal, our proposal reduces the taxes of District residents with incomes less than $200,000 and would result in about 36 percent of the population paying no District income tax at all.

At an estimated additional annual cost to the federal government of $750 million, the Norton proposal would more than double the existing federal commitment to the District ($660 million) without offering the District direct budget relief. The $750 million cost must be seen as the minimum, for two reasons. One is the impossibility of enforcing the definition of "bona fide residents." The other is the result of behavioral changes induced by lower taxes. According to the Joint Committee on Taxation, such behavioral changes result in a potential annual cost to the federal government of $1.8 billion by 2006. The DC Revenue Project's proposal costs the federal government less and provides the District with direct budget relief.

CONCLUSION

Restructuring the District's revenues is essential to ensure the survival of the nation's capital. It is not the first step; nor is it a silver bullet. First, services must improve. Present and potential taxpayers must perceive a value received for their tax dollars. Second, financial accountability and prudent fiscal management must be in place. Aid to the District, as well as taxes, no matter how justified, cannot be wasted. Third, a long-term financial plan must set out all the revenue and spending changes.

But even if the District were providing services efficiently and operating under state-of-the-art systems, our analysis indicates that its revenues would fail to keep pace with spending over the long term. In addition, as tough management decisions are made, District residents, employees, and political leaders need to know that there will, eventually, be a more rational revenue structure on which the District's budget will rest.

The proposals presented here are budget neutral and can be phased in. For example, the income tax proposal requires a planning process for the IRS that should begin immediately. Changes in the property tax calendar and payment schedule need to precede cuts in the property tax rates (and revenues) to avoid making bondholders nervous over the District's ability to repay debt. Further, the property tax cuts can proceed hand in hand with the refinancing of existing debt and the bonding-out of the accumulated deficit over the coming

years. Or the gross receipts tax could be dedicated to paying off the accumulated deficit. The elimination of the business taxes can be linked to changes in spending or the introduction of an independent economic development agency. And, of course, the introduction of state aid and federal sharing of state-type spending can be linked to improvements in the District's delivery of these services and greater efficiencies in their operations and can be provided through the Control Board, if necessary.

Finally, we must note that while the addition to annual federal spending proposed here is not great, the federal budget is moving toward balance, and federal budget constraints are real, too. The case presented here for the federal fiscal role with respect to the District rests on a constitutional obligation set out in Article 1. From the point of view of federal budget scoring, this obligation should translate into all of the aid's being properly categorized as mandatory spending, thus not subject to the cap faced by discretionary spending.

The DC Revenue Project has demonstrated that the nation's capital suffers from a limited tax base and the absence of a state government, a situation that has produced an unsustainable revenue structure. Because Washington's solvency is in the national interest, the study proposes a revenue structure more comparable to that of other American cities, including the fiscal relationships with the states that granted them home rule. It is fair; it is manageable; it is the least that the nation can do for its own capital city.

The DC Revenue Project has been financed by the Brookings Institution and by generous contributions from individuals, local foundations, and the Ford Foundation. The author has benefited from conversations with District residents, community groups, an advisory group for the project, economists, and wide-ranging meetings with policymakers and analysts in greater Washington. All have been extraordinarily generous with their time and expertise.

The project's completion would not have been possible without the cooperation of staff at two particular District institutions. We thank John Hill and his staff at the Control Board for being there whenever we needed help. We also owe much to the District of Columbia's chief financial officer, Anthony Williams, who provided generous access to his time and to his staff. We are especially grateful for his designation of Dr. Julia Friedman, chief economist at the Department of Finance and Revenue, as liaison to this study. She expedited our data requests, answered our many questions, and deserves a huge thank you.

Previous issues of the *Policy Brief* series are available on the internet at URL: HTTP://WWW.BROOK.EDU.

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COUNCIL OF THE DISTRICT OF COLUMBIA
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Memorandum

To: Members of the Council

From: Phyllis Jones, Secretary to the Council

Date: February 19, 1997

Subject: Referral of Proposed Legislation

Notice is given that the attached proposed legislation was introduced in the Committee of the Whole Meeting on February 18, 1996. Copies are available in Room 28, Legislative Services Division.

TITLE: Charter Review Sense of the Council Resolution of 1997, PR 12-109

INTRODUCED BY: Chairperson Pro Tempore Jarvis, Cropp, Thomas, Chavous, Schwartz, Allen, Smith and Mason

The Chairperson Pro Tempore is referring this legislation to the Committee on Local, Regional and Federal Affairs.

cc: General Counsel
Legislative Services Division

cdc05/charter4
DRAFT -- 2/18/97

Councilmember Carol Schwartz

Chairperson Pro Tempore Charlene Drew Jarvis

A PROPOSED RESOLUTION

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

To declare the sense of the Council that is untimely to consider changes to the Home Rule Charter regarding the structure of municipal governance given the immediate need to consider proposals designed to address the District's severe financial crisis and to address inherent inequities in the relationships between the District and Federal governments and between the District and its surrounding jurisdictions, including the President's National Capital Revitalization and Self-Government Improvement Plan, Congresswoman Norton's District of Columbia Economic Recovery Act, and the Brookings Institution's Revenue Plan for the District of Columbia, that any recommendations for changes to the Home Rule Charter regarding the structure of municipal governance should emanate from a comprehensive process approved by both Federal and District officials and in which residents of the District are full participants, that a primary goal of the Council has been to increase the accountability of the executive branch of the District for the improved delivery of essential and basic public services and improved financial management, that such accountability can be increased in the context of the current Mayor-Council structure of municipal governance and has in fact been increased by recently strengthened oversight by the Council and by the authority exercised by the District of Columbia

Financial Responsibility and Management Assistance Authority ("Control Board"), and that, to continue increased accountability for service delivery and financial management improvements, future consideration should be given to providing the Council permanently with some of the authority provided to the temporary Control Board.

RESOLVED, BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this resolution may be cited as the "Charter Review Sense of the Council Resolution of 1997".

Sec. 2. It is the sense of the Council that:

(a) It is untimely to consider changes to the Home Rule Charter regarding the structure of municipal governance because such consideration diverts time and attention from the immediate need to review carefully several pending proposals designed to address the District' severe financial crisis, including the President's National Capital Revitalization and Self-Government Improvement Plan, Congresswoman Norton's District of Columbia Economic Recovery Act, and the Brookings Institution's Revenue Plan for the District of Columbia, and from the immediate challenges of enacting a balanced Fiscal Year 1998 budget for the District, enacting new pension plans for District government employees, and considering the impact of adopting Federal sentencing guidelines in the District's criminal justice system.

(b) It is untimely to recommend structural changes in the Home Rule Charter at a time when questions about the management or political style of particular local officeholders could lead to governmental restructuring decisions which reduce the number or authority of locally elected offices.

(c) Any recommendations for changes to the Home Rule Charter regarding the structure of municipal governance should not be imposed upon the District by the Congress, the Control Board, or others; rather, such recommendations should emanate from a comprehensive review

process approved by both Federal and District officials and in which residents of the District are full participants.

(d) Instead of recommending changes to the structure of municipal governance, the Council urges the consideration of proposals which address the District's financial crisis and the inherent inequities in the relationships between the District and Federal governments and between the District and its surrounding jurisdictions, the financial components of which have previously been documented in reports by the Rivlin Commission, McKinsey & Company/Urban Institute, and others, including but not limited to:

(1) Providing District residents with voting representation in the United States Senate and the United States House of Representatives;

(2) Increasing the self-governance of the District by lifting Federal restrictions on revenue-raising options, including repeal of the prohibition against a reciprocal non-resident income tax, and expanding local autonomy over local legislative and budgetary matters;

(3) Compensating the District for the costs of the Federal presence; including:

(A) Provision of a formula-based Federal Payment to the District in lieu of taxes and revenue foregone from Federally related property and sales tax exemptions, height restrictions, a lack of state aid, and other unique costs;

(B) Federal assumption of the District's unfunded pension liability inherited from the Federal government; and

(C) Federal tax incentives to reverse the hemorraghing of residents and businesses from the District and to revitalize the economy of the nation's capital;

(4) Considering transfer of budgetary or management responsibility for state-like

functions from the District government to the Federal government; and

(5) Reversing the flight of Federal agencies from the region's core and restoring the historic relative distribution of Federal employment between the District and elsewhere in the region in order to strengthen the core.

(e) In addition to addressing inequities in the Federal-District relationship, the primary structural goal of the Council is to increase the accountability of the executive branch of the District government for improving the delivery of essential and basic public services, for restoring the District's financial solvency, and for revitalizing the local economy.

(f) Such accountability can be increased in the context of the current Mayor-Council structure of municipal governance and has in fact been increased by recently strengthened oversight by the Council and by the authority exercised by the District of Columbia Financial Responsibility and Management Assistance Authority ("Control Board").

(g) To increase accountability for service delivery and financial management improvements, any future comprehensive Charter review process should give consideration to providing the Council permanently with some of the authority provided to the temporary Control Board, and with a capacity for fiscal analysis comparable to that of the Control Board.

Sec. 3. The Council of the District of Columbia calls upon the President, the Congress, the Control Board, and other District stakeholders to refrain from recommending changes to the Home Rule Charter regarding the structure of municipal governance when attention must be focused on addressing the District's financial crisis and shrinking revenue base. If such structural Charter changes are to be considered in the future, such consideration should be part of a comprehensive review process that has been approved by both Federal and District officials and

in which the residents of the District are full participants. Components of this future comprehensive review process shall include but not be limited to:

(1) Public hearings prior to issuing a report of recommendations on governmental restructuring, at which local residents, local businesses and organizations, and District of Columbia government officials would have an opportunity to submit testimony on governmental restructuring options; and

(2) A commitment that any fundamental change in the structure of municipal governance will not be implemented without agreement by the Council and the Mayor.

Sec. 4. The Secretary of the Council, upon adoption of this resolution, shall transmit a copy of this resolution each to the President of the United States, the Director of the Office of Management and Budget ("OMB"), the director of the OMB task force on the District of Columbia, the Delegate to the United States House of Representatives from the District of Columbia, the Speaker of the United States House of Representatives, the President Pro Tempore of the United States Senate, the chairpersons of the House and Senate committees and subcommittees with budgetary and legislative oversight responsibility for the District of Columbia, the Mayor of the District of Columbia, the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority, and the co-chairs of the D.C. Agenda Project's Charter Review Task Force.

Sec. 5. This resolution shall take effect immediately upon publication in the District of Columbia Register.

Mr. DAVIS. Chairwoman Jarvis, without objection, they will be entered into the record. It is important to have them in the record so the committee can work from them, and I thank you very much for including them.

Ms. JARVIS. Thank you, Mr. Chairman.

Mr. DAVIS. OK. Thank you very much. Let me start the questioning on the Senate side with Senator Brownback, and then Senator Lieberman. Senator Brownback.

Senator BROWNBACK. You are awful kind. I will make sure that my clock gets started here so that we can tie things down.

Thank you both very much, first off. I know you are struggling with a tough set of problems, and you identified those, and you articulated those, and I know your heart and your soul is in the right place, to try to get something done, as is ours as we wrestle with it. But I want to thank you, first off, for stepping up to deal with the problems, because that is very important and it is tough and I appreciate you doing it.

I want to focus in on phase two of the President's plan that was announced a couple of days ago, in particular. And you both spoke about it a little bit, but particularly, Ms. Jarvis, if I can ask you about this. The President is saying to redevelop economically the District of Columbia, we should start an Economic Development Corp., basically with tax incentives; and as I read it, this would be a nine-member board, seven of which would be picked by the President.

So it would be a department of commerce for DC. It looks to me that this is him laying out seven people to have an Economic Development Corp., and they would then pick businesses and areas to give tax breaks and subsidies to. Is that correct?

Ms. JARVIS. Senator, it would be a nine-member commission, seven of whose members would be selected by——

Senator BROWNBACK. Controlled by the President.

Ms. JARVIS. Yes, and we have some concern about the majority representation as appointees of the President, but let me also say, Senator, that if the substantial resources of the Federal Government are going to be made available, if some substantial resources of the Federal Government are going to be made available for this corporation—i.e., land, capitalization of the corporation, the tax benefits that are Federal tax benefits which can be used judiciously to create some real economic activity, it seems to me—that I am personally less concerned about who is appointed than I am about where the resources of the Federal Government are going to be brought to bear.

Clearly, I would rather have higher representation of local appointees. Let me make that clear.

Senator BROWNBACK. And I am just trying to make clear that this would be an Economic Development Corp., controlled by the President that would decide where these tax subsidies would be going in the District of Columbia.

But I am juxtaposing this compared to Delegate Norton's proposal, and I want to frame you in on which do you think would do more to develop the economy of the District of Columbia, whether it would be a zero capital-gains tax on tangible property or this Economic Development Corp.

Ms. JARVIS. Well, I think Ms. Norton's entire proposal is better, very frankly, for the growth of the economy because it provides a stimulus package to reattract residents as well as businesses, and the President's package, welcome as it is, does not include an income-tax stimulus incentive for people who would move back into the District of Columbia.

Senator BROWNBACK. And don't you think that would do more, indeed, much, much more, to grow the District of Columbia and provide the tools than a Presidential-controlled, tax-subsidy direction?

Ms. JARVIS. I think Ms. Norton's plan has the potential for providing more economic growth to the District of Columbia. I think that the President's plan is a good plan which could easily have added to it as a complement the plan that Ms. Norton has for income tax relief for residents. I think they both complement one another.

Senator BROWNBACK. But if you go with the zero capital gains on tangible property, you do not need an Economic Development Corp., targeting your tax subsidy of business development or blighted areas, do you?

Ms. JARVIS. Senator, I think that the capital gains provision would be a very significant stimulus.

Senator BROWNBACK. The reason I am picking on this is I want to get one piece that we have looked at, at least from the Senate side, and I just—I do not think the President's plan does it to provide the stimulus to grow the District of Columbia, and I think it is more centralized planning on you in the District of Columbia. I mean, it is a department of commerce for the District of Columbia run by the Federal Government.

I have real problems with us telling you what to do, when I would much more like to see us give a broad-based set of incentives, and you figure out what to do.

Mr. BARRY. Mr. Chairman, could I speak to that?

Senator BROWNBACK. Yes, please.

Mr. BARRY. Obviously, part of the difficulty of the economy of the District is that we are almost a paper-thin economy. The Federal Government is the base of our economy, not manufacturing, not steel, or anything else, so we have to find ways where individual investments can help grow the District of Columbia, and I think Ms. Norton's plan does that—well, the President's plan does not deal with that issue of individual tax relief with capital gains reduction and income taxes for those who live here. That has to be part of the centerpiece.

I think we need both. I am concerned about the composition of this corporation. It will be a DC-chartered corporation. It will not be a federally chartered corporation. My own view is that it ought to be five DC residents and four from the Federal Government because we best know how to take this money—it almost goes back to—I hate to use this word, but States rights—I really do. I really do because it had such a negative impact when I was growing up in Memphis about segregation.

But the Federal Government for a long time had been taking power to itself, funding things to itself, and now the move is to do block grants and to put money back into the community, put tax

credits back in the community controlled by the community, so I would advocate a five-and-four composition, but the main thrust ought to be with Ms. Norton's plan, this would be a good supplement.

And the other part of this is the Economic Development Corp., which would deal with housing, too. I do not think that you are going to get as much housing development with a capital gains, zero tax as you would—you may—as you would with business development, but you may get both.

So I guess in summary, we need both, but the focus ought to be to get the President and the Democrats, the Democratic leadership to buy into Ms. Norton's plan, to stop ducking it.

Senator BROWNBACK. Thank you.

Mr. DAVIS. Thank you very much. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman, and thanks, Mayor and Chairwoman. My questions really follow the questions of Senator Brownback. In fact, he asked a couple of them that I wanted to ask, and this all goes to this reality. We do think that we have an opportunity here with interest from the President and the Republican leadership of the Congress and the Democratic leadership to do something tangible and constructive for the District, to maybe put the District back on a real positive course for the long term. This is not just a band-aid. Hopefully, we are going to do something structural here that will deal fundamentally with the problems the District has had.

The leaders of both parties here are appointing people to a working group or task force on the District, and the administration will do the same. And as you probably know, I am sure you do, when the leadership got together with the President, they chose five areas where they thought there was enough bipartisan interest and common ground that they wanted to actually work on it, and one of them was the District of Columbia.

But like everything else in the world, well, like everything else in life, but certainly in government, our choices are going to be limited, and our resources are going to be limited. So we are going to have to make some choices here between the alternatives given to us. Speaking roughly, we have the President's plan, we have Delegate Norton's plan, which I should declare, as I did earlier, my self-interest in because I am a co-sponsor of it, and now we have the appeal that you both have made to continue the existing financial payments to the city, which are basically payments in lieu of taxes that are lost because of the tax-exemption of Federal property here.

That happens in a lot of States, including my own, as you said, chairwoman, where the State makes payments to communities in lieu of taxes that are lost because of State-imposed, property-tax exemptions.

So begin the process of helping us—and I am going to be on that working group, as others up here are—to make some choices. Knowing that we are not going to be able to do it all, what are your priorities? Maybe I ought to ask the general question here. And I know we would all like to do it all, but we are probably not going to have it happen.

In terms of those three rough choices, what are your priorities, or would you pick and choose from among them, and if you would, what would you choose?

Ms. JARVIS. Senator, I would say that the aspect of the President's plan which is really critical for the future fiscal health of the District of Columbia is the pension, the assumption of the pension system, and that really is righting a wrong, as far as we see it. We have paid into the pension system, District taxpayers, $1.9 billion of our own locally generated funds to pay for pensioneers who were in the Federal system before they became employees of the District of Columbia government. So there is a terrible inequity created there.

So in the President's plan, the pension system is really, I think, the most critical aspect of it.

Senator LIEBERMAN. OK.

Ms. JARVIS. And if I were asked for my druthers, I would say the pension assumption, Ms. Norton's bill, and the Federal payment, and then I think we could go home.

Senator LIEBERMAN. Very interesting. OK. Mayor, do you have any guidance for us on what the sense—acknowledging, as you said eloquently in your statement, but if you had to list priorities, what would be your priorities? You are acting like a Senator now.

Mr. BARRY. We need a vote in the Senate, and you support that, I know.

Senator LIEBERMAN. Thank you.

Mr. BARRY. Senator, I really find it difficult within the constraints here to limit our discussion. We are going to have to recognize that from the economics of it, the $660 million Federal payment, the $770-some-million transfer of State functions really ought to be expanded by another $3 or $400 million in terms of just budget discussions here.

We ought to expand this discussion to look at what the Brookings study talked about, $382 million, so we would expand the discussion by $382 million, and in my view, I know that is a lot of money, but really when you look at the Federal, trillion-dollar budget, it is not. And so I would say that Ms. Jarvis is correct in the sense of if we are going to keep the Federal payment at $660, we want to assume the pension payments—that is about a $306 million situation—and Ms. Norton's plan, and that would be my direction here.

So however we state it, whether Ms. Jarvis states it her way or my way, we are still talking about an additional amount of budget output from the National Government. I think we have to think that way. We do not want to just temporarily fix this situation; we want to have it fixed for generations to come, so when, you know, another 25 or 30 years we look at this, we will say the District is now economically stable, it is doing things, and——

Senator LIEBERMAN. You are absolutely right. Again, this is an opportunity to create a partnership and structural change that puts us on a long-term, upward course for the District.

Mr. BARRY. While we are in the ball game, we ought to hit a home run rather than try to hit a single or a double.

Senator LIEBERMAN. Absolutely right. A timely comment as we approach opening day.

Mr. BARRY. Right.

Senator LIEBERMAN. Let me ask this question. My time is going. One of the unique features, and perhaps the most unique feature, of Ms. Norton's plan is the reduction of the Federal income tax, which has the clearly stated objective of bringing people back to the District. How critical is that, and let me ask you again to make some tough choices, and probably these are not real choices, but if you had to choose between that and the tax incentives for business development, what would you choose?

Mr. BARRY. I would choose the Norton plan.

Senator LIEBERMAN. Thank you, Mayor.

Ms. JARVIS. I think that in order to produce an economic growth in the District, you must have a middle-class tax base and a business base. You cannot do one without the other. One supports the other.

Senator LIEBERMAN. That is right.

Ms. JARVIS. And I do not think you can really isolate those two. Residents support the businesses, and both support the revenue base of the District. What we really are looking for is not to be given the fish, but the opportunity for the——

Senator LIEBERMAN. Right.

Ms. JARVIS [continuing]. Technology and the incentives that provide a long and deep well of fish for the future.

Senator LIEBERMAN. Right. You want a high-tech fishing rod.

Ms. JARVIS. Yes.

Mr. BARRY. Yes.

Senator LIEBERMAN. Thank you both very much. Thank you, Mr. Chairman.

Senator BROWNBACK. Thanks, Senator Lieberman. Delegate Norton?

Ms. NORTON. Thank you very much, Chairman Brownback. I appreciate the ways in which both you, Mr. Chairman, and Mr. Lieberman have sought to clarify and to structure what the outcomes of these various approaches would be because I can understand that these are difficult choices. It is not as if we can pick apples from a tree here and get whatever we want, but it is important to get that clarification.

This notion of whether or not we want or would profit most from attracting middle-income taxpayers or attracting business is an important question. Let me just indicate who supports the District of Columbia, however, at the moment. The District of Columbia has never had a true business tax base. We need to get one now, particularly with the downsizing of the Federal Government, but it has never been supported that way, and we were almost up to 900,000 people when I was a child.

Downtown business and employers tell me this, that without a middle-income tax base, stimulus of the DC economy for jobs that pay what we want them to pay go overwhelmingly to suburbanites. And I just want everybody to understand, business does not come back to a city because of tax breaks. They look for an educated pool, and they come where they are, and, of course, they look for the conditions in the city and the taxes in the city.

So I am very worried about stimulus that assumes that just because there are some jobs, District residents get them. Even the President's plan has had to have something in there that says, you

know, the jobs and the job credit will have to go to, but who is it going to go to? Low- and moderate-income people. You know what? Low- and moderate-income people today pay 65 percent of the tax filers. They are crying out for more people up the scale to help them out because they simply cannot do it.

We do not have a tax base, and if you look at people in the middle, we have about half the average of people in the middle of the national average; and that is why we will continue, with the help of my good colleagues here, to press for some relief for the folks that for as long as there has been a District of Columbia have been the major support for the District of Columbia with their property tax, with their sales tax, and with their income tax.

The President's plan, I very much support and believe that we can reach some accommodation somehow. But I do not intend to let income tax relief for District residents slide off the table because of a traditional empowerment approach, which, in the long run, sometime up God knows when, may kick in and have some effect on the District.

Our city is going down now, and if we do not do something to make sure middle-income people remain here, what is most tragic is that the hard work of the city and the control board will just go to naught because you keep working, and yet the tax base keeps going down, so you keep being in deficit, which leads me to my first question.

You are working very hard to bring us into deficit a year ahead of time. Most people do not understand that when we have talked about the DC deficit for the last couple of years, we have been talking about an annual deficit. We have not even been talking about the unfunded deficit that we are carrying over from year to year.

The very good, strategically good idea to bring us into balance a year ahead of time leads me to ask you, particularly in light of some of the testimony that you may not have read yet—I will be asking him about it, but in light of some of the testimony of Dr. Brimmer, whether you believe, given everything as it now is, that we could come into balance in 1998 and stay into balance, or whether we might be like the Chicago Educational Authority, which came into balance and then went out of balance in the next and ensuing years. That happened, I think, sometime in the 1980's.

I mean, are we chasing the wind here, or do you foresee—now, with the President's plan, now, I am assuming at least the parts of the President's plan—leave aside the economic development part, which would not kick in in any case—I am assuming the other parts of the President's plan—do you think that we could come in balance by 1988 and stay in balance for—well, for the Financial Authority to recede, it would have to be 4 years, I guess. But I'd like your comments on whether we could stay in balance for any period of time except the time that you would come into balance for in 1998.

Mr. BARRY. Ms. Norton, we have made some tremendous sacrifices to bring this deficit down, structurally down—not gimmicks, not window dressing, not a flash in the pan, but real, substantial progress in cutting out or reducing certain services, certain programs. Our FTE count is real in terms of how many people have left the DC government's payroll. We are suffering the con-

sequences of some of that every day in terms of income maintenance. Case loads are going up. Clinics are being closed.

And so my proposal for 1998 would bring us into balance, a real balance, and would keep us in balance because it is not based on any gimmicks or any accounting mechanism; these are real cuts with real people being affected by that. And also our proposal will propose a balanced budget in 1999, 2000, and 2001.

Of course, if there is some unforeseen economic downturn, we will have to make those tough decisions to cut the budget even further, but when you see this, which we released to the control board on Tuesday and to the council and to you all, these are real, real balanced budget. And it has taken, and people do not want to appreciate this, Ms. Norton, a tremendous amount of sacrifice to come in 1 year early.

When we had this outstanding structural budget problem, to come in 1 year early meant cutting some programs, cutting some reductions in agencies, and so the answer is, yes, I believe—in fact, I am confident that this budget—and the control board, in sending the budget back—and that is another story when we are talking about how that process does not work that well—acknowledged that we did, in fact, have a balanced budget.

We may differ on some program priorities of where you spend money here and not spend money there, but in their submission back to us, said the budget was balanced by generally accepted accounting methods, and we are going to keep it——

Ms. NORTON. If you restructured, that included your $50 million in——

Mr. BARRY. That was out. We did not use that.

Ms. NORTON. So you were balanced without that? You were balanced without that?

Mr. BARRY. I sent amendments to the budget over on February 28, that did not use restructuring the debt. And this was a valid restructuring discussion; we just had a different philosophy about it. It was balanced without the $50 million restructuring.

Ms. NORTON. Ms. Jarvis.

Ms. JARVIS. Ms. Norton, I believe that we can have a balanced budget in 1998. Whether we can remain in balance for the future depends critically on the ability to stimulate growth in the District. If there is no stimulation of growth in the District, if there is no increase in the revenue base of the District of Columbia, then there will not be in the out years an ability to balance this budget.

With respect to the issue of management and mismanagement that we are often faced with, I have given this analogy. In a city where rents are $800 and my rent is $400 and I have $200, that is all I have, and if I mismanage $50 of that $200, I have a management problem, and I have a cash problem. I mismanaged that $50, but I do not have the other $200 to pay my rent, and that is the position that the District is in: We do not have, for the foreseeable future, a growth in our revenue base which is going to enable us to balance our budgets in the out years.

Yes, we can do it this year. In 1999, we can try to hold the line, but in the out years, if there is not growth, we will continue to reduce the budget of the District of Columbia and to cut into those essential services. This is a point that is——

Senator BROWNBACK. This will be the last question, if we could.

Ms. NORTON. Well, Mr. Brownback, I need another round of questions.

Senator BROWNBACK. OK. We may do that, and I will come back, but let's see if we can—I am trying to be fair on time with everybody.

Ms. NORTON. All right. The point that is missed about the stagnation in growth or the stagnation in the economy of the District of Columbia, where we are going down every year, is that the cost of living goes up every year, no matter what you do. You have to pay more for goods. I would not say more for services, since our employees have not gotten a raise in so long, but obviously for some services you are also paying more.

So this point about whether we are fooling ourselves by going into balance is an important one because if we do not signal that now, the Congress will come down on the District like a ton of bricks because it will look as though we had promised to, in fact, balance the budget. Mr. Chairman——

Mr. BARRY. Ms. Norton, on that score, let me just say that our approach to this is that for—and the pain is tremendous—we are assuming in 1999, 2000, and 2001 that our personal services costs remain steady, which means that are employees are going to take it on the chin in order to bring this into balance. It means that no pay increases. It also means further reduction in the work force, and also it means reduction in the nonpersonal service areas. That is what it means. It means making further sacrifices and suffering more pain in terms of the lack of service delivery.

On the other hand, that service which is delivered will become increasingly efficient because we are just getting better at doing it. I agree with Ms. Jarvis in general about the out years, but we have put together a model which shows that if we keep personal services steady, we are going to have to probably—what we have done is assume minimum growth in Medicaid and in debt service and in the pension area. Those are the three big, heavy hitters.

Senator BROWNBACK. I am glad to have Chairman Davis back. I am afraid I am going to have to go on to another set of meetings. Thank you all very much, and I will hope to catch some of the written testimony from some of the other presenters.

Mr. DAVIS. Senator Brownback, thank you for being here.

Senator BROWNBACK. Thank you.

Mr. BARRY. Let me thank Senator Brownback for your immense and intense interest in the District. We have now met several times. We are going to do some things together, and we certainly appreciate your involvement here. Thank you.

Senator BROWNBACK. Thank you.

Ms. JARVIS. Thank you very much, Senator.

Mr. DAVIS. I did not get to hear all the responses to Senator Lieberman's question, with regard to setting priorities where we have a limited ability to act. It seems from my perspective that we need to do several things. First of all, we have got to get better management control of the city which we are starting to do.

Mr. Mayor, I agree with you in terms of some of the things that have started between you and the control board and the revisions. I am excited about this Booz-Allen study of the police department

where they talk about redeploying personnel; the Water and Sewer Authority that was established last year was a giant step forward. However, it is going to take time because we do not have the information technology available to make real-time decisions. It takes time to train and retrain managers and key personnel, but once we start turning the corner on computer technology, education, and public safety all will be beneficial.

The administration's plan then talks about the relationship between the city and the Federal Government. I would be the first to say that all these comparisons with Washington and all these other cities are apples and oranges. The city is very unique. It is envisioned that way in the Constitution. But, it is also unique in terms of its current structure and relationship with the Federal Government, its taxing authority, and its authority to deliver services.

For the record, we invited seven Republican and six Democratic mayors, and we heard from Mayor Rendell and several Republicans who were not overly critical of the city. Mayor Rendell, for example, talked about some of the issues he, as mayor, had to go through in Philadelphia, a city which is very much like this city in terms of the urban cycle that it has undergone.

I think we can look at Ed Rendell as one of the premiere mayors in the country and learn from some of the things that he has done. It was in that context that he was asked to testify. Cities like San Diego, which do not have a commuter tax, were here as well. It just varies across the country, because every relationship is unique in terms of what the taxing authority is, the services they deliver, the relationship to schools, and the State government. So, it is very, very difficult to make direct comparisons.

There is no question in my mind that the current relationship the city has with the Federal Government needs to be revisited. I think we have all been vocal on that. The unfunded Federal payment, which I understand you said is one of the priorities, is a huge problem down the road.

Today, it is a bit of a problem, but in about 6 or 7 years, it will become 15 percent of the city's budget, so we need to address the issue. Now, we have resistance to that from some of the Civil Service Committee members and others, but I think we can structure this in a way that hopefully we can take that off the plate. I think that is critical. I applaud the President for addressing that issue.

I think on the Federal payment, we continue to work through that and recognize that you have cash-flow needs. I also believe that some sort of tax reduction is going to be very important to bring the city back. Given the tax burden that you have and the services that you have to deliver and the limited tax base you have, particularly being from the suburbs, I think it would be extremely selfish to say there should not be some form of tax relief we can look for for some Federal help. And how that evolved, I do not know at this point.

Ms. Norton has put forth, I think, a very bold plan that has won the support of some very key members, but it also has some opposition from some key members, but it certainly brings the tax burden down, and that is what makes the city competitive. Bringing the tax and regulatory down will help make the city competitive, both

from a commercial side and from the residential side as well. And I hope that what we come up with in the final analysis will have some elements of that and we can all sit down and get something accomplished.

I like the Economic Development Corp., concept. It is not a panacea; it is a piece of a large puzzle, that has some outstanding attributes, but we have to talk about the makeup of it, as was asked in some of the other questions, to make it work; I applaud the President for that as well.

I have got a few questions now I want to go to. You have given that as a preliminary from my perspective, and we have heard your perspectives. Let me, first of all, talk about the transition, Mr. Mayor, the transition team support when you came into office. They were talking about doing things like turning the heat down a few degrees, joining the FTS–2000, which you are specifically allowed to do; and with a new procurement coming up, I think there will be greater savings for users of that; using different types of light bulbs. Do you know how many of these items have been completed at this point?

Mr. BARRY. Mr. Chairman, let me speak, but before I do that, let me say what upsets me about this discussion and the comparison to other cities. And Mayor Rendell are good political friends——

Mr. DAVIS. Well, let me get to that first. First of all, if you could tell me where we are——

Mr. BARRY. I am going to do that.

Mr. DAVIS [continuing]. On some of these concepts.

Mr. BARRY. I am going to do that. It will not take but a minute to say this. We have done far more restructuring and far more efficiencies than any of these cities, and in that regard, we are on track with our transformation plan. We have a number of initiatives that have been taken to restructure the city government to bring about savings in energy, savings in lease negotiations, but also the thrust of my transformation was to become more efficient in the delivery of city services, and that is what the thrust has to be, and we are doing that.

Our trash pickup has improved tremendously. You know, we got beat up last year, rightly so, about our snow preparation. We are ready now. So the short answer is that we are on track. The only area of the transformation that we are not really on track with has been our negotiations with our labor unions. We had intended to reduce certain costs by $25 million by eliminating certain benefits. We were told by one of our boards that we could not do that, but the rest of the transformation is either on schedule or ahead of schedule in terms of restructuring the various departments.

We have had dialog with Ms. Jarvis about the business economic part of it. We are going to try to work that out, but the answer is, yes, we have reduced energy costs, I think, by $4 or $5 million—in fact, in our 1998 budget, we are going to do it by another $3 or $5 million.

Mr. DAVIS. But transformation is not really on track. You have met with some setbacks, haven't you, in terms of the timing of this? My understanding of the budgets that we looked at is there was going to be tremendous savings, and we have not achieved those savings on the transformation side.

Mr. BARRY. That is not true.

Mr. DAVIS. OK.

Mr. BARRY. Our budget—I will give you an example. We have an FTE goal as part of our transformation. We are on track with that. We had savings in certain departments. I could give you some of those. We are on track with that. And I do not know about the information you have, but if you look at the information——

Mr. DAVIS. I am not trying to be critical. We are just trying to share information here.

Mr. BARRY. I am not saying it is.

Mr. DAVIS. Well, have you joined FTS–2000?

Mr. BARRY. I do not know.

Mr. ROGERS. Mr. Chairman, Michael Rogers, city administrator.

Mr. DAVIS. Hi, Michael.

Mr. ROGERS. You pointed out a number of items that were recommended by the various transition committees of the Mayor, and a number of those recommendations were taken; some were not. But with respect to——

Mr. DAVIS. Could we supplement the record—we do not need to do it today.

Mr. ROGERS. Sure.

Mr. DAVIS [continuing]. Try to show us what was in the original recommendation, what you have done and the status of others, including maybe not approving it. That is fine.

Mr. ROGERS. Well, with respect to FTS–2000, we went another step. We have adopted a plan for saving telecommunications costs by moving to an ISDN platform in the District, and we are working with our contractor to do that, so we are saving—are projected to save once fully installed, $4 million a year in telecommunications costs.

With respect to energy, there are energy savings. There is an energy audit in progress, and there are savings there. With respect to the overall mass transformation plan, there are hundreds of projects that are tracked by the city, and those are interfaced with the budget, and there are a number of—there is a lot of progress.

Where there is slippage and projects cannot be accomplished either because congressional action decides to change the project or go another direction or council decides that they do not agree with the project or we run into some other roadblock, then we look for ways to supplement that project or change that project and still produce the revenue.

We will be very pleased to submit to you a full report on the cost savings initiatives and the transformation progress.

[The information referred to follows:]

LINES AT 441 4TH STREET, N.W., SUBMITTED FOR CONVERSION TO FTS-2000 LONG DISTANCE SERVICE

AGENCY	LINES
DEPARTMENT OF ADMINISTRATIVE SERVICES	61
OFFICE ON AGING	5
OFFICE OF COMMUNICATIONS	8
OFFICE OF THE MAYOR	28
OFFICE OF INTERGOVERNMENTAL RELATIONS	4
OFFICE OF THE SECRETARY	18
OFFICE ON ZONING	2
CORPORATION COUNSEL	81
INSURANCE ADMINISTRATION (DCRA)	43
OFFICE OF THE CHIEF FINANCIAL OFFICER	192
PUBLIC WORKS ENGINEER	1
DEPARTMENT OF ECONOMIC DEVELOPMENT	7
BOARD OF ELECTIONS AND ETHICS	15
DEPARTMENT OF HUMAN RIGHTS & MINORITY BUSINESS	1
LABOR RELATIONS & COLLECTIVE BARGAINING	2
BOARD OF APPEALS AND REVIEW	3
BOARD OF REAL PROPERTY ASSESSMENTS AND APPEALS	3
FIRE DEPARTMENT	10
OFFICE OF PERSONNEL	25
OFFICE OF THE CITY ADMINISTRATOR	34
TOTAL	543

All of these lines will be switched to the cost-saving FTS 2000 service by or before the end of this month. The remainder of the District government will be switched over during the summer. We anticipate savings in the 30% to 50% range.

In addition to long distance service, IRMA will work with GSA and AT&T to explore other features of the FTS 2000 contract that may prove beneficial to the District government.

Mr. DAVIS. Thank you. More than a year ago, you received a report on real estate savings that you could achieve. Are these changes in savings still in process and being developed, or have they been implemented? What is the status of that?

Mr. ROGERS. Yes. We did receive the strategic real estate plan. That plan is being implemented. We have initiated audits of some of the many month-to-month leases. I think to date six audits have been done. We have entered into contracts to do audits at a faster rate, so that project is moving forward.

Mr. DAVIS. What is the status of the Tax Revision Commission? Do you know when you expect that group to report?

Mr. BARRY. Ms. Jarvis.

Mr. DAVIS. Ms. Jarvis, do you know?

Ms. JARVIS. By the end of the year.

Mr. BARRY. By the end of the year. As I understand, they are going to make some interim recommendations as they get to them.

Mr. DAVIS. OK. I gather from the context of the comments, that you would be willing to consider even more tax elimination and tax reduction if that action could be held harmless regarding DC revenues. Is that fair to say?

Ms. JARVIS. I was listening to my colleague. I am sorry, Mr. Chairman.

Mr. BARRY. Do you mean in terms of tax reductions and new business?

Mr. DAVIS. Reduce taxes further if it could be harmless in terms of the revenue loss and it was made up by increased Federal payment or something else?

Mr. BARRY. Yes.

Ms. JARVIS. A very affirmative yes.

Mr. BARRY. Yes.

Mr. DAVIS. How about the Regulatory Reform Commission? When did you anticipate a report from them?

Mr. ROGERS. We will get a report from the Regulatory Reform Commission in June. It was given a 1-year life. That commission is moving along, and it will conclude its work June 1, I believe.

Mr. DAVIS. Could each of you comment on your reaction to the possibility of putting surplus District land, including closed schools and other District economic development programs like the RLA, into the proposed Economic Development Corp?

Mr. BARRY. We support that, at least speaking for the executive, we support all the resources that are available, whether it is Federal land or District land, including schools that have been closed or even parks that may not be as useful as they once were as part of the overall pot that we could put this into.

Ms. JARVIS. Mr. Chairman, I do not support putting surplus land, RLA land and schools into the Economic Development Corp., until there is a Federal contribution of land. We already dispose of those lands. If there is not to be a Federal contribution to the Economic Development Corp., of substantial amounts of Federal land with the capitalization, we would just as soon retain the ability to dispose of our own land.

Mr. BARRY. I want to identify with Ms. Jarvis's amended position.

Mr. DAVIS. Should the Economic Development Corp., be limited to certain neighborhoods, or should its jurisdiction be the whole city with specific goals and targets for particular distressed areas? Do you have any thoughts on that?

Ms. JARVIS. Yes. The contemplation of the corporation is that it is a holding company that has various subsidiaries, each of which has a target, so that a couple of subsidiaries, one of which could do the development around the Navy Yard where the Southeast Federal Center would have been, another subsidiary could do Metro stops, could do Minnesota and Benning, could do Georgia Avenue, New Hampshire Avenue, could do sites in the Ward 8 community.

So I think there needs to be initially a push to assemble a great chunk of Federal, local, and private sector land, for example, around the Navy Yard area, where there could be a substantial massing of activity that really creates an economic driver in that area, and then there should be other subsidiaries that address communities in our various respective wards.

Mr. DAVIS. Ms. Jarvis, I understand that you talk about reprogramming some of the money from the Barney Circle Freeway into the Convention Center and arena area.

Ms. JARVIS. Yes.

Mr. DAVIS. I would support that.

Ms. JARVIS. The infrastructure.

Mr. DAVIS. And I will work with Ms. Norton and you to do that. I think that makes a lot of sense, from an economic development perspective.

Ms. JARVIS. Yes.

Mr. DAVIS. I just wanted to put that on the record as well.

Ms. JARVIS. Good.

Mr. DAVIS. Can either of you tell me what the status is of the Memorandum of Understanding right now with the administration? Ms. Jarvis, you can go first.

Ms. JARVIS. Well, Mr. Chairman, we do not know an actual date, but I will tell you that I am very encouraged that for each of the areas of the President's plan there has been a working group with OMB local officials and other officials looking at the issues that are critical. And so while I believe that Mr. Raines hoped that the, and believed that the MOU could be available to us last week, in the interim we have solved some problems with the pension system.

In the interim we have solved some problems with the courts and the prison system. In the interim we have solves some of our concerns about the debt refinancing, and we then have had an opportunity to weigh in on these issues, and that has really delayed having a document before you, but it has been a substantial contribution that we have been able to make.

Mr. DAVIS. I would just add, on the prisons you talked about, that we have discussed with the city alternatives to having a Federal takeover, which raises a lot of issues the city is uncomfortable with and we are uncomfortable with, at least this member. In terms of looking at some of the privatization options and the like, we will continue to work with you on that, and as you approach the Memorandum of Understanding, if you will keep that option in mind as well, I am sure that will be appreciated from this corner.

Mr. Mayor, did you want to comment?

Mr. BARRY. Mr. Chairman, I think we are probably 10, 14 days away from a final draft that we will be looking at. We still have some concerns in the critical justice area, some of the concerns that you have raised about how this actually operates as of October 1.

The Federal Government wants a transition period before the Federal Bureau of Prisons takes this over. We are not comfortable with how they want to structure that, but we have met once this week already. We will meet again I hope the next day or so to see how far we have made—what progress we have made.

I get the impression that in the other areas there has been substantial progress to the point where there are very few major objections from the city to those areas. I think critical justice is the last remaining area, because it is complicated, very complicated, both philosophically and programmatically, but we are making great—so I would say 10 or 14 days when I can gather.

Mr. DAVIS. OK. Do you think we could make more progress more quickly if we had greater cooperation between you and the control board?

Mr. BARRY. We have excellent cooperation now. I mean, I do not understand that, these myths out here. What happens from time to time, on a budget item, the control board may say, we are not to put this money in this pot but put it over here. That is not noncooperation; that means that we just disagree on a philosophy.

But on the major thrust of this city, if you talk to Dr. Brimmer and the other four members, talk to myself and others, you will find that we are in communication with each other, but there may be some philosophical and program differences because I was elected, and I have a certain constituency that I have to, as you were, listen to promises made during the campaign.

We may have some slight differences on priorities, but that does not mean we do not cooperate, not at all, and we ought to just stop that notion. That is not happening. We do cooperate. We do talk with each other. The staff met yesterday on the fiscal year 1998 budget to make sure we are on track about what was required for the budget. So that is just a myth that ought to stop.

Mr. DAVIS. Ms. Jarvis, let me ask you, has the control board been helpful to the council while you look at the cooperation at this point between the control board and council?

Ms. JARVIS. I think that the cooperation with the control board on the council side is critical for a number of reasons. First of all, when they go away, we would like some of their authority.

Second of all, we believe that the control board's staff could help us in the same way that a congressional budget office helps the Congress and that what the control board has brought is an analytical capacity that we do not have locally because just of the size of—the absence of something like the Congressional Budget Office, that what the control board has done is produce some quantitative data that take us to the next step in our planning and for that reason has been very important.

We have indicated on the council side that we would like to meet more often with the control board, and we will be doing that this afternoon, because we believe that the analyses that they have

done are critical for us as we are making day-to-day decisions in conjunction with the Mayor.

So we just want more of their information, very frankly. We wish there were a greater flow of information that would help us make some of the critical decisions that we have to make. We think that our recommendations would be stronger with the advantage of all of their information.

Mr. DAVIS. Thank you. Let me just add, I think particularly with the President's proposal and other proposals that are to be floated up here, you, Ms. Jarvis, you put some in the record, Carol O'Cleireacain's report and some other recommendations, and Ms. Norton's proposal.

To the extent we can get the control board, the council, and the Mayor on the same sheet of paper saying we all agree on this, that helps up here. It helps us sort it out. But this is the beginning of a long process, and we are going to keep all of you involved as we go forward.

Mr. BARRY. Mr. Chairman, I think on the President's plan and the overall focus, in listening to Ms. Jarvis and my own statement and Dr. Brimmer's statement, you will find that I think we are 98, 99 percent on the same page with this.

But let me also reiterate again, just because I may differ programmatically with a member of the council or the control board does not mean cooperation; that is democracy.

Mr. DAVIS. Absolutely. Thank you, and I appreciate that.

Mr. BARRY. It is democracy.

Mr. DAVIS. Mr. Mayor, let me just ask you, since I saw this on the news last night. I was originally going to stick to the script, but since you have wandered all over in your opening statement.

Mr. BARRY. Mr. Chairman, "wander." That is not a good word.

Mr. DAVIS. Yesterday——

Mr. BARRY. Comprehensive.

Mr. DAVIS. Thank you. You gave a very comprehensive overview.

Continuing on, we received a report in the news last night about two cars that were being stopped for illegal u-turns, and both were from out of town. One was given a ticket. The other had an expired license and was going to be ticketed. As the story came to me, and we have confirmed it this morning, evidently a call was made from one of the cars, and the chief of police, Chief Soulsby, was on the other line speaking directly to the officer. You were not involved with that, were you?

Mr. BARRY. No, I was not.

Mr. DAVIS. OK. I just wanted to clarify that.

Mr. BARRY. Absolutely not.

Mr. DAVIS. Finally, let me just add that I think you realize that Congress is not merely going to rubber stamp the President's proposal, although we are very impressed and delighted at his interest in this—it is unprecedented. As I said, the stars are aligned for all of us to work together, but most provisions are going to undergo probably some change. Hopefully, we will be adding value to some of the others, as you have suggested, and that is what the legislative process is all about.

I just hope that we can work with you for the city's benefit as we add value to this and work in a very cooperative manner. We

have a great opportunity here working together on these issues, and I am very excited about the possibilities that this time period holds for the city.

So, thank you both. Mrs. Morella had a couple of questions. I now recognize the gentlelady.

Mrs. MORELLA. Thank you very much, Mr. Chairman. I want to thank the Mayor and councilwoman for their presentations, and it is indeed true that Councilwoman Jarvis did put a lot of material into that record, which is going to be voluminous but very informative.

My question to you both is, let's do a dollar sign on all these plans that we have in terms of what we want, because I hear about the fact that we like the President's revitalization plan. We want to add to it; we do not want to eliminate the Federal payment. We want to include St. Elizabeth's. We like Congresswoman Norton's plan.

We have to sell whatever plan this committee comes up with. We have to sell it to the Appropriations Committee, and then we have to sell it to our colleagues, and I want you to be mindful of that, because I would like to ask you if you have any idea of what the cost would be of the plan that you would like to put together with all the pieces out there that would best move the District of Columbia into a healthy state and what it would cost in the short run and maybe what it ultimately would cost in the long run.

Mr. BARRY. Congresswoman, I think we ought to approach this a little bit differently in the sense that it is going to be expensive to right the wrongs of the past. I know that does not sound very practical. I have not yet had a chance to add this all up, but if you took the President's plan, which is about $700-and-some million, keep the Federal payment, that is another $660; that is $1.3; and if we added St. Elizabeth's to the plan, that is another $190 million. Ms. Norton's plan, I think, is about $7—how much is it—$8, $900 million? What is it, Ms. Norton; $700 million? So you are talking about——

Ms. NORTON. My plan has never been costed out.

Mr. BARRY. OK. So I think very easily, Congresswoman, you are talking about over $2½ billion, but I think we ought to look at that in the context of the Federal budget, a trillion-dollar budget. And I think that is how I would like to approach it.

Mrs. MORELLA. And right now we are having committee meetings with regard to authorizations that are going to be within certain boundaries that have been established, and that is going to be difficult. Our concern also is if we do not prioritize what we need to do a jump start that then can be continued, then I think we are operating in a vacuum. My humble point of view is we have got to come up with something that we think we can sell.

Mr. BARRY. Ms. Jarvis and I, we talked about this while you were out, in terms of continuing the Federal payment, taking unfunded pension liabilities, and Ms. Norton's plan. Those are our three priorities.

Mrs. MORELLA. But the total cost, then, give me that again, you estimated.

Mr. BARRY. Federal——

Ms. JARVIS. Wait a minute. With all due respect to the Mayor, if we talk about the pension, District taxpayers have already paid $1.9 billion, I believe, into the pension system for pensioneers who were Federal employees before we got Home Rule, and so I do not want to say to you, here is what this package costs, without there also being on the table what local tax revenues have paid for that system. That is $1.9 billion.

That is why our citizens have some of the highest taxes in the country, because we have paid $1.9 billion of benefits. We have the third highest per-capita income taxes of Federal taxes in the country. All right? So, to say that this package would cost this without recognizing that $1.2 billion is revenue foregone because of restrictions on our revenue, and if you put that package together, that is $2.4 billion.

Mrs. MORELLA. I will not only recognize that, but I mentioned in my opening statement that it was 1973, with Home Rule and prior to that, that that is why you had the unfunded pension liability, because it had been paid.

Putting that with an asterisk, then what would the cost be? Now, I say this in light of, again, in my opening statement, schools that leak, buses that fall part, safety that is not safe. I mean, you know, Duke Ellington School, which closes under court order.

You know, all of these kinds of things that are so deplorable that Members of Congress want to know that we can achieve results and what they are going to cost, and I think they are willing to invest, but they also need to know what the amount is going to be, and we need to know because we want to be able to come up with——

Ms. JARVIS. OMB has done for the pension plan a cost in the out years of that plan, Mrs. Morella, which we can provide to you, but which, of course, as a Member of Congress, you have access to immediately. And the pension proposal would take the $4.5 billion of assets and bring them into the Federal Treasury.

Now, they would be set aside for the payment of the pensioneers, but that would be an asset pool that is brought over, and the pensioneers would be paid out of that $4.5 billion of costs for a period of time—I am not sure—6 or 7 years, and then there is—in fact, 10 years. And then in the out years there is going to be a $700 million cost to the Federal Government for a period of time in order to fully fund the pension system.

So those costs are not going to be in the 1998 budget; they are going to be 10 years hence, and there will not be a cost in the current budget for pensions except those that are pay as you go, I think I am correct in saying.

The Medicaid costs for the President's plan are——

Mrs. MORELLA. Well, you can figure out the whole president's plan, you know, with the courts and the prisons and Medicaid.

Ms. JARVIS. But it brings us even.

Mrs. MORELLA. That comes to what? Is it about $4 billion on that. But what I am saying is that we like that, but then we also want to not terminate the Federal payment. I mean, this may have merit, and I have mentioned this before. We also want to do something about St. Elizabeth's. We also want a tax-benefit plan. And they all sound great, but when you put them together, we have got

to think about a package which prioritizes and will bring about results, so it is asking——

Ms. JARVIS. Let's do the pensions, Ms. Norton's stimulus package because you produce some economic growth for the District, and we cannot survive without economic growth and the Federal payment, and the Federal payment properly constituted, which reflects the real loss of revenue.

These are not gifts. This part of it, these are not gifts.

Mr. BARRY. Congresswoman, I know you have been supportive, but I think the Congress has to do what some of us have to do from time to time: Bite these tough bullets and advocate a level of Federal involvement that will begin to permanently solve these problems.

Mrs. MORELLA. Of course.

Mr. BARRY. I know it is hard, but we have got to just do that. When the Defense Department comes up, they talk about all what they need, and people bite that, so we need a balance here where we begin to move in 1998 as a first step to permanent recovery for the District, with our doing our share. There is no question about that. We are prepared to do more than our share, but I think you have to bite these tough bullets and be advocates as you have been on the Appropriations Committee and other places that we have got to put this level of funding over here and push for it.

Mrs. MORELLA. I appreciate your both trying very hard to respond to the question. I do not quite have an answer, but I value working with you and look forward to so doing. Thank you. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much. Ms. Norton.

Ms. NORTON. Mr. Chairman, in light of the time, I will simply put before these witnesses a few issues that I wish they would look into on the theory that if there were substantial progress on such issues, it would aid us in what I must tell you for sure is going to be an uphill struggle to get any substantial part of these bills.

On FTS–2000, I thought I heard Mr. Rogers talk about another kind of system. Now, let me tell you something about FTS–2000. I do not know if it was between administrations, but I recall sending something, and it may have been in the transition between administrations, but if you were to tell cities across the country you could get on FTS–2000, they would hug you, kiss you, and not let you out of the room.

Alone, FTS–2000 will save millions, multimillions of dollars in telephone bills. I did not hear an answer as to whether we are on FTS–2000. I believe we are not. What happened was one of my committees sent off and said—sent the chairman—I am sorry—the staff director of one of my committees sent to me several years ago and said, Do you realize how much money is going down the drain because the District has not accepted our invitation to come on FTS–2000?

Now, I ask about it because whatever that system was, it did not sound like FTS–2000.

Mr. ROGERS. Well, let me just say, Congresswoman, that the system that we are moving forward with, I think, is a part of the FTS–2000 program. It was procured off of the GSA schedule, and

it was procured for the purpose of achieving the same benefits of FTS–2000 in terms of saving the District——

Ms. NORTON. Do you mean off of a competitive schedule, or off—do you mean you got the vendors off of their schedule?

Mr. ROGERS. Yes, yes. We will give you a specific answer on that.

Ms. NORTON. I see Mr. Demczuk there. Look, follow through is my middle name. This is money. I would like to know, because I would like to help. If we are not on FTS–2000, we are going some other route. I need to know it right now. I am on the subcommittee that can get us on FTS–2000. If you hook into the Federal Government system, even before the District went down, that was seen as a way for us to save money.

Could you get that to me by the end of the week? I need to know if we are on FTS–2000. I need to begin to work to get us on FTS–2000.

I have a bill in. We have talked a lot about State functions. There is one State function that the President's bill does not mention and that we have not talked about, and that has to do with welfare. In the first 2 years, these funds go up, then they drop off the side of a cliff. I have a bill in that would, in fact, put the District not in the position of a State, but in the position of a city and would require that we contribute what an average city would contribute to the quotas that must be met in order to keep from losing your grant.

You will lose, by the year 2000, 21 percent of your grant if you do not have 50 percent of your people in work activities or at work at least part time. We do not have time for me to get a progress report on where we are on welfare reform in the District. Now, I know we had a late start, but I would appreciate knowing that because perhaps I could include in my own bill other sections that could be helpful to you if there are problems with respect to how you are proceeding.

Ms. Jarvis, I appreciate that you have moved the pilot bill forward. Frank Raines included in his bill in the President's bill the National Infrastructure Fund, and in delineating where money beyond the $125 million will come from, talked about the pilot. The council has had before it a legislation or a proposal for payment in lieu of taxes for some time, and I believe I have a letter from you saying that that is moving forward. I would like also to know—again, could I know this by the end of next week?

I know this has to be negotiated, but based on how other cities have negotiated it—let's take two that I know, and there are many more, New Haven and Boston. They have negotiated even with small colleges. They get some payment in lieu of taxes. I would like to know how significant you believe would be the revenue if we negotiated payment in lieu of taxes from the kinds of tax-exempt entities that other cities now get on a regular basis payment in lieu of taxes from.

We know that there have even been some offers, or at least an offer from at least one, the National Education Association, to give 40 percent. That is a lot of money, and as you are cutting budgets, if we could proceed on that, as Ms. Jarvis apparently has moved the council recently, that would be very helpful.

FTS–2000—I am taking these down, you all. Do not let me have to call you; call me—FTS–2000, pilots, the welfare bill, and, finally, Mr. Mayor, when your transformation plan came up, even your harshest critics up here embraced it and embraced you. You have indicated that the transformation plan is moving along. I have said to you that I would like, in my own work on the House floor which I do every day, to indicate specifics about how the transformation plan is being implemented.

And what began as a compliment to you has now become a point of criticism from the Hill because the Hill will not buy these notions that we are moving along, we are having meetings, and it is going along. So the kinds of things that most interest Congress is restructuring agencies and services.

This is what the District and the control board could not get a hold of initially because the financial situation was what you worked on initially, but here, the impression is that we have the largest government per-capita, and if we do not show not only that the District has cut, but that the agencies look differently, your figures do not register up here, and it is a terrible, terrible shame that the District is not getting credit for privatization and even for layoffs because the District cannot show when it comes up here that X agency had 10 layers last year, and it has got 5 layers this year, that it had what your transformation said would happen, that there were 5 agencies in one department, and now there are 2.

That is what would most help us to show a difference based on the transformation plan that many of us believed was going to be the road map out of which you would proceed. And I recognize how difficult it is to get there, but even working on some of those consolidations, some of the elimination of bureaucratic layers would help me to respond to people who do not give you any credit for very substantial changes in the District government.

Moreover, without working off of a plan like the transformation plan, when there is overspending, there is a clear impression here that the District and the control board are forced to get the bodies and the money wherever they can find them and that that will not necessarily be in consolidations and elimination of layers of bureaucracy, but will be wherever because you have got to stop the hemorrhaging of money.

We are most interested in specifics, not only on what has happened thus far, but on what the process is for implementing the transition plan, whether there are pieces of legislation before the city council that would, in fact, carry out the transformation plan. It would be one of the most significant things you could do for us as we go forward with this plan so that we would be armed with this evidence as we have the skepticism come at us that the District should not have more money, should not even be relieved of these State costs.

I ask also, because constantly we are told that we have the largest government per-capita, that we do not need any more money, just cut, and you will get the money out of that, I would ask that you send the number of employees and, if possible, the amount of money that goes for the State functions alone up here. They count all of the employees, and then they say, See, we have a fraction of those. You obviously have to have employees for Medicaid. Well,

you will have to have that anyway because you will keep Medicaid. Employees for prisons.

I do not know if the court employees—I suppose they are counted to you. You have employees for the State functions, and I do not need to run down what they are to you. If somebody could isolate what those employees are, so we then would cease the process that I am faced with every year of comparing apples to oranges, their city employees or their county employees with our State, county, and municipal employees.

If I could get responses to those, you would help me, and I believe you would help the chairman, who is trying to help us a great deal. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you.

Mr. BARRY. Ms. Norton, in terms of the specific information about State functions, here it is, and I would like to——

Mr. DAVIS. Without objection, it will be placed in the record.

[The information referred to follows:]

BUDGET BREAKDOWN OF GOVERNMENT FUNCTIONS IN THE DISTRICT OF COLUMBIA BY LEVEL OF JURISDICTIONAL RESPONSIBILITY

JURISDICTION	SHARE OF BUDGET*		PERCENT OF BUDGET	
	FTEs	DOLLARS	FTEs	DOLLARS
STATE	10,535.00	2,443,309.00	32.13	47.83
COUNTY	4,985.00	762,030.00	15.21	14.92
CITY	17,265.00	1,903,286.00	52.66	37.26
TOTALS	32,785.00	5,108,625.00	100.00	100.00

* FY 1997 Recommended Budget

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
AA	OFFICE OF THE MAYOR	29.0	1,883					29.0	1,883
	%	100.0	100					100.0	100
AB	DC CITY COUNCIL	143.0	8,412					143.0	8,412
	%	100.0	100					100.0	100
AC	OFFICE OF THE D.C. AUDITOR	12.0	982					12.0	982
	%	100.0	100					100.0	100
AD	INSPECTOR GENERAL	40.0	7,200					40.0	7,200
	%	100.0	100					100.0	100
AE	OFFICE OF CITY ADMINISTRATOR	29.0	4,598					29.0	4,598
	%	100.0	100					100.0	100
AF	CONTRACT APPEALS BOARD	5.0	563					5.0	563
	%	100.0	100					100.0	100
AS	DEPT OF ADMINISTRATIVE SERVICES	217.0	46,570					217.0	46,570
	%	100.0	100					100.0	100
AT	DEPUTY MAYOR FOR FINANCE	13.0	1,450					13.0	1,450
	%	100.0	100					100.0	100
BA	OFFICE OF EXECUTIVE SECRETARY	34.0	2,141					34.0	2,141
	%	100.0	100					100.0	100
BB	OFFICE OF COMMUNICATIONS	6.0	326					6.0	326
	%	100.0	100					100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE F97FTE	CITY AMOUNT F97BUD	COUNTY FTE F97FTE	COUNTY AMOUNT F97BUD	STATE FTE F97FTE	STATE AMOUNT F97BUD	TOTAL FTE F97FTE	TOTAL AMOUNT F97BUD
BC	OFFICE OF THE BUDGET	49.0	4,201					49.0	4,201
	%	100.0	100					100.0	100
BD	OFFICE OF PLANNING							0.0	0
	%								
BE	OFFICE OF PERSONNEL	192.0	10,348					192.0	10,348
	%	100.0	100					100.0	100
BF	OFFICE OF FINANCIAL MANAGEMENT	252.0	23,544					252.0	23,544
	%	100.0	100					100.0	100
BG	EMPLOYEES DISABILITY COMP	0.0	25,993					0.0	25,993
	%		100					0.0	100
BH	UNEMPLOYMENT COMPENSATION					0.0	7,678	0.0	7,678
	%						100	0.0	100
BI	BANKING AND FINANCIAL INSTITUTIONS								
	%								
BJ	OFFICE OF ZONING					13.0	846	13.0	846
	%					100.0	100	100.0	100
BN	EMERGENCY PREPAREDNESS	35.0	2,795					35.0	2,795
	%	100.0	100					100.0	100
BP	INTERGOVERNMENTAL RELATIONS	18.0	1,185					18.0	1,185
	%	100.0	100					100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE F97FTE	CITY AMOUNT F97BUD	COUNTY FTE F97FTE	COUNTY AMOUNT F97BUD	STATE FTE F97FTE	STATE AMOUNT F97BUD	TOTAL FTE F97FTE	TOTAL AMOUNT F97BUD
BQ	GRANTS MANAGEMENT	14.0	12,922					14.0	12,922
	%	100.0	100					100.0	100
BX	COMMISSION ON ARTS&HUMANITIES					9.0	2,194	9.0	2,194
	%					100.0	100	100.0	100
BY	OFFICE ON AGING					26.0	19,109	26.0	19,109
	%					100.0	100.0	100.0	100
BZ	OFFICE OF LATINO AFFAIRS	3.0	657					3.0	657
	%	100.0	100					100.0	100
CA	DEPT OF FINANCE AND REVENUE	112.0	5,070			358.0	16,683	470.0	21,753
	%	23.8	23			76.2	77	100.0	100
CB	CORPORATION COUNSEL	289.0	16,894					289.0	16,894
	%	100.0	100					100.0	100
CE	PUBLIC LIBRARY	415.0	21,832					415.0	21,832
	%	100.0	100					100.0	100
CF	DEPARTMENT OF EMPLOYMENT SVC	38.0	2,550			699.0	63,462	737.0	66,012
	%	5.2	4			94.8	96	100.0	100
CG	PUBLIC EMPLOYEE RELATIONS BRD	3.0	425					3.0	425
	%	100.0	100					100.0	100
CH	OFFICE OF EMPLOYEE APPEALS	15.0	1,413					15.0	1,413
	%	100.0	100					100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
CJ	OFFICE OF CAMPAIGN FINANCE	10.0	648					10.0	648
	%	100.0	100					100.0	100
CP	CERTIFICATE OF PARTICIPATION	0.0	7,926					0.0	7,926
	%		100					0.0	100
CR	DEPT CONS & REGULATORY AFFAIRS	15.0	1,265			162.0	11,609	177.0	12,874
	%	8.5	10			91.5	90	100.0	100
CT	OFFICE OF CABLE TELEVISION	8.0	2,469					8.0	2,469
	%	100.0	100					100.0	100
DA	BD OF REAL PROPERTY ASSES & APPEALS	3.0	338					3.0	338
	%	100.0	100					100.0	100
DB	HOUSING & COMMUNITY DEVELOPMEN								
	%								
DC	LOTTERY & CHARITY GM BOARD					100.0	247,900	100.0	247,900
	%					100.0	100	100.0	100
DD	PAROLE BOARD					124.0	7,961	124.0	7,961
	%					100.0	100	100.0	100
DH	PUBLIC SERVICE COMMISSION					54.0	4,570	54.0	4,570
	%					100.0	100	100.0	100
DJ	PEOPLES COUNSEL					24.0	2,430	24.0	2,430
	%					100.0	100	100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
DK	BOARD OF APPEALS AND REVIEW					2.0	147	2.0	147
	%					100.0	100	100.0	100
DL	BOARD OF ELECTION & ETHICS			51.0	2,727			51.0	2,727
	%			100.0	100			100.0	100
DP	COMMISSION FOR WOMEN								
	%								
DQ	COMM JUDICIAL DISAB & TENURE			2.0	130			2.0	130
	%			100.0	100			100.0	100
DS	REPAYMENT OF LOAN AND INTEREST					0.0	333,710	0.0	333,710
	%						100	0.0	100
DV	JUDICIAL NOMINATION COMMISSION			1.0	80			1.0	80
	%			100.0	100			100.0	100
DX	ADVISORY NEIGHBORHOOD COMM	0.0	572					0.0	572
	%		100					0.0	100
DY	DC RETIREMENT BOARD	13.0	16,667					13.0	16,667
	%	100.0	100					100.0	100
EA	METRO-COUNCIL OF GOVERNMENTS	0.0	396					0.0	396
	%		100					0.0	100
EB	BUSINESS SERVICES & ECONOMIC DEVELOPMENT	255.0	13,163	18.0	1,749	412.0	37,581	685.0	52,493
	%	37.2	25	2.6	3	60.1	72	100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE F97FTE	CITY AMOUNT F97BUD	COUNTY FTE F97FTE	COUNTY AMOUNT F97BUD	STATE FTE F97FTE	STATE AMOUNT F97BUD	TOTAL FTE F97FTE	TOTAL AMOUNT F97BUD
ED	DEP MAYOR FOR ECONOMIC DEV								
	%								
ER	WASHINGTON CONVENTION CENTER						2,025	0.0	2,025
	%						100	0.0	100
ES	WASHINGTON CONVENTION CENTER		50,171					0.0	50,171
	%		100					0.0	100
FA	METROPOLITAN POLICE DEPARTMENT	4,577.0	255,223					4,577.0	255,223
	%	100.0	100					100.0	100
FB	FIRE DEPARTMENT	1,790.0	95,653					1,790.0	95,653
	%	100.0	100					100.0	100
FC	DC SUPERIOR COURT			1,149.0	77,969			1,149.0	77,969
	%			100.0	100			100.0	100
FD	POLICE & FIRE RETIREMENT	0.0	226,700					0.0	226,700
	%		100					0.0	100
FE	PUBLIC DEFENDER SERVICE						7,702	0.0	7,702
	%						100	0.0	100
FF	PRETRIAL SERVICES AGENCY			109.0	5,727			109.0	5,727
	%			100.0	100			100.0	100
FG	JUDGES RETIREMENT			0.0	5,500			0.0	5,500
	%				100			0.0	100

ource of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE F97FTE	CITY AMOUNT F97BUD	COUNTY FTE F97FTE	COUNTY AMOUNT F97BUD	STATE FTE F97FTE	STATE AMOUNT F97BUD	TOTAL FTE F97FTE	TOTAL AMOUNT F97BUD
FK	D.C. NATIONAL GUARD					26.0	902	26.0	902
	%					100.0	100	100.0	100
FL	DEPARTMENT OF CORRECTIONS			594.0	33,136	2,814.0	222,053	3,408.0	255,189
	%			17.4	13	82.6	87	100.0	100
FM	DC COURT OF APPEALS					84.0	5,946	84.0	5,946
	%					100.0	100	100.0	100
FN	DC COURTS SYSTEM			103.0	32,843			103.0	32,843
	%			100.0	100			100.0	100
FP	CORRECTIONAL INDUSTRIES					84.0	9,152	84.0	9,152
	%					100.0	100	100.0	100
GA	PUBLIC SCHOOLS	9,192.0	491,085			947.0	53,395	10,139.0	544,480
	%	90.7	90			9.3	10	100.0	100
GF	UNIV OF THE DISTRICT OF COLUMB					1,079.0	76,287	1,079.0	76,287
	%					100.0	100	100.0	100
GK	PUBLIC SCHOOL REPAIRS								
	%								
GX	TEACHERS RETIREMENT FUND						88,900	0.0	88,900
	%						100	0.0	100
HA	DEPT OF RECREATION	515.0	34,677					515.0	34,677
	%	100.0	100					100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
HD	HUMAN RESOURCES DEVELOPMENT	0.0	12,257					0.0	12,257
	%		100					0.0	100
HM	DEPT OF HUM RTS & MIN BUS DEV	13.0	854					13.0	854
	%	100.0	100					100.0	100
JA	DEPT OF HUMAN SERVICES	30.0	1,772	2,931.0	340,279	2,926.0	1,167,688	5,887.0	1,509,739
	%	0.5	0	49.8	23	49.7	77	100.0	100
JB	D.C. GENERAL HOSPITAL				66,099			0.0	66,099
	%				100			0.0	100
JC	DC GENERAL HOSPITAL SUBSIDY				56,735			0.0	56,735
	%				100			0.0	100
JF	DC ENERGY OFFICE			13.0	5,326			13.0	5,326
	%			100.0	100			100.0	100
KA	DEPARTMENT OF PUBLIC WORKS	1,308.0	109,176	14.0	1,814	574.0	46,356	1,896.0	157,346
	%	69.0	69	0.7	1	30.3	29	100.0	100
KC	METRO AREA TRANSIT COMMISSION				96			0.0	96
	%				100			0.0	100
KD	SCHOOL TRANSIT SUBSIDY	0.0	3,845					0.0	3,845
	%		100					0.0	100
KE	MASS TRANSIT SUBSIDIES				131,820			0.0	131,820
	%				100			0.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
LA	DEPARTMENT OF PUBLIC WORKS (UTILITY ADMIN)	0.0	290,394					0.0	290,394
	%		100					0.0	100
LB	WASHINGTON AQUEDUCT	0.0	25,743					0.0	25,743
	%		100					0.0	100
MS	MANAGEMENT INFORMATION SYSTEMS	0.0	(6,317)					0.0	(6,317)
	%		100					0.0	100
PH	PUBLIC AND ASSISTED HOUSING	5.0	8,330					5.0	8,330
	%	100.0	100					100.0	100
RS	REAL ESTATE		(4,488)					0.0	(4,488)
	%		100					0.0	100
SB	INAUGURAL EXPENSES						5,702	0.0	5,702
	%		0				100	0.0	100
SC	D.C. ARMORY BOARD (STARPLEX)	0.0	8,717					0.0	8,717
	%		100					0.0	100
SD	ENERGY		(2,271)					0.0	(2,271)
	%		100					0.0	100
SF	PURCHASING & PROCUREMENT		(12,960)					0.0	(12,960)
	%		100					0.0	100
TC	D.C. TAXI CAB COMMISSION					18.0	1,321	18.0	1,321
	%					100.0	100	100.0	100

Source of Data: Office of the Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE F97FTE	CITY AMOUNT F97BUD	COUNTY FTE F97FTE	COUNTY AMOUNT F97BUD	STATE FTE F97FTE	STATE AMOUNT F97BUD	TOTAL FTE F97FTE	TOTAL AMOUNT F97BUD
TK	OFFICE OF TOURISM AND PROMOTIONS								
	%								
WF	WORKFORCE	(2,432.0)	(26,722)					(2,432.0)	(26,722)
	%	100.0	100					100.0	100
XB	DC Financial Responsibility & Mgmt Assist. Author	0.0	3,150					0.0	3,150
	%		100					0.0	100
ZA	SHORT-TERM BORROWINGS	0.0	37,785					0.0	37,785
	%		100					0.0	100
ZD	REPAYMENT OF GEN FUND DEFICIT	0.0	38,314					0.0	38,314
	%		100					0.0	100
ZH	SETTLEMENTS AND JUDGMENTS	0.0	14,800					0.0	14,800
	%		100					0.0	100
	TOTAL	17,265.0	1,903,286	4,985.0	762,030	10,535.0	2,443,309	32,785.0	5,108,625
	TOTAL PERCENTAGE	52.7	37	15.2	15	32.1	48	100.0	100

Source of Data: Office of the Budget

Mr. BARRY [continuing]. Ask you to take it, you know, and expand on it as you talk about this on the floor of the House. It is very specific, by agency, by function, and etcetera.

Mr. DAVIS. It will be put in the record.

Mr. BARRY. Second, we are going to get to you a list of where we are with transformation. I am going to discuss it with Congressman Davis this afternoon. Also, there is a lot of misinformation and noninformation that we want to share so that people can see that this process is making steady and significant progress.

On the other hand, Congresswoman, we certainly can become more efficient. We certainly can streamline. But if you look at the big cost centers in our budget, the big cost centers in our budget—Medicaid, prisons, and others—they are a result of our disproportionate share of poverty in this community. If you look at where a lot of this money is going, it is the disproportionate share of poverty.

Now, the way you correct that is get people out of poverty, and I have got some notions about these nonprofits, which I will not say today, but I share with you about how we can get them more involved with putting people to work.

So we are going to do all of that, but I think if we do not point out, though, that these big cost centers, look at where they are, are really the direct result of the social and the demographics of our city, which are disproportionate low income compared to other parts of the region or other parts of the city. New York City has all these other boroughs to do that.

Mr. DAVIS. Thank you. Ms. Norton, thank you very much. I will make two final comments.

First, I would like to see, if you have it, all the Federal property, and what you would get under normal real estate assessments if the Federal Government paid real estate. I have seen a lot of conflicting numbers on that, and if you have the programs ready to run that——

Mr. BARRY. We have it exactly.

Mr. DAVIS [continuing]. That would be very helpful, and I would be happy to put that in the record, because that will give us an idea of what the Federal Government is not paying for the real estate that would be payed by someone else.

Mr. BARRY. The other thing, Mr. Chairman, people fail to point out and notice that we usually talk about property tax forgone, but just think of the income that would be earned on this property, too, with people working in office buildings or living in homes that would be on some of this property.

Mr. DAVIS. If you can provide us with your numbers, I am going to have our staff go over it.

Mr. BARRY. We have them.

Mr. DAVIS. We would like to get a definitive number. A lot of numbers are floating out there. People have tried to make the best stab——

Mr. BARRY. Mr. Chairman, we have the exact numbers.

Mr. DAVIS. Fine. And, finally, I just want to ask you, Mr. Mayor, and you do not have to answer this now, maybe for our discussion this afternoon. There is a high-technology revolution that is encompassing the beltway and the DC area that has produced hundreds

of thousands of jobs, and our question is, how can we get the city to participate in this? To date, the city has not been a beneficiary of this. And it could be the function of the University of the District of Columbia. UDC could be starting with appropriate training programs.

We have over 12,000 jobs identified in northern Virginia that we cannot fill in the region. There is no reason the city cannot start doing some training and share in this.

We would love to have you as partners, and to get all of the university presidents from Virginia and DC, and Maryland together to talk about how we can fill this gap. It does not take a college diploma in some of these cases, but it takes the appropriate training. This is something that we can work together on, and we can discuss that later this afternoon, but let's be thinking in these broad terms—not just Government jobs, but some of these high-technology, telecommunications, Net-based service jobs that we cannot find people to do. How can we start orienting our young people in this direction?

I would love to see you share in that with us. It would help the whole region.

Mr. BARRY. Mr. Chairman, one of the things that we are doing immediately is to assign staff, and we will talk more about it this afternoon, that will begin to look at these lost opportunities, including the high technology, and also how we can begin to match up DC residents with jobs in the suburbs and the impediments to doing that. So we will discuss it.

Mr. DAVIS. Thank you both.

Mr. BARRY. Thank you.

Mr. DAVIS. We have kept you here longer than we anticipated. You can have the last word, Ms. Jarvis.

Ms. JARVIS. Just with respect to the high-technology revolution, as an outgrowth of the Board of Trade's Greater Washington Initiative, Susan Williams is now working with them to bring together at the consortium of universities to talk about the training that should occur, and there is a meeting, I believe, that has been set for that, and so you are right on target, Mr. Chairman, on that.

The Appleseed Center also has numbers with respect to the Federal payment.

Mr. DAVIS. Thank you both very much.

Ms. JARVIS. Thank you, Mr. Chairman, for your support. Thank you, Ms. Norton.

Mr. DAVIS. Mr. Rogers, thank you.

Mr. BARRY. Thank you very much, Mr. Chairman; and certainly our warrior on the Hill, Ms. Norton, thank you.

Mr. DAVIS. We are pleased to have next Dr. Brimmer.

We have Dr. Brimmer and also the District's chief financial officer, Tony Williams. Tony, I do not know whether to call it your checkered past or a historic past, being the local official in Connecticut, but we are pleased to hear about that.

Thanks, both, for the fine job that you are doing. As you know, it is our policy that all witnesses be sworn before they may testify.

Let me start at the beginning, Dr. Brimmer. I understand that congratulations are in order for you. As I understand, you became a first-time grandfather last night.

Mr. BRIMMER. Thank you very much, Mr. Chairman.

Mr. DAVIS. I have not had the pleasure of that particular honor yet, for which I am grateful at my age, but I look forward to it sometime in the future. I know how proud you must be, and we congratulate you.

Would you just both stand with me and rise.

[Witnesses sworn.]

Mr. DAVIS. Thank you. Dr. Brimmer is chairman of one of the most underpaid jobs in America. We are happy to have you here. I have read your testimony, and I think Ms. Norton has. If you would like to hit the highlights, that would be great. It is very thoughtful, and it will all be put in the record.

Mr. BRIMMER. Thank you very much, Mr. Chairman. I would like very much to do that.

Mr. DAVIS. Pull that microphone next to you, too. Go through and summarize the facts you want to get into and then we can get right to the questions and not keep you longer than we have to.

STATEMENTS OF ANDREW BRIMMER, CHAIRMAN, DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY MANAGEMENT AND ASSISTANCE AUTHORITY; AND ANTHONY WILLIAMS, CHIEF FINANCIAL OFFICER, WASHINGTON, DC

Mr. BRIMMER. What I would like to do is call the committee's attention to several attachments to my prepared testimony, and I will use those attachments to highlight the brief remarks I will make.

You have a chart called "Plans for Revitalization of the Nation's Capital." I will refer to that. It compares the Authority's strategic plan with the President's plan. You will also find in the attachments two tables. Table 1 shows the impact and trends of revenue and expenditure through the year 2000 under the current financial plan and budget.

And, by the way, the copy you have may have left the numbers of the years off, but those are years 1996 through year 2000.

Mr. DAVIS. We have that. What we do not have is a table based on no interyear or intrayear Treasury borrowing. Is that correct?

Mr. BRIMMER. The first one, as you will notice, does have Treasury borrowing, and I will comment on that in the table.

The second table shows the President's plan and its effects on revenue and expenditures. Attached to each of those tables is a graph which tracks revenue and expenditures first under the current financial planning budget, and the second one under the President's plan, and I will use those for illustrative purposes in a few minutes.

I would also like to include in the record the control board's strategic plan, which we released last December. Much of my remarks today will be designed to contrast the President's program with our strategic plan because we believe that the proposal for the assumption of State-like functions contained in our strategic plan is the better one to follow.

Mr. Chairman, if you were to look at Chart 1, you will note that in the left-hand column we have identified several of the principal elements in our strategic plan, and in the right-hand column we contrast our proposal with the President's. I will not go through

each of these in detail, but I would ask you to note that with respect to the unfunded pension liability, we have recommended that the Federal Government assume all of those liabilities, $4.8 billion.

The President's plan would do the same. I should say, Mr. Chairman, that with respect to the President's plan, we recognize that we are trying to assess a work in progress. From the original announcement there have been a number of modifications, and so the figures I will be using today are those which were available in the original plan.

You will note that the first-year cost of the Federal Government's assumption of the unfunded pension liability in our estimate is $246 million. The President's plan, about $268, they are not essentially different. Over 5 years, we believe that about $1½ billion would be the cost under our proposal and about $1.6 billion under the President's proposal.

With respect to Medicaid, we propose that the Federal Government assume 100 percent of the cost of the Medicaid program. The President's proposal calls for the assumption by the Federal Government of 70 percent, and that makes a great deal of difference in terms of the cost. Our first year is about $467 million. The President's program, because of the assuming only 70 percent, is much less, $156 million. And you will notice over 5 years we believe that it would be $2.4 billion; the President's is only $918 million.

Before I go further, let me say that the President's plan is designed to relieve the city of certain expenditures. It is a cost-relieving plan. It is not a revenue-generating plan—quite the contrary. The President's plan would remove $660 million of revenue from the city that is now available to the city, $660 million of Federal revenue flowing to the city.

Those divergent actions represent the major difference between our proposals and the President's. You will notice that I also show what the 1st-year and 5-year costs of prison would be, the court system in the case of the President, transportation and infrastructure, mental health. We propose that the Federal Government take over the full cost of mental health, and we estimate that to be about $114 million the first year and just under $570 million in 5 years. The President's plan has no provision in that regard.

The other major difference deals with the revenue, as I have said. If I were to add up the first-year cost of the proposal we made—and, Mrs. Morella, this has some bearing on the question you were asking—we get just about $1½ billion, $1.4 billion. That does not include any capital, and it does not include the cost of long-term financing of $4 to $500 million for the accumulated deficit.

The first year cost of the President's program, insofar as we can estimate them on the basis of figures that are still in flux, we believe the President's first-year cost would be about $950 million. But since the President also had some capital costs, the first year for the capital would be about $300 million, so that would sum to about $1.3 billion.

What I would like to do now, Mr. Chairman, is to look briefly at the effects of the President's program in budgetary terms. I call your attention to table No. 1 and chart No. 1. What we have done in this table is to identify the principal revenue sources now avail-

able to the District of Columbia, and we have projected those through the year 2000.

These figures are from the 1997 financial planning budget, under which the city is now operating and with adjustments that were made in the interval. You will note that the principal sources of own revenue are sales taxes and income taxes. You will note the Federal payment, and then you will note other revenues, mainly grants and so on.

You should note that one thing stands out in this table, that over the years there is very, very little growth in local revenue sources. If you let your eyes run down and you look at total revenue, you will notice that in 1997, total revenue, including the Federal payment, is $4.4 billion. In the year 2000, total revenue is $4.5 billion, virtually no growth.

And if you look at the principal local sources, you will note that as far as property taxes are concerned, we estimate that there will be a decline in the level of property tax revenue over the period shown. If you look at sales taxes, you will note similar stagnation or decline. Let me repeat again that local source revenues under the current plan will grow very little.

On the other hand, if you look at expenditures, and here we have identified on a separate row those expenditures that are highlighted in the President's program, the Medicaid, I will call your attention to particularly. Under the current arrangement, the Federal share of Medicaid expenditures would go from $421 million to $459 million. The District's share would also grow because it is 50/50. With respect to the pension fund, we estimate that expenditures in 1997 would be $321 million, would grow to $421 million by the year 2000.

Prisons, expenditures would rise from $268 to $283. Again, I would summarize to say that the expenditures for the programs for which the Federal Government would assume all or partial responsibility would rise from $1.6 billion in 1997 to $1.8 billion in the year 2000, and you will notice what is happening to other expenditures. That is the program without the President's plan.

In chart 1, you will see that in every year, in every year expenditures exceed revenue; and if you look at 1998, you will see that the deficit is on the order of the magnitude of $136 million. You will note also that the deficit diminishes over the out years, but there is still a deficit under the present plan.

Next, I will call your attention to table No. 2. Here, we have incorporated the budgetary effects of the President's program. With respect to revenue, you will note that we have eliminated the Federal payment as a source of revenue. You will notice we have added additional Medicaid revenue because the Federal Government would be assuming another 20 percent points of that, and so we treat that as revenue, but here note what happens.

Under this proposal, total revenue rises from $3.9 billion in 1997, virtually the same in 1998, but only to $4.3 billion in the year 2002. You will also note that in 1998, we have included $400 million because we assume that there would be an intermediate-term financing under the plan to refinance the deficit, to borrow to cover the deficit.

Note again that with respect to total revenue, it rises from—in the year 1998, it is $4.3 billion; in the year 2000, it is essentially the same.

On the other hand, if you look at expenditures, you will note again that the net result of the expenditures is that the remaining expenditures left with the city after the Federal Government has assumed certain costs, the expenditures will remain, and this would be in the neighborhood of $4.7 billion in 1997, $4.1 billion in 1998, and $4½ billion in the year 2002.

However, if you put aside the effect of the one time borrowed in 1998, you will see that in every year the city runs a sizable deficit. That is the result of the elimination of the Federal payment. I want to stress again that the city, despite the assumption of certain costs responsibilities by the Federal Government, is still left with a high level of necessitous spending.

Now, what we see here are expenditures that are either mandated by courts or required to carry out an essential function, such as the schools and so on. The net result is, as you can see in chart No. 2, is that except for 1 year, total expenditures exceed total revenue, so the deficits persist.

Let me summarize again, the President's program would assume certain costs, but it would also erase certain revenue, and the net impact is that the city, on the basis of the figures available to us at this point, would be worse off than it would otherwise be. I want to pin that down.

So the key for us at the control board is that if the Federal payment is eliminated, the city must have some additional source of revenue. And if you look at the revenue sources described in the two tables, you will see that none of the traditional sources, property, sales, will generate that revenue.

The only tax base available to the city that will grow over the years with a high degree of assurance is the income tax base. It is the only source that is growing.

Moreover, as I explain in some detail in my written statement, the personal income, the level of personal income in the District has been growing; and, in fact, over the last decade or so that growth rate has roughly paralleled the growth rate of personal income in Maryland and Virginia.

The problem is that the entire tax base, personal income revenue, is not available to be taxed by the city, and that is because of the constraints imposed on the city by Congress with respect to the taxation of income at the source, the city is unable to share through its tax rate the growth in the one tax base that is increasing.

So if the Federal payment disappears, then you will get from us a strong recommendation that you lift the prohibition on the city and allow the city to tax all income, if not at the same rate, at some significant rate. And I am talking now about taxation of income at the source. I am not talking about a commuter tax of any kind.

Mr. DAVIS. What is the difference?

Mr. BRIMMER. The difference is as follows, and in most cases in Virginia and in Maryland, the income taxes are levied at the source of earnings. I pay taxes in Maryland. I pay taxes in Virginia be-

cause I have income earned in Maryland, and I have income earned in Virginia. Now, from the District's point of view, I get a tax credit, so I am not being taxed twice, but it means that Virginia and Maryland, and by the way, this is true for virtually every other jurisdiction in this country, and I know of no exception, that income is taxed at the source.

Now, the reverse of that is as follows. Because the District cannot tax all income earned, essentially that prohibition permits Maryland and Virginia to reach into the District and tax a share of the benefits of economic growth in this city. It is almost as though Virginia or Maryland were, in fact, in a position to levy a tax on property in the District. Since the base is exactly analogous, this would mean that what is happening now is that the incomes earned in the District by residents of Maryland and Virginia are being taxed for the benefit of Maryland and Virginia and not for the benefit of the District.

And I want to work very hard to try to show the Members that that is, in fact, the result of—whatever the intent was, that is the consequence.

[The prepared statement of Mr. Brimmer follows:]

Dr. Andrew F. Brimmer
Chairman
District of Columbia Financial Responsibility and Management Assistance Authority

Mr. Chairman and Members of the Subcommittee:

I am Andrew F. Brimmer. I am Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority. I am pleased to appear before you to present the Authority's assessment of the National Capital Revitalization and Self-Government Improvement Plan, which was released on January 14, 1997. I will also give our reaction to the Economic Development component of the plan, which the President announced on March 11, 1997.

Introduction

Mr. Chairman, I want to begin by congratulating the President for his commitment to the future of the District of Columbia. No other President in recent memory has focused his energy and attention so directly on the unique problems faced by our Capital City. The Authority strongly believes that the City's successful future requires the dedication and commitment of all leaders in both the District and the Federal Governments. Only by working together in innovative ways, by approaching our unique problems and challenges with a set of unique solutions, can the White House, the Congress, the Mayor, the Council of the District of Columbia, and the Authority, provide an improved quality of life for residents and visitors, and return civic promise and pride to the Nation's Capital. The Authority, therefore, is committed to working with all stakeholders in the Capital City's future to ensure that this vision is achieved.

In December, 1996, the Authority published its Strategic Plan. This plan represents the priorities that the Authority has chosen to guide our work in the coming months. The projects and programs in the plan, supported by several central themes, constitute the Authority's road map out of the City's crisis and into the future. In brief, Mr. Chairman, the Authority's mission is to create a stable, vital environment that will retain existing residents, businesses, and visitors, and attract new ones. This environment will be created by helping to ensure that fundamental improvements are made in the financial and management structure of the District. In fulfilling the mandate of its statutory responsibilities, the Authority seeks to create:

- A better-managed government that practices integrity and accountability.
- High quality, low cost, core services and facilities, such as education, public safety, and public works.
- Effective service delivery for all residents and visitors.
- Competitive tax rates, a better business climate, and a thriving, diverse local economy.
- Routine, favorable access to capital markets; and
- An improved Federal-District relationship that includes a more equitable distribution of burdens and responsibilities.

Of course, it is the last item I mentioned – an improved Federal-District relationship – that is the principal point of discussion this morning. In this regard, the

Authority believes that the President's Plan is very constructive. Specifically, the President's Plan is helpful in relieving some of the many burdens faced by our Capital – burdens faced by no other city in the nation. At the same time, the reduction in revenue contemplated by the President's Plan – the elimination of the Federal Payment – fails to address the structural problems with regard to the lack of revenue which thwarts the District's stabilization and future growth.

Additionally, the President's Plan on Economic Development Assistance for the District, which was announced on Tuesday, is equally constructive in its effort to remove a number of the obstacles to the District's economic development. Nevertheless, it does not go far enough in addressing the hindrances that prevent the District from developing a more vibrant economy. The Authority looks forward in the weeks ahead to continuing a dialogue with the Administration, and all other stakeholders, to find additional leverage to overcome the barriers in our path.

Let me now turn to the major portions of my testimony: a discussion of an equitable distribution of state-like functions, and the relationship between the District's revenue problems and the Federal Payment. I would note for purposes of discussion that some of the figures used to explain programmatic assumptions could change as we gain a better understanding of the implications of the President's Plan.

State-Like Functions

Mr. Chairman, the Authority's Strategic Plan concluded that one of the most basic reasons for the District's continued financial problems is the fact that the Nation's Capital is not supported – as is every other city in the United States – by a state. States throughout the country relieve some of the burdens on their cities in numerous ways for which the District has no recourse. The Federal Government is logically – and by default – the District's state. The burden and costs that other states bear for their cities need to be borne for this city by the Federal Government. The Authority believes that a more equitable structure to support public services must be developed. Our Strategic Plan highlighted for inclusion in such a structure the areas of prisons, Medicaid, mental health care, roads and bridges maintenance, and several other items. A comparison of the Authority's Plan with the President's Program is presented in Chart A (attached).

Medicaid. The first area which remains principally a state function is Medicaid. The Authority, in its Strategic Plan, concluded that Medicaid is treated uniformly throughout the country. To my knowledge, in fact, only the City of New York – out of all cities -- pays any significant share of Medicaid costs. All other cities pay either nothing at all, or some small portion. In a report now being prepared for publication at the end of March on state functions, in accordance with our Strategic Plan objectives, the Authority tentatively concludes that the District of Columbia, as a city, should be treated no differently by the Federal Government than any other city is treated by its respective

state. The District currently pays 50 per cent of Medicaid expenses. The President's Plan proposes to increase the Federal share of District Medicaid expenses to 70 per cent. However, this outcome would allow the Federal Government still to treat the District worse than the way states treat their cities. In fiscal year 1997, total Medicaid expenditures are estimated to be $841.7 million. Under the current formula, the District is responsible for $420.85 million. Under the President's Plan, the District would still be required to pay $252.5 million.

Courts and Corrections. The operations and maintenance of major prison systems, as the Authority has noted in its Strategic Plan and elsewhere, is rarely the responsibility of cities. Municipalities certainly take care of local city jails, but states almost universally are responsible for large-scale correctional facilities. The District of Columbia currently spends approximately $190 million annually on the Lorton Correctional Facility, where 6,000 inmates reside. The sheer size and complexity of Lorton dictate that this prison is not appropriately the province of the District – but of the Federal Government. The District will retain responsibility for the city jail and the Correctional Treatment Facility. In taking over the responsibility for sentenced felons, the Federal Government estimates that it will spend $891 million in the next five years. Additionally, under the plan, the Federal Government expects to allocate $885 million over five years in capital spending on renovation and construction at Lorton. Clearly, the assumption of these responsibilities by the Federal Government, in the context of state functions, is likely to lift considerable budgetary pressure from the District.

Similarly, although not directly discussed in our Strategic Plan, the President's Plan would take over the operations of the court system, including the Court of Appeals and the Superior Court. The District currently spends some $120 million annually on judicial functions, and the costs are rising each year. The operations for pre-trial services, probation and parole, and the Corporation Counsel's juvenile and misdemeanor branches, to my knowledge, are expected to remain with the District. Yet, even some of those services, such as parole boards, public defenders, and indigent legal representation are frequently provided by states and counties instead of cities. The cost of those services provided by the District – but for which the Federal Government is the more appropriate party -- is estimated at more than $20 million.

Pension Liability. Although the District faces numerous financial challenges, none may be greater than the massive unfunded pension liability that looms over the District. In 1979, the Federal government transferred the pension plans for police officers, firefighters, and teachers (later adding local judges), and a $2 billion unfunded liability to the District. Under current law, in the year 2004, the District will incur the full responsibility and total liabilities for these unfunded pension plans, at a time when the unfunded liability is estimated to expand from the current $4.8 billion to over $6 billion. Additionally, the annual pension costs to the City are projected to rise from about $321 million to roughly $640 million, of which $195 million represents excess payments made by the District toward the unfunded liability. In fact, total excess payments made to date approximate $2 billion. As the Authority concluded in its Strategic Plan, without

some changes in the law, the impact of the liability on the District's operating budget will be catastrophic. Furthermore, without any change, the pension liability will severely hamper efforts by the District to regain fully financial solvency, as Wall Street remains hesitant of providing favorable lending conditions to the City so long as the unfunded pension liability overhang looms.

As the unfunded pension liability has always been the responsibility of the Federal Government, the Authority is pleased that the President's Plan calls for the assumption of a substantial portion of the liability, in exchange for all of the plan's assets of about $3.6 billion. In addition to taking over $4.3 billion of liability, the Federal Government would also assume responsibility for payments to current beneficiaries from the assets remaining in the funds. If this proposal had been in place in FY 1997, the District's pension expenses would have been $143.2 million less than currently budgeted – a clear example of how the District's unique relationship to the Federal Government has added to its burdens.

Transportation and Infrastructure. The Authority's Strategic Plan envisions the Federal Government assuming state-like functions with regard to transportation. Under such an arrangement, responsibility for the Federal-aid routes, which comprise 40 per cent of the District's roadways, would be assumed entirely by the Federal Government. Justification for this new responsibility is based on the fact that, in most states, local transportation needs are financed by motor vehicle fees, fuel taxes, and general fund revenues collected on a state-wide basis and then distributed to local

jurisdictions by the state. These revenues are often used by jurisdictions to fund the local matching requirements of Federal grants – as well as the capital, operating, and maintenance costs for transportation infrastructure. The District's only source of funding both the local matching requirements for Federal grants and local roads is its diminishing "state" motor fuel and vehicle taxes. In FY 1997, the motor vehicle fuel tax for the District will generate $29 million.

Based on the Authority's Strategic Plan, the costs to the Federal Government of funding and administering the transportation infrastructure needs (including maintenance costs) over 5 years would be $1.7 billion. The first-year costs are $340 million. These costs include (1) the District's local match; (2) the cost of administration that DPW currently incurs; and (3) annual costs of carrying out the Federal-aid construction program. These costs do not include the costs of snow removal on the Federal-aid routes. In most states, the state pays for snow removal on state roadways. The first-year costs of the President's Plan to assume transportation functions would be $169 million, and the five-year cost would be $419 million.

The President's Plan also puts forward the concept of a National Capital Infrastructure Fund, to be started with seed money from Federal highway funds. The money would be available for the construction and maintenance of the National Highway System, which comprises approximately six per cent of the District's total roadway system.

Mental Health Services. One major difference between the President's Plan and the Authority's Strategic Plan is the responsibility for mental health services. Few cities are obligated to carry the costs of all mental health programs for their citizens without the assistance of the state. The District of Columbia currently spends $113 million annually to support mental health facilities, including the costs of St. Elizabeth's Hospital, a facility received in considerable disrepair from the Federal Government. As with so many other health care costs, mental health care is also rising, placing an ever-increasing burden of state functions on the District. Thus, the cost of these programs is expected to approximate $568.5 million in five years.

Since a review of other major cities indicates that mental health hospitals, their operations, and funding are exclusively the function of states, the Authority is concerned that the President's Plan makes no provision for the assumption or funding of mental health programs. Therefore, the Authority recommends that the President consider, in the context of the Federal Government assuming state functions, support to the District for mental health services. The Authority also recommends that the District and the Federal Government revisit issues associated with the operations and ownership of St. Elizabeth's Hospital.

Economic Development. As I mentioned at the beginning of my remarks, the President on Tuesday announced as part of his plans for the District a proposal to create a new Economic Development Corporation, along with various tax incentives and credits,

to assist the City in attracting and retaining businesses. The new corporation would be capitalized by the Federal Government with a one-time investment of $50 million. The Plan also would provide for $250 million in tax incentives, $79 million in investment tax credits; $2 million in private activity bonds; job credits worth $133 million available to District businesses that hire low or moderate income residents; and $20 million in additional expense allowances for certain small businesses.

The Authority welcomes this plan as a much-needed stimulus to the District's economic development. Without a state to absorb costs and provide various incentives, the District has long been at a disadvantage when it comes to creating a meaningful economic development program. The President's Plan, therefore, is a very good start. I would note, however, that there are many other issues with which the District must contend, such as the obstacles inherent in excessive regulations, that stymie economic growth.

Accumulated Deficit. The Authority noted in its Strategic Plan that years of improper financial and budgetary management have left the District with a massive and ever-increasing accumulated deficit. New York, Philadelphia, and other cities with Control Boards quickly determined, and effectively implemented, long-term plans to pay down similar, often larger, deficits. Future financial solvency of the District greatly depends on implementing a long-term financing plan for the District's accumulated deficit. The Authority advocated in its Strategic Plan that the District undertake a long-term borrowing, and we are pleased that the President's Plan also calls for such a

borrowing and proposes that the U.S. Treasury provide the financing. The President has indicated that he will propose legislation providing for financing of the District's accumulated deficit, estimated at between $400 and $500 million. While the Authority supports the President's proposal to address the accumulated deficit, it is important to recognize the impact that such a borrowing will have on the District's remaining capacity to fund its multi-year capital program in light of the current debt limitation. The long-term funding of the accumulated deficit will also necessitate a waiver from the District's current debt cap or require an increase in the District's debt limitation.

Finally, I would mention that, in the context of state functions, there are a number of areas that the President's Plan does not address. A preliminary analysis by the Authority indicates that states and counties typically provide at least some level of assistance for services such as Unemployment Compensation, Supplemental Security Income Management, Welfare Management, operating and capital assistance to local school districts, regulatory and inspection functions, and allows for certain taxing powers. To the extent that the President's Plan does not include these services, the Authority urges the Administration to consider them carefully as part of the state-like functions the Federal Government assumes.

Revenues and Expenditures

Mr. Chairman, in the next part of my testimony, I will address the important implications of revenue and expenditure concerns for the District in the coming

years. As I have stated, the Authority believes that the assumption by the Federal Government of a number of state-like functions is a constructive move. However, the Authority also has a concern about the adverse impact on the District's overall financial position that would be caused by the elimination of the Federal Payment.

The projections of the District's revenues and expenditures are shown in Table 1 (attached). The graph in Chart 1 shows projected revenue and expenditures under the current Financial Plan and Budget. The Authority notes that projections of revenues from District sources – composed mainly of property, sales, and income taxes – show little or no growth through FY 2002. Between FY 1997 and FY 2002, in fact, these sources are projected to rise by just 2 per cent, unadjusted for inflation. At the same time, however, District expenditures for functions not assumed by the Federal Government under the President's Plan are anticipated to rise by 10 percent over the same period. It is important to note that, of all of the District's current revenue sources, the Federal Payment of $660 million is the second largest. Absent the Federal Payment, our projections show that the District will experience a surplus only by the financing of the accumulated deficit. In FY 1999, one year after the financing, the District will not only have spent through its positive fund balance created by the borrowing, but it will start to experience an operating deficit that increases to approximately $112 million by FY 2000. The return of a deficit situation in the out years is principally due to the structural imbalance exacerbated by the absent Federal Payment.

The financial impact of the President's Program can be traced in Table 2. The graph in Chart 2 shows projected revenue and expenditures under the President's Plan. Even assuming that the President's Plan is implemented, the District, quite frankly, would not be out of the woods. The reason is that those programs that the Federal Government is not assuming under the President's Plan, must still be funded. Not only must we address the issue of underfunding in essential programs as they relate to service provision (such as public secondary education), but we must recognize that the demand for some services is growing rapidly. The Authority believes that the District can not fund these programs at the local level. Current projections indicate that the needed tax revenue will not be available. Without continued structural change, it is unreasonable to assume that the District will be able to avoid a period of sustained deficits in the near future.

I would note that one additional element not addressed in the President's Plan relates to the cash flow deficiencies experienced by the District when funding its operations on a daily basis. The elimination of the Federal Payment, an important source of cash revenue, clearly undermines the District's ability to manage effectively its cash flow operations. Moreover, this situation would restrict the District in seeking alternative funding – and enhancing its borrowing ability -- without having the Federal Payment as a source of collateral.

Federal Payment Loss

Mr. Chairman, in addition to the issues that I have just raised, I want to talk more generally about the Federal Payment and its impact. As you know, the Federal Payment to the District has fluctuated over time. In recent years, the Federal Payment to the District has been fixed at $660 million – without regard to interest rates, the mandates placed on the City by the Federal Government, or on the rising volume of basic services required by residents and visitors.

The Authority is very concerned with the prospect of the Federal Payment's elimination. Despite the historic significance of the President's Plan and its potential positive impact on the District's future, the Authority does not believe that the Federal Government's assumption of state functions on behalf of the District and the elimination of the Federal Payment are related. Therefore, they should not be connected. As I have discussed, the assumption of state functions by the Federal Government would relieve the District of numerous costly expenditures, but I can not overemphasize that these services should never have been borne by the District in the first place. As I have repeatedly said, no other city in the United States has been forced to shoulder so many state-like functions. There is no doubt that this situation has exacerbated the District's unstable financial condition.

Frankly, Mr. Chairman, there is no link between the Federal Government's assumption of costs through taking on additional state-like functions and the Federal

Payment. The reason, of course, is that the Federal Payment is not a gift. Nor is it a payment to the District for the provision of state-like functions. Rather, the Federal Payment is made to the District to compensate for the National Government's presence in the District – regardless of how state-like functions are supported.

Both the District and the Federal Government acknowledge that the extraordinary Federal presence impose costs on the District. Some of these special costs include crowd control, restrictions on revenue raising capacity because of tax exempt property, height restrictions, and restrictions on non-residence income taxes. In fact, the foregone nonresident income taxes alone have been estimated to be $1.2 billion annually. Thus, the Federal Payment is solely intended as a means for the National Government to compensate the District for some of the burden of its uniqueness as the Nation's Capital and restraints imposed by Congress. It does not compensate the District for the performance of state-like functions.

There is no question that the District's revenue shortfalls are partly attributable to some of the unusual constraints under which the City must live. For instance, under the current laws, income earned in the District is taxed by place of residence rather than place of work. This is not true for any other state in the country. The result is that the District loses over 60 percent of its potential income tax base – which otherwise could generate a significant amount of tax revenue. There is clear evidence that other states, primarily Maryland and Virginia, gain substantial tax revenues from income earned in the District. Effectively, this allows the other states, such as Maryland and Virginia, to collect tax

revenues from District-based sources. While there is more and more cross-border employment between the District and Maryland, and the District and Virginia, the evidence suggests that a substantial portion of the earnings in Maryland and Virginia remains in those states. Given the nature of the District's tax code, it does not allow the District to tax income earned in Maryland and Virginia by D.C. residents. As a consequence, the District is losing millions of dollars of potential tax revenues.

Our analysis shows that the growth of earnings in the District has closely paralleled the rate of growth of earnings in Maryland and Virginia. During the 1969 - 1994 period, the District experienced an average annual growth rate of 7.2 percent, and the increase was 6.2 percent over the 1985-1994 period. Similarly, earnings in Maryland and Virginia increased at the average annual rate of 8.1 percent and 8.8 percent, respectively, during the 1969 - 1994 period. The gains were 6.7 percent and 6.9 percent, respectively, during the 1985 and 1994 years.

These figures indicate that personal income in the District has grown at a rate not appreciably different from that experienced in Maryland and Virginia. However, the bulk of those gains went to nonresidents. For example, in 1985, net earnings in the District amounted to $18 billion – of which $11.1 billion went to nonresidents and $6.9 billion went to District residents. The percentage distribution was 61.6 and 38.4, respectively. By 1994, net earnings in the District has risen to $30.4 billion – divided between nonresidents ($19.2 billion) and residents ($11.1 billion). The percentage share was 63.3 nonresidents and 36.7 residents.

Unfortunately, this disparity is likely to grow worse as more District residents migrate to neighboring jurisdictions -- but continue to work in the City. What this means is that, over time, the District will suffer a continuing decline in its income tax revenue base.

Clearly, Mr. Chairman, these figures show that the District is not treated like other jurisdictions with respect to income tax. And, furthermore, if the Federal Government decides to eliminate the Federal Payment, the District has virtually no other source of revenue that it can tap to pay for the rising cost of critical public services. There is no question that the Authority will continue, as it has done throughout its tenure, to hold the line on unnecessary spending, and continue to seek management and structural changes designed to streamline bureaucracy and improve service delivery. Nonetheless, the growth of some public services must be anticipated even if the President's Plan goes into effect, and the District must have some viable way to fund those services if the restrictions imposed by Congress continue to prevent us from taxing revenue at the source.

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In conclusion, Mr. Chairman, the Authority is mindful of the historic opportunity that the District of Columbia has before it to restructure how our government operates, and to provide for all Americans a Capital City in which they can be proud to live, to

visit, and to do business. We congratulate President Clinton for his vision of the District's future, and we look forward to working with all stakeholders to revitalize this truly unique City. I would be happy to respond to any questions that you or the other members of the Subcommittee may have.

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CHART A

PLANS TO REVITALIZE THE NATION'S CAPITAL
Federal Government Assumption of State-like Functions

Authority's Strategic Plan	President's Plan
1. Unfunded Pension Liability	1. Unfunded Pension Liability
Liability $4,800 million First-year cost: $246 million Five-year cost: $1,448 million	Liability: $4,800 million First-year cost: $268 million Five-year cost: $1,577 million
2. Medicaid	2: Medicaid
Percent of Cost: 100% First-year cost: $457 million Five-year cost: $2,390 million	Percent of Cost: 70% First-year cost: $156 million Five-year cost: $918 million
3. Prisons	3. Prisons
Operating Costs: First-year cost: $207 million Five-year cost: $1,095 million	Operating Costs: First-year cost: $178 million Five-year cost: $895 million Capital Costs: First-year cost: $300 million Five-year cost: $885 million
4. District of Columbia Court System	4. District of Columbia Court System
No provision.	First-year cost: $129 million Five-year cost: $680 million
5. Transportation/Infrastructure	5. Transportation/Infrastructure
First-year cost: $380 million Five-year cost: $1,700 million	First-year cost: $169 million Five-year cost: $419 million
6. Mental Health	6. Mental Health
First-year cost: $114 million Five-year cost: $569 million	No provision.

CHART A

PLANS TO REVITALIZE THE NATION'S CAPITAL

Federal Government Assumption of State-like Functions

7. Economic Development	7. Economic Development
No provision	First-year cost: $50 million Five-year cost: $285 million
8. Financing of Accumulated Deficit	8. Financing of Accumulated Deficit
Long-term financing of approximately $400 to $500 million	Long-term financing of approximately $400 to $500 million

TABLE 1
Current Financial Plan and Budget
(Source: FY 1997 Financial Plan and Budget with Adjusted 1997 Figures)

		(in millions)			
Revenue:					
Property Taxes	$ 640.10	$ 705.60	$ 615.50	$ 611.20	$ 599.20
Sales Taxes	506.64	520.60	522.90	525.90	530.90
Income Taxes	658.12	820.50	667.60	675.50	682.20
SUB TOTAL	$ 1,804.86	$ 2,046.70	$ 1,806.00	$ 1,812.60	$ 1,812.30
Federal Payment	$ 660.00	$ 665.70	$ 660.00	$ 660.00	$ 660.00
Other Revenue	$ 1,831.59	$ 1,678.36	$ 1,923.81	$ 1,994.05	$ 2,063.36
TOTAL REVENUE	$ 4,296.44	$ 4,390.76	$ 4,389.81	$ 4,466.65	$ 4,535.66
Treasury Borrowings	605.56	614.47	450.00	450.00	400.00
Total Income	$ 4,902.00	$ 5,005.24	$ 4,839.81	$ 4,916.65	$ 4,935.66
Expenditures:					
Medicaid					
Federal Share	$424.35	$420.85	$442.23	$446.93	$459.48
District Share	424.35	$420.85	$442.23	$446.93	$459.48
Pension Fund	336.00	321.00	367.00	393.00	421.00
Prisons	248.54	268.20	268.21	275.94	283.22
Courts	116.12	120.00	119.00	121.00	126.00
Roads, Bridges& Highways	34.00	34.60	62.80	49.50	45.90
SUB TOTAL	$ 1,583.36	$ 1,585.50	$ 1,701.47	$ 1,733.30	$ 1,795.08
Other Expenditures	$ 3,410.64	$ 3,523.41	$ 3,275.19	$ 3,213.15	$ 3,179.47
Other Adjustments		4.68			
Total Expenditures	$ 4,994.00	$ 5,108.91	$ 4,976.67	$ 4,946.45	$ 4,974.55
Congress Req. Budget Red.		$ 25.00			
(DEFICIT)/SURPLUS (-or +)	(92.00)	(74.00)	(136.86)	(29.80)	(38.88)
Capital costs in OMB Plan:					
Roads, Bridges& Highways	$0.00	$0.00	$0.00	$0.00	$0.00
WMATA	50.00	51.00	43.00	10.00	10.00
Prisons	0.00	6.00	1.55	1.00	1.00
TOTAL CAPITAL	$50.00	$57.00	$44.55	$11.00	$11.00

Chart 1

Current Financial Plan and Budget

(Source: FY 1997 Financial Plan and Budget with Adjusted 1997 Figures)

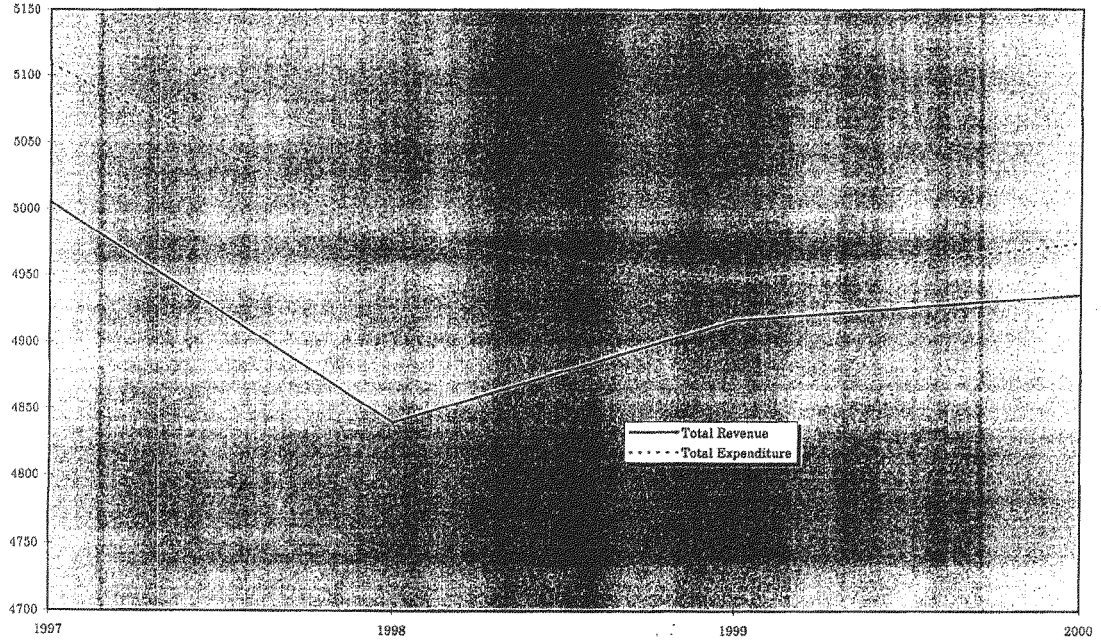
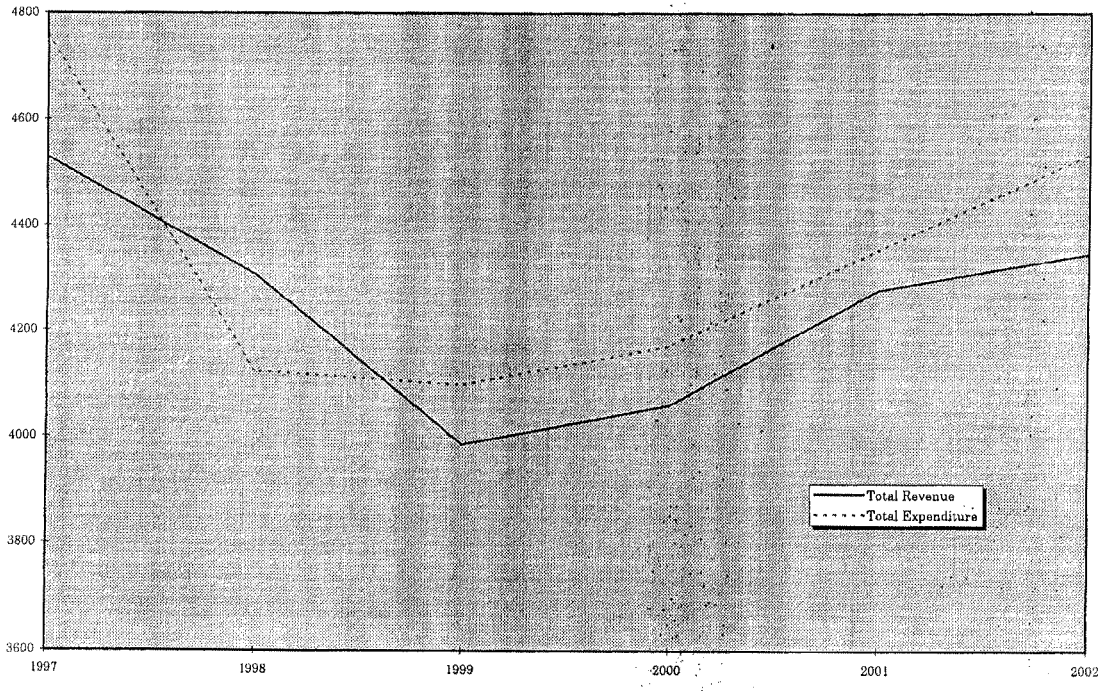


TABLE 2

President's Plan -- with FY 1996 and 1997 Restated

		(in millions)					
Revenue:							
Property Taxes	$ 640.10	$ 705.00	$ 615.50	$ 611.20	$ 599.20	$ 689.60	$ 687.70
Sales Taxes	506.64	520.60	522.90	525.90	530.90	578.30	590.50
Income Taxes	658.12	820.50	667.60	675.50	682.20	770.50	809.20
SUB TOTAL	$ 1,804.86	$ 2,046.10	$ 1,806.00	$ 1,812.60	$1,812.30	$2,038.40	$2,087.40
Federal Payment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Revenue	1,831.59	1,678.36	1,923.81	1,994.05	2,063.36	2,040.80	2,047.90
Additional Medicaid Revenue	169.74	168.34	176.89	178.77	183.78	197.94	211.77
TOTAL REVENUE	$ 3,806.19	$ 3,892.80	$ 3,906.70	$ 3,985.42	$4,059.44	$4,277.14	$4,347.07
Treasury Borrowings	605.56	636.00					
Intermediate term financing			400.00				
	$ 4,411.75	$ 4,528.80	$ 4,306.70	$ 3,985.42	$4,059.44	$4,277.14	$4,347.07
Expenditures:							
Medicaid							
Federal Share	$594.09	$589.19	$619.12	$625.70	$643.27	$692.80	$741.23
District Share	254.61	252.51	265.34	268.16	275.69	296.92	317.70
Pension Fund	136.00	125.00	121.00	126.00	132.00	138.00	140.00
Prisons							
Jail	41.60	44.90	44.90	46.25	47.63	49.06	50.53
CTF	26.54	25.27	23.97	24.60	25.26	25.93	26.62
Half-way Houses	11.60	11.95	12.31	12.68	13.06	13.45	13.85
Courts	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Roads, Bridges& Highways	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service -- Treas. Inter.			27.60	27.60	27.60	27.60	27.60
SUB TOTAL	$1,064.44	$1,048.82	$1,114.24	$1,130.99	$1,164.50	$1,243.76	$1,317.54
Other Expenditures	3,688.62	3,682.19	3,009.15	2,967.11	3,007.25	3,110.24	3,216.33
Other Adjustments		4.68					
Total Expenditues	$ 4,753.06	$ 4,731.01	$ 4,123.39	$ 4,098.10	$4,171.75	$4,354.00	$4,533.87
Congress Req. Budget Red.		$ 25.00					
(DEFICIT)/SURPLUS (- or +)	(341.32)	(172.53)	183.31	(112.68)	(112.31)	(76.86)	(186.80)
Capital costs in OMB Plan:							
Roads, Bridges& Highways	$0.00	$0.00	$62.00	$0.00	$0.00	$0.00	$0.00
WMATA	0.00	0.00	43.00	10.00	10.00	0.00	0.00
Prisons	0.00	6.00	44.25	309.75	309.75	132.75	88.50
TOTAL CAPITAL	$ -	$ 6.00	$ 149.25	$ 319.75	$ 319.75	$ 132.75	$ 88.50

Chart 2
President's Plan—with FY 1996 and 1997 Restated



Mr. DAVIS. I did not say anything during the Mayor's comments today, because I think the source tax is a non-starter. But let me just say, I think what would happen at that point is companies that are currently in the District would find a reason to move to the suburbs and it would hasten the decline of business from the city, which is the wrong direction.

But we are going to work with you to solve the revenue problems in different ways, and I think that is critical. I do not think we need a fight between the suburbs and the city; that would not be productive.

Mrs. MORELLA. Mr. Chairman, could I just ask about the figure?

Mr. DAVIS. Sure.

Mrs. MORELLA. Mr. Brimmer, I really appreciate these charts. And when you factor in the deficit with the President's plan, you have not factored in, though, mental health, have you, St. Elizabeth's or UDC? So, I mean, is that correct? So, I mean, if you wanted——

Mr. BRIMMER. That is right.

Mrs. MORELLA [continuing]. To do something with their health, then it would be an additional amount, a greater deficit.

Mr. BRIMMER. The District—I am sorry. The President's program has no provision——

Mrs. MORELLA. Right.

Mr. BRIMMER [continuing]. For the assumption of mental health costs. If they were for the full amount we estimated in that chart A, row 6, mental health, you will see we think the first-year costs will be $114 million, and so you would need to add that.

Mrs. MORELLA. So the deficit could be larger, then, too.

Mr. BRIMMER. That is right.

Mrs. MORELLA. Right. Thank you. Thank you, Mr. Chairman.

Mr. BRIMMER. Well, Mr. Chairman, those summarize my comments.

Mr. DAVIS. Great. Thank you. We will have questions for you in a moment. We will now hear from Tony Williams.

Tony, thank you for your patience.

Mr. WILLIAMS. Thank you, Mr. Chairman, and very, very briefly, I feel under great pressure today, as the District's chief financial officer, both because of our financial crisis and also because I am the last speaker, and I feel a need to abbreviate dramatically my comments, and I will do so.

I think the District is in a unique situation as we look at the President's plan because the District is two things at one time: The District is a unique entity, but at the same time it is in a situation similar to many other cities. That is, fundamentally, the District has to turn its economy around.

I always go back to the legislative history of the Control Act, and in that legislative history it is pointed out that the District faces really three problems: a financial problem—a cash shortage, or cash deficit driven essentially by a structural imbalance in our budget; a budget problem with a growth of expenditures at a rate of anywhere from 6 to 10 percent while revenues remain essentially flat; and an economic problem which compounds the budget problem.

And I think that the legislative history speaks volumes about our present situation because essentially the District, like many other cities around the country, has to find a way to fundamentally reverse the trend in its economy. Cities went through a first phase, up to the Great Depression, of spectacular growth, movement from an agrarian economy to an industrial economy. Beginning with the Great Depression and World War II, basically there was stagnation, and in 1950, in the District and elsewhere, you see essentially a spectacular drop in population. The city of St. Louis, for example, a population of over 800,000 in 1950 dropped to under 400,000 in 1990.

And essentially what the District has to do is find a way to get competitive again and turn its economy around. I think the charts that Dr. Brimmer illustrated for you and the chart that we have also submitted into the record as part of our testimony basically speak to the fact that while the President's plan eases the structural imbalance in the city's budget, it does not entirely eliminate that problem.

To put it another way, it does not solve our competitiveness problem. I think our competitiveness problem is basically solved in three different ways, and I will talk about the ways that we are contributing to it. First, there is a management side, and on the management side I think right now we have a couple of problems. One, we need to turn the headlights on. We are not operating with the best information. We desperately need a financial management system to give us better information with which to make decisions.

Right now, it is as if you went out into your garden, you blindfolded yourself with some pruning shears, and you started cutting: you would reduce the size of your garden, but it would not look very good. I think what we are doing right now is essentially reducing the size of the District government, but we are not making it look very good. We are not really improving its efficiency at the velocity I think all of us would like to see.

And what we are trying to do in the 1998 budget is to provide in one document for the Mayor, the control board, the council, and notably, the Congress, the legislation, as well as information on not only the transformation plan and how we are doing, but information on the level of our programs, our priorities, what is essential, what is basic, what is discretionary, so that we can make these critical management decisions.

Moving along, I think something that we desperately need to do in terms of bringing stakeholders to the table is, first and foremost, move much more aggressively than we have in bringing labor to the table in an overall agreement that corporations do in their reorganizations, that other cities have done in their reorganization, and, finally, bring the Federal Government to the table. And I applaud the President's plan as a constructive first step to do just that.

But in the sense that the President's plan does not address this gap, this structural imbalance in long-term expenditures and revenues, I think we are basically faced with two choices, and that, I think, is the crux of the issue before us. One choice is to provide additional revenue to the District government to provide that structural balance.

Another choice—and I do not think these choices are mutually exclusive—is presented by Congresswoman Norton and others in terms of capital gains concessions. A key component of the President's economic development plan is to invest in the local economy with the objective that by investing in the local economy, either in terms of businesses or private investors, we are going to grow the tax base. And by growing the tax base, grow revenues and erase that in balance.

I think what we can do on the local side is work with the Tax Review Commission, in which we have invested an enormous sum of money to continue its operation, to provide an overall plan of how we can, in conjunction with these plans at the Federal level, streamline and reduce the complexity of our tax structure not only for administrative purposes, but also by way of providing a needed incentive to the business community.

And I think another thing that we can do, and we are in the process of doing—and I will close with this point—is continue to work as we have with the Treasury and OMB, Mozelle Thompson, and Ed DeSeve, respectively to provide the District with the short- and immediate-term credit that we need to not only continue in operation, but to finally get a handle around the District's liquidity crisis.

There are really—and I will mention this—three issues that we are addressing with the lack of the Federal payment, and these are the financial issues as opposed to the budget issues that Dr. Brimmer discussed. We have, first of all, increased borrowing costs. When you lose that big chunk of revenue at the beginning of the year, that changes your cycle, and your schedule of borrowing can increase borrowing costs.

As with any troubled credit, and certainly in the situation today, if you lose that Federal payment and you look for short-term, intermediate-term financing, you always have credit collateral issues, and that can impair the stake of existing bondholders, and that is something that we are looking at as well.

And, finally, as Chairwoman Jarvis pointed out, we also have the debt-cap-limitation problem, in that we have a best service limitation of 14 percent against local revenue. If you reduce that Federal payment, and we have got to recalculate that debt-cap position as well. But, again, these three things are something that we are working with, the Treasury and OMB to accomplish.

I think we will get a handle around the financial issues, but we are still left with the overall fiscal structural imbalance that we have got to find one way or another to address. I thank you, Mr. Chairman.

[The prepared statement of Mr. Williams follows:]

Testimony of Anthony A. Williams
Chief Financial Officer
District of Columbia

Good morning Chairman Davis, Chairman Brownback and members of the House and Senate District of Columbia Subcommittees. Thank you for inviting me to appear before the joint House and Senate committees to comment on President Clinton's National Capital Revitalization and Self-Government Improvement Plan. After my initial remarks, I will be happy to answer any questions that the Committee might have.

First, let me say that I am pleased that the Clinton Administration has stepped forward with a comprehensive plan to aid the District of Columbia. This is an extraordinary moment in the history of the District-a time when many people see that something must be done to alleviate the financial constraints under which the District operates. The President's Plan contains a variety of initiatives that, if enacted, help move the District towards long-term financial stability. As the Chief Financial Officer of the city with responsibility for its long term financial stability, the Plan, however, could be more generous by allowing the federal government to take over some of the other functions of the city. This Plan, however, is an excellent first step to help the District on the road to financial recovery.

Role of the Office of the Chief Financial Officer

I believe that the role of the Office of the Chief Financial Officer must be to provide accurate and reliable financial information about the District and detailed fiscal analysis of the elements of the plan necessary to develop and evaluate policy options. As the Chief Financial Officer for the District, one of my goals is to provide an "information warehouse" to serve both federal and District policy makers. As we assemble this information and analysis, my staff is working closely with the Office of Management and Budget (OMB), the U.S. Treasury, the Internal Revenue Service and other federal agencies.

I cannot over emphasize the importance of a comprehensive analysis of the President's Plan. This is a case where the technical details can make the difference between a plan that will ultimately benefit or harm the District. Even the best intentions, if supported by incomplete or inaccurate analysis, could lead to severe financial difficulties for the District for years to come.

The Office of the Chief Financial Officer will include an extensive analysis of individual elements of the President's Plan in its draft of the FY 1998 Consensus Budget and Financial Plan, which we will release on March 18. It will be available to the both Committees next week. Today, I would like to share some of the preliminary findings of our financial evaluation of the President's Proposal.

Impact on the District's Operating Budget

As the members of the committees know, the District is currently facing the challenge of balancing a budget that is structurally imbalanced. By that, I mean, that our expenditures are increasing at a rate that is significantly greater than our projected revenues. While there are many contributing factors to this structural imbalance, some are caused by the District's unique status as a federal city. Because it is the nation's capital, a large percentage of the District's real property is tax exempt. Because it does not receive the support other cities do from their states or counties, the District has Medicaid responsibilities that cannot be supported by the existing resources. The President's Plan recognizes this structural imbalance and offers relief in several ways. By combining these elements of the plan with the efforts the District is making to balance its budget in FY 98 and through 2003, we may well achieve financial stability over the next several years.

On the expenditure side, the District must do two things under its own control to address the structural imbalance: first, it must achieve efficiencies through better management and second, define the core mission of the government of this city. The District must make some very difficult but crucial decisions now.

The FY 1998 Budget and Financial Plan encourages improved management practices throughout the government. In the draft budget, our staff has identified potential savings through management initiatives designed to streamline operations, re-engineer inefficient procedures and incorporate sound business practices in its day-to-day operations of the city. The budget includes projected savings that can be achieved through these initiatives over the next five years and quantifies how the Mayor's plan to transform the government can be implemented. This information will enable the District's leaders to make the decisions necessary to begin to balance the budget, which is called for in the President's Plan. Without better management, the government cannot benefit from any plan to address structural imbalance.

But even if the District becomes a model of efficient government, it does not have the resources to continue to fulfill all of its current commitments. The District must redefine its basic mission. Once we've cut expenditures through management inefficiencies, we still must face cutting programs that provide real services to people. By moving responsibility for administration of services from the District to the federal government, the President's Plan allows us to focus our limited resources on our core mission as defined by the city's leadership - public safety, public works and public education.

President's Plan

In broad terms, the Plan proposes that the federal government assume financial responsibility for certain state functions. In exchange, the $660 million federal payment to the District will be eliminated. The Plan provides modest short-term relief for the District that will grow substantially by FY 2001. As the attached table indicates, our preliminary analysis shows that the Plan provides for at least $60 million in net savings in FY 1998. The annual net savings for the District will increase to over $200 million for FY 2001.

The Criminal Justice System

The President's Plan calls for the federal government to assume financial responsibility for the Parole Board, Pretrial Services, and the court system. The federal government would also assume responsibility for the District's sentenced adult felons. Within a period of five years the Federal Bureau of Prisons would assume financial and administrative responsibility for prison operations. Additionally, the facilities at Lorton would be repaired and expanded. The federal government would accept all current prisoners as well as any new prisoners, provided they are sentenced in accordance with Federal standards.

Based on preliminary analysis, local funding to the correction system would be reduced by $169 million in FY 1998. This amount would rise to $195 million in FY 2001, an aggregate savings of $707 million during this period. In accordance with the President's Plan, the District will retain responsibility for pre-sentenced and misdemeanor offenders. This will require the District to continue to spend $71.1 million in FY 1998 for corrections to support the D.C. Jail and misdemeanor offenders housed in other facilities.

Medicaid

The President's Plan calls for increasing the Medicaid match from its current 50-50, which is the lowest level that a state can receive to a more typical 70-30 ratio. Although it is difficult to project Medicaid expenditures with precision in the rapidly changing medical environment, we have agreed with OMB on a set of numbers that represent a reasonable estimate of future Medicaid spending. However, I would note that because of planned cost savings initiatives, which include increasing use of managed care, Medicaid spending in the District may grow at a rate less than that reflected in these estimates. I would also like to point out that these estimates do not include any federal payment for the administrative expenses of the Medicaid program.

Pension Fund Liability

Under the President's proposal, the federal government would assume the vast majority of the District's $8.55 billion unfunded liability for the retirement plans for the teachers, police officers, firefighters, and judges. It would also assume financial and administrative responsibility for all retirees and for the accrued benefits of current employees and would pledge its full faith and credit to meet the pension plan's obligations to beneficiaries. The District would be required under the terms of the Memorandum of Understanding to establish a new retirement plan for current and future employees,

In exchange for the assumption of the unfunded pension liability, the federal government would transfer a significant share of its current pension assets to the federal government or its trustee. Beginning in FY 1998, these assets would be used for making payments to beneficiaries.

The President's Plan originally proposed the transfer of all pension fund assets to the federal government. However, it was recognized that this arrangement would leave the District with the costs of both the remaining unfunded pension liability, which would be amortized in equal payments over 30 years, and the costs of the new pension plan. The net result was that the total benefit of the proposal would be far less than the OMB target of $60 million in net savings for the District in FY 1998. Therefore, it was agreed that the District would retain employee contributions for FY 1998 and enough of the pension fund assets to insure that the President's Plan achieved at least $60 million in savings for the District. The precise amount of the pension fund assets left with the District will be based on actuary estimates that are scheduled to be completed next week.

Cash Flow & Borrowing Issues

The District's accumulated deficit of $458 million has created serious cash flow problems. In the past the District has solved these problems in part by spending down existing cash balances, borrowing from enterprise funds and other cash items, and delaying payments to vendors. Since the Financial Authority has been established, the District has maintained sufficient cash to operate from the proceeds of U.S. Treasury advances. The federal payment has been used to repay these advances. Without the federal payment, the District must be provided with a new source of funds for repaying the FY 1997 U.S. Treasury Advances and a financing vehicle for cash flow requirements.

The President's Plan includes a funding proposal that will help solve the District's cash flow problem. The President's Plan includes a proposal for a $400-$500 million U.S. Treasury borrowing with a 10 to 15 year term to finance cash needs and a portion of the accumulated deficit. In addition, the U.S. Treasury is considering a short-term financing vehicle that would be structured similar to the existing U.S. Treasury Advance provisions. My staff is working closely with Treasury to develop options for how the District may best use these new sources of financing.

In addition to tenuous cash position of the District, the District's debt capacity also will be affected. Under existing law, the federal payment is included as a source of revenues in the debt limit calculation. Without the federal payment, the District's debt service as a percentage of revenues would exceed the current debt limit. Therefore, the District's debt limit formula will need to be revised.

Although the federal payment legally has not been pledged as a security source for the District's outstanding general obligation bonds, the federal payment has been made available for debt service and referenced in the District's security documents. The federal payment provides a sense of additional comfort for investors that they will be repaid on a timely manner. Without the federal payment, investors may require higher interest rates on future debt obligations, although investor will take comfort that a portion of the District's structural imbalance has been addressed by the federal government.

Economic Development

The combination of the District's spending reductions and the net increase in federal aid from the President's Plan will provide relief on the expenditure side. However, we must also look at the revenue side of the equation. The majority of our revenue, especially after implementation of the Plan, comes from our businesses and residents. The President's proposed Economic Development Corporation and tax incentives are a welcome step in the right direction. The District must encourage businesses to invest in the District. This economic development plan will provide the necessary incentives to businesses to do just that.

The President's Plan should also be considered in combination with other incentives such as the Brookings study on the District's tax structure and Congresswoman Norton's proposal. These initiatives should be looked at in tandem to determine the right match for the District. All these plans contain excellent ideas on how to stimulate economic activity in the District that will generate increased revenue to support quality service delivery to the taxpayers of the District.

Impact on Capital Budget

The District's current capital budget is limited to $150 million per year in borrowing authority. This level of capital funding has proven inadequate to meet the District's infrastructure needs. The result has been dilapidated schools, deteriorating roads, and inability to fund necessary improvements. On roads alone, the District currently has an $80 million backlog of needed capital spending.

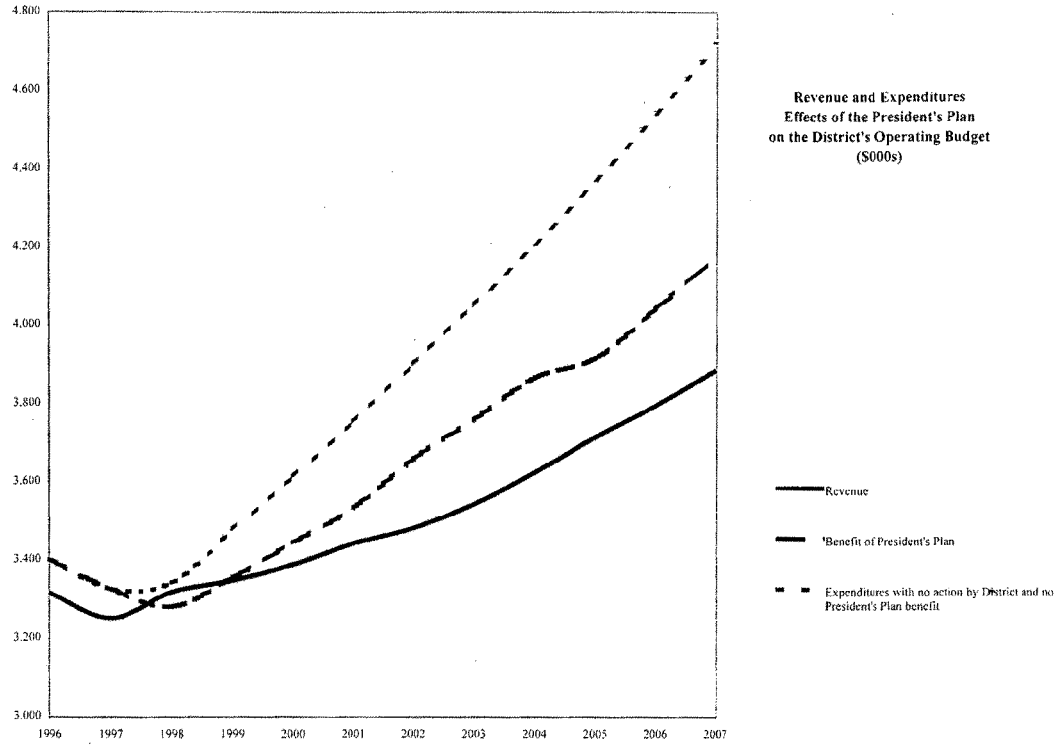
The President's Plan offers relief for the District's capital needs in two ways. First, by assuming the capital funding responsibilities for corrections and the courts, the District will save approximately $10.7 million in the FY 1998 capital budget. This money will be available to fund other critical capital projects.

The creation of the National Capital Infrastructure Authority will provide the District with at least $125 million in new capital funding. In FY 1998, $41 million of this fund will go to pay for the District's share of the Washington Metro Area Transit Authority capital program. This will enable the District to shift funds to other pressing projects. The remainder of the funds will be used for capital projects for which the District is currently unable to pay. The bottom line is that the President's Plan will enable the District and the National Capital Improvement Authority to increase capital spending by approximately $135 million. This will go a long way to improving the city's infrastructure.

An additional beneficial feature of the President's Plan is the removal of the District's budget from the congressional appropriations process. While in the past the appropriations committees have performed a vital oversight function, the creation of the Financial Authority enables the Congress to dispense with direct supervision of the District's budget. With the Financial Authority, the Congress has an agent monitoring the financial practices of the District. In the event of crisis or fiscal mismanagement the Financial Authority has the power to take appropriate steps. Freeing the District from the appropriations process will simplify the development of budget, reinforce home rule, and improve the District's credit rating.

The Final Analysis

Because the President's Plan removes certain functions such as portions of the pension plan, it addresses some of the structural imbalances in the District's budget. Because it addresses some capital, the plan allows the District to determine what other investment in infrastructure can be made. Finally, because it eliminates the federal oversight while keeping the oversight function, it enables the District to become a more independent, self-governing jurisdiction. While the Plan could go further in terms of providing additional relief to the District, it is a substantial step forward for the District.


Revenue and Expenditures
Effects of the President's Plan
on the District's Operating Budget
($000s)
4.800
4.600
4.400
4.200
4.000
3.800
3.600
3.400
3.200
3.000
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Revenue
Benefit of President's Plan
Expenditures with no action by District and no President's Plan benefit

Preliminary, S ct to Change

Effects of President's Plan on the District Budget

(In Thousands of Dollars)

	FY 1998	FY 1999	FY 2000	FY 2001
DIRECT SAVINGS TO DISTRICT DUE TO PRESIDENT'S PLAN				
Adult Felony Prisoners	$ 169,000	$ 174,000	$ 179,000	$ 185,000
Pretrial	3,891	4,064	4,245	4,434
Parole Board	5,960	6,933	8,065	9,383
Court of Appeals	6,023	6,086	6,150	6,215
Superior Court	70,277	72,280	74,340	76,459
DC Court System	33,459	34,590	35,759	36,968
Medicaid	156,000	169,000	182,000	197,000
Pension adjustment needed to meet target for net savings to District	275,390	316,047	339,441	363,541
Total Direct Savings to District	$ 720,000	$ 783,000	$ 829,000	$ 879,000
Loss of Federal Payment	$ (660,000)	$ (660,000)	$ (660,000)	$ (660,000)
Target Net Savings to District	$ 60,000	$ 123,000	$ 169,000	$ 219,000
INDIRECT EFFECTS ON BUDGET DUE TO PRESIDENT'S PLAN				
Tax and Revenue (Reduced cost from IRS takeover)	$ (285)	$ (240)	$ 1,400	$ 1,800
Department of Public Works (Reduced cost of road maintenance)	160	160	160	160
Increased Borrowing Costs to Fund Cash Needs	(13,163)	(13,063)	(13,256)	(13,249)
Total Indirect Effects on Budget due to President's Plan	$ (13,288)	$ (13,143)	$ (11,696)	$ (11,289)
BUDGET BENEFIT UNDER THE PRESIDENT'S PLAN	$ 46,712	$ 109,857	$ 157,304	$ 207,711

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Mr. DAVIS. Tony, thank you very much. Let me just summarize. The first of the three items you talked about before shedding some light on the subject. Is the second area the relationship between the Federal Government and the city and structuring that relationship?

Mr. WILLIAMS. That is correct, sir.

Mr. DAVIS. And then the third area, of course, is moving the tax base back in the city. I have the same analysis, and would agree with you on that.

Let me start by asking Dr. Brimmer, and I will ask you, Tony, too, after the control board legislation we passed last year, and we have had now a couple of years to review it, are there any additional functions, additions or subtractions that either one of you would suggest to the legislation as we move through this? I will start with you, Dr. Brimmer.

Mr. BRIMMER. Mr. Chairman, some time ago, we did suggest some modifications in our statute. I was pleased that the Congress made those modifications and gave us those additional authorities. We are putting together a list of additional authority which we believe we should have. The list is not complete. We have not thought through all of them, and so I am reluctant at this time to describe them in detail, but there are a couple which we will be asking the Congress to look at.

Currently, we can issue an order if we conclude that a position is no longer necessary for the function of the District government. We can issue an order and remove that person from that position, but we cannot at this time simply and automatically specify a replacement. So we are faced with a situation in DHS, for an example, the Department of Human Services, where at our urging, the Mayor removed that director almost a year ago but the position is still not filled.

So we will be spelling out that proposal, and we will ask the Congress to share that with them.

Another area to which I have given thought, not the whole board, and that is the question of appointment of the chief financial officer and the inspector general. As matters have developed over the last year, we have been very pleased and delighted in the way the appointment of the chief financial officer has worked out. It took some time, but once there, as you know, we have said many times, we are very pleased with the way the chief financial officer has carried out his duties.

We are less so pleased—in fact, we are unhappy—with respect to the inspector general, and we will have some discussion of that further, and if I can persuade my colleagues, we will probably ask for authority to make that appointment. But this has not been fully developed. These are my thoughts, and we will reach a conclusion on that later.

Mr. DAVIS. Dr. Brimmer, both Ms. Norton and I would like to be involved in your thoughts on that, not out here, of course, but as you work forward.

Mr. BRIMMER. Yes. Thank you. But there are a few other, minor, technical things. We will review them, and we will submit a written request to you, Mr. Chairman. Thank you very much.

Mr. DAVIS. Thank you very much.

Tony, you talked about cities moving from the agrarian into the industrial economy. We are now moving into a third wave, and that is technology, knowledge-based, service economy where the city and a lot of cities have not taken advantage of what is offered. Have you seen the city with any plans to take advantage of this revolution coming at this point, or do you have any thoughts on how we might involve the city?

It is going on all around the city, and the President's plan does not specifically target that, and, in fact, some of the incentives that they offer I do not think are likely to attract those kind of companies to the city. And this is an area to which I think we can add some value and work with our suburban neighbors to make that happen.

Mr. WILLIAMS. I think, and Dr. Brimmer can speak to this, I think the control board called for an economic development strategy at the beginning of this year. I think the District, in conjunction with the DC Agenda, came up with an economic strategy which I think is good. The transformation plan as a plan is good, but in terms of the rubber hitting the road, I think one of the key, important features of the President's economic plan that I think all would agree is a good thing is having a corporation overseen by top professionals to actually implement a plan, an entity that has the throw weight to really, on a project-by-project basis, make something happen.

I think we have a traction problem. I know I sound like I say that all the time, but we really do have a traction problem. We have got good vision and objectives, but actually getting down and getting some mileage has presented some difficulty, and I think this development corporation is a good way to see the plan that was presented to Dr. Brimmer actually achieve something.

Mr. DAVIS. Well, I think, on an individual transaction deal it can be helpful, but you have to look at the overall competitiveness of the city in terms of bringing that in based on its capabilities. We would look forward—if you do not have to answer today—to any thoughts you have on how to make the city more competitive, particularly for some of the kind of businesses that are attracted to the region but have chosen not to go in the city.

We know that the rent structures are something we may not be able to control in a significant way, but we can control some of the other costs of doing business and other attractions. I think we have to realize that this is the only chance we are going to have at the Federal level to address this, so we look forward to any thoughts you have. Dr. Brimmer.

Mr. BRIMMER. Mr. Chairman, as Mr. Williams indicated, reminding us that in our strategy plan we do have a section on economic development, and I am delighted to see that a number of the elements in the plan the President announced a few days ago correspond closely with what we had in mind.

So our reaction to the economic development component of the President's program is a favorable one. We think it is comprehensive, and I particularly like the stress on the Economic Development Corp. I believe all of these efforts must be owned by somebody. Someone must take responsibility, and the device of the development corporation strikes me as a good way to go.

I have some specific comments on various pieces of it, but I would not want to take up the committee's time at this time.

Mr. DAVIS. Dr. Brimmer, I just want to point out that the President's proposal can do it on a case-by-case basis, but, again, the overall competitive level of the city has to be addressed, and you cannot do that on a piecemeal basis. You cannot do that with just a few incentives here and there.

We have to take a comprehensive look, and that means taxes and regulation to me. It may also mean some other items. I think we share that the strategy is, how we get there, given a limited ability to make up the revenues elsewhere; that is the missing piece.

How do we get a work force involved in some of these technology areas where currently UDC is not turning them out? People are having to go to private colleges and universities, Strayer and others, to get the training they need for the tens of thousands of jobs that are available right now that the DC residents are not utilizing, and neither are some of my northern Virginia residents.

We keep preaching, this is the area of job opportunity. We still have in Virginia more psychology majors coming out of our universities than computer science majors. If you take a look at the job growth, it does not make any sense.

But the city needs to be involved and engaged in this. That will give the city some traction, and it will be an opportunity and an additional rung on that ladder of opportunity for some city students today that do not have the kind of futures in mind that they think they can have. We are starting people out of college at $40, $50,000 a year in the suburbs.

Mr. BRIMMER. Mr. Chairman, in my written comments on the economic development component of the President's plan, you put your finger on exactly the area where I had some reservations, as mentioned in this text. Competitiveness, and much of this, of course, the anticompetitive takes the place of excessive regulations and practices which discourage business.

Some 15 years ago, we did a study for the District in my own company on business retention, and we asked, why are so many businesses leaving? One of the things that stood out was the burden of regulation and other anticompetitive devices.

In our own review over the last year, we have discovered that basically nothing has changed, and so in administering the various pieces of legislation that come before us, we always put an emphasis on and ask the question—I particularly ask the question, since economic development is my area at the board, how will this affect the business environment? And we believe that a great deal more has to be done, and we use our authority to eradicate these obstacles whenever we can.

Mr. DAVIS. And I think Ms. Jarvis, who is behind you, understands this, and as I asked earlier, you have got some studies coming up. This time we have got to move, roll up our sleeves, and put the rubber to the road.

If we get a little traction in these areas, you can get some momentum, and you have got to create a critical mass, and that will give you some momentum. We are not there yet, but this is the time, and we are happy to help any way that we can.

I am going to now recognize the delegate from the District, Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. Dr. Brimmer, first of all, let me offer my congratulations on what must surely be one of the most significant developments in your entire life. I have met your beautiful and smart daughter, so I know what this must mean to the family.

Mr. BRIMMER. Thank you. Thank you.

Ms. NORTON. Dr. Brimmer's testimony, your testimony, sir, is not only very useful, but it is a wakeup call that casts great skepticism over the viability of the President's plan, as far as I am concerned. First of all, when the Federal payment was first proposed in my discussions back and forth—and this was before the plan was made public—to be eliminated, it was after that point that OMB talked about financing the accumulated deficit.

If I may read from the part of your testimony that I think could blow up the President's plan, it is the following. "Absent the Federal payment, our projections show that the District will experience a surplus only by the financing of the accumulated deficit. In fiscal year 1999, 1 year after the financing, the District will not only have spent through its positive fund balance created by the borrowing, but it will start to experience an operating deficit that increases to approximately $112 million by fiscal year 2000."

This part of your testimony in so many words restates what you went through with us when you were going through the charts so helpfully. In going through those charts, I kept looking for something, having seen this sentence and having seen the charts, that might preserve some basis for believing that there was any life left in the notion of getting rid of Federal payment.

Then I recalled that OMB is, of course, working with the city to find some kind of way, some kind of proxy, I guess, for the borrowing. I do not understand how that would help us, unless we were going to be relying on the Treasury forever. They have not, in fact, come forward with any notion about collateral, so what you do in your charts, you just eliminate the Federal payment because you do not see any collateral; and if I am hearing them talk, the only collateral they have is, you know, they will lend it to us, which just gets us back more dependent than we have been in a very long time.

In other words, I have to ask you, do you see any way that the OMB can get around this problem of the Federal payment as they are now trying to do by finding somewhere else, some other source of a borrowing that would leave us permanently stable or some other collateral, or is that chasing our tail, and we just as well face it now and try to find something else?

Mr. BRIMMER. Congresswoman, I do think they are chasing their tails. The key point is that, from the point of view of the budget, we need to deal with sustained and predictable revenue sources available to finance sustained and predictable expenditure requirements. And if you look at the chart again, you will notice that the traditional sources of revenue will not grow, so they have to find some substitute for the Federal payment, and I stress that has been the second largest source of revenue available to the city. If

you get rid of it, then you must find some equally predictable and sustainable source of revenue.

Borrowing is not that. Borrowing is not a source of revenue. It enables you to finance the deficit but not to avoid the deficit.

Mr. DAVIS. If the gentlelady will yield?

Ms. NORTON. I will yield to the chairman.

Mr. DAVIS. I would say when we had Mr. Raines up here explaining the administration's proposal, I was very skeptical of some of the numbers you supplied concerning what this does to cash-flow, so I will continue to pursue it.

But the reason there would be no Federal payment was really twofold. Mr. Raines said, first of all, he felt it would be more attractive to Congress. That does not appear to be the case as I canvass other Members and particularly the appropriators, who like being involved in this process. So, that is not flying the way it was intended.

Second, it was to give the city a sense of accountability, that the final decision is being made at that level. We can do that in other ways and still make a payment come forward. It seems to me, if you meet those two objectives, I do not know why the administration would not be flexible on this. I think we are going to need some kind of annual payment from the information I am hearing today. I will be happy to yield back.

Ms. NORTON. Thank you, Mr. Chairman. The problem is that I really see this as a major stumbling block, and that is why I look forward to this testimony, because until this testimony, what we had heard was characterizations: The Federal payment is for services rendered. That does not wash. If, in fact, we got a whole lot more revenue on one side, then who in the world would care what you call it, so long as we came out truly ahead?

But this, I think, is a major, major impediment to the plan going forward, and with due regard to my chairman, he will be the first to say that what we are required to do is to pay for this. And essentially what it looks like is OMB was trying to find a way to pay for it, the Federal payment.

If there had been enough of a tradeoff, might have been—your figures, it seems to me, unless they are wrong, definitively show that nowhere near enough tradeoff to make up for it because you have, in fact, done your figures with their new takeover costs included, and I really believe that we should not go much further without sitting down with the OMB.

And I recognize that they have given off to some of the staff there to try to patch together something that will continue to make this fly, and what I do not want to see happen is, you know, we get to what, May, and this problem, which you have raised early, is still a cloud over us, and the CBO or somebody comes back and says, "This does not wash, this does not fly," we are left with nothing.

Mr. BRIMMER. Well, I am delighted to hear you say that, Ms. Norton. And, again, I stress, revenue, revenue, revenue. That is the key for the Federal payment, and let me go on to say that the expenditures which you see here which will be rising, even under the President's program, do not provide for the kinds of claims that will be rising.

I mention one in particular. There is nothing here for capital expenditures, and capital expenditures, which have been neglected, will become even more pressing. And I name particularly the schools. There is a backlog of maintenance and expansion for school construction that will not go away.

Earlier, Mrs. Morella mentioned the Duke Ellington School. That is only typical. School construction will continue to expand, and as a matter of fact, for the current fiscal year, we will most likely come to the Congress and ask for a supplemental because the backlog of construction necessary just for the schools to open next September is so large and the city is going to have to pay for them in some way, and the city has no money.

So, let me repeat. The expenditures you see here with which the city will be left after the Federal Government takes more than a billion dollars of expenditures on an annual basis, those expenditures are substantial, they are necessitous, and they will grow. So we are going to need revenue from some source.

Ms. NORTON. And if we keep having to shut down schools like Duke Ellington in the middle of the year, we are done. There will be nobody here who pays taxes. I keep trying to figure if there is anything that can be done there. I think that the second semester has been ruined for those students when you consider the special effects they need just to, in fact, have their program at that school. And yet I understand that now that the court is in it, it is almost no way around that.

Mr. BRIMMER. Madam Chair, may I——

Ms. NORTON. Yes, sir.

Mr. BRIMMER. This is one thing I would like for the committee to think about, and we are going to make this before the Appropriations Subcommittee over and over. A large fraction of the expenditures in the District government today is court mandated. So even before you get to the discretionary questions, a growing share is being mandated. I read today of another one that might be coming down the pike. A judge, I was told, is considering taking over the bus system, the school bus system and turning that over to a master or someone and mandating expenditures.

That is happening over and over, and so the flexibility available to the city is diminishing rapidly.

Ms. NORTON. I had always hoped that once the city got into the mode it is now, that we could somehow bargain our way out of those mandates, but in order to do so, we would have to show very substantially improved management, so that obviously is going to take some time to do. And you are right. That puts everything else behind the line because those mandated costs come first.

I was surprised to learn—actually I was briefed in some detail by Mr. Williams on the way in which our budget process works so that it is not a reconciliation process. And as I understand it, unlike the Congress where the bills and the budget come at the same time, in the District the bills do not come at the same time, which means that almost automatically there is not going to be the bill to carry out what the budget says.

Could I ask Mr. Williams where we are on that, because apparently that is a source of your $85 million hole that arose at the very beginning of the year?

Mr. WILLIAMS. Congressman Davis, the CFO staff, the control board staff, and the council staff got together at the beginning of the year and worked together on developing a consensus budget process, a key component of which would involve all the legislation necessary to implement the budget being adopted when the budget was approved by the control board, sent to the Congress. This facet of the consensus process has been incorporated in the Authority's guidance, and we are pleased to say that in our March 18 submission, we are going to have a large part of that legislation as part of the submission.

Now, it will need some further work, but we are confident that when the budget is actually passed, we will actually have the legislation to get it under way immediately on October 1, and that is a real departure.

Ms. NORTON. This problem is going to be gone then.

Mr. WILLIAMS. Pardon me?

Ms. NORTON. This problem is going to be gone then.

Mr. WILLIAMS. I think we will have solved a lot of the implementation problem that way. Another thing we are asking for, and, again, this is in conjunction with the board, is that as we move through the remainder of this year in the 1998 budget cycle, we work with all the agencies in adopting a 2-year obligation plan, so that when we begin the year next year, they also have the benefit of a full-year program of expenditures.

It is another thing we did not have in 1997 and certainly did not have in 1996. We did not even have a budget. So we are making progress on both of those fronts.

Ms. NORTON. The assessment process, I think, which you wisely suspended rather than have the confusion continue; where are we on a new process there?

Mr. WILLIAMS. We have asked the Mayor and consulted with him, and he has transmitted to the council legislation that would move the District to a triennial assessment process, and we believe—this is something that Maryland does, for example—we believe that this is going to allow our assessment people to do a better job not only—once we have cleaned up the assessment data base to do a better job not only in doing the assessments one-third per year, but also handling at an administrative level the personal and commercial reviews that now are automatically thrown up to an appeals board and routinely result in a rejection of the city's position.

Ms. NORTON. Dr. Brimmer, the process that apparently the Financial Authority took the leadership on with respect to the police department, whereby you got the city and all, the police chief and all to sign a Memorandum of Understanding so that nobody would try to block a process of reform; that process, which has resulted in some early action in the police department, I think has had a very beneficial effect on the city. Seeing that change occur was a very recognizable change and the kind of change that heartens people about changing the whole city.

I am so much impressed by that kind of change, sending some consultants in, giving them a date by which to come back with their recommendations, and then pursuing that, that I am—my question really has to do with whether or not you might repeat

that process in agencies that have been languishing in the way the police department was.

I mean, I have in mind what we do not know, I suppose, in the fire department, says this granddaughter of a DC fireman, might surprise us. And we would not want an emergency to happen before we decided to send consultants in there or DPW, where recycling has had to be suspended. We do not know if consultants had been in there, whether or not that might have been changed or, God help us, the Department of Social Services.

Is there a way that, using the process that you are now apparently successfully using for the police department, state-of-the-art consultants with respect to other city services could now go in and do the same thing there?

Mr. BRIMMER. Ms. Norton, I believe that the process which we adopted vis-a-vis the police could be used if future circumstances are similar. What we had here with the police was a scattering of responsibility. If you look, the signers of the MOU are all responsible for various pieces of the problem, and so getting them together and to get them to sign, and, above all, to agree on the procedure of hiring the consultant and so on and waiting for the results of the consultant's work before they took a position was very helpful.

With respect to other agencies, take DHS, for example, and by the way, when you look at the management questions, the big task for us was the schools. The next one was police. The next one in line is DHS, and we have had a preliminary survey. We have had some consultants in working on contracting various pieces, but our own staff has done a substantial amount of work, and we have reached the following conclusion, that DHS needs to be in the—should be the responsibility of a chief executive officer.

So we have recommended to the Mayor that he appoint someone to own the department, to take responsibility, with the authority to run it. The Mayor has indicated that he agrees with this notion, and he is looking for someone to be CEO. I think that would produce the kind of results which we expect.

I would be reluctant to say that we should search for an MOU in every case because in some of these cases there are not many parties, a multiplicity of parties. Basically, that has to come directly from the administration.

Ms. NORTON. How about—leave us out of the MOU for a moment—the notion of consultants who have an understanding, perhaps based on comparisons with other cities, of how a DPW or how a Department of Human Services, the best that we now know, or a fire department? Could not that help us regardless of whether an MOU is necessary?

Mr. BRIMMER. I agree wholeheartedly, and we have recommended that in a number of cases and will be doing so in the future. And we, ourselves, as you know, at the control board, we have brought in consultants of many of our problems. We concluded very early that there was no point in our trying to hire and put on our staff permanently the levels of expertise and the variety of expertise which we require, so we relied on consultants. They do the job. When they are no longer needed, then they move on, and another group comes in to help us.

That approach, I believe, is the one that ought to be encouraged across the government.

Ms. NORTON. Working with the city, and I emphasize working with the city, the kind of model you have established in the police department I think would have a measurable effect if that was done in a number of other departments as well.

For example, the UDC, which went through one crisis and now is in the middle of another crisis, I know that you were working on a report for February 1. I wonder where that is and whether you think what has happened already at UDC is enough or whether there are going to be further recommendations on UDC and what you see as its future as a 4-year university and the like.

Mr. BRIMMER. All right. This is an example where we are relying on consultants. The control board asked me to take the lead in having a thorough review of UDC, not only its structure and management, but also its programs. To help in that, we engaged a number of consultants to work with our staff, and there are three consultants now engaged. We have a preliminary report, which we did get by February 1. That was the target. That has been reviewed. Additional assignments were made, and the consultants are now expected to respond by April 1, with another series of reports.

I would anticipate that we would examine those, and I have committed to the rest of the board to have not only reports, but a set of recommendations for the board to consider by May 1. And we will meet those deadlines because we are well on the track to do so. And for the time being, I have been reluctant to reach any conclusions about what reforms ought to be in place until we see them, but there are several issues that we already know must be examined.

One of these has to do—leave aside the budget, and by the way, what is in place now will correct the situation for this year. But the University has to make up its mind how it will carry out what is, on the one hand, a very complex teaching arrangement and, on the other, very simple. A large fraction of the UDC students need remedial work, and so that is one of the questions that has to be dealt with. We will do so over the next month.

Ms. NORTON. Mr. Chairman, I have one more question. I am simply going to ask the chairman, because I am sure Chairman Brimmer can straighten this out. Perhaps because the Congress did not give any guidance, hoping that there would never have to be a consultation process, it has been since December that the chairman's staff has been unable to get the appropriate meeting with your staff on the lottery board.

Let me just indicate that I believe that a mistake was made that the members of the council who I think were inclined to try to come onto the same page with the Authority were not given a meeting either with the Authority or their staff. I understand that the Authority cannot always meet, but I do not even think this would have taken the Authority.

And thus, I do not think this ever would have had to go to consultation; and then when we read in the paper that they cannot get a meeting, that is very bothersome to this Member of Congress because these are matters that I am sure intelligent people sitting together could have figured out.

I certainly have no position on the lottery board. I have not looked at it. All I know is I do not think it should have gone to consultation. It has. Once it goes to consultation, this body must be involved. That is a part of the way the process works. I am told that your staff has been unwilling to meet with the chairman's staff simply to go through the process and see where the lottery board is, that we have been unwilling to set up a meeting. And I am simply asking, would you instruct the staff to, in fact, set up a meeting with the chairman's staff so that we can come to a mutual understanding on the consultation process?

It is very minor, as far as we are concerned. We have no interest in—we have no knowledge of the issue. We are concerned with how the issue was handled.

Mr. BRIMMER. Ms. Norton, I had no knowledge of the difficulties you have just described, rest assured. The staff will be instructed immediately today to do that, and I am quite certain they will respond positively very quickly.

Mr. DAVIS. Thank you very much.

Ms. NORTON. Thank you very much, Dr. Brimmer.

Mr. DAVIS. Thank you, Ms. Norton, for that last question. I have a number of other questions, but you have been here a long time, and I will submit them in writing and give you some time. Without objection, all written statements and submissions will be included in the record.

Without objection, I also order that the record of this hearing be kept open for 60 days for further written submissions, including a submission we will request from OMB to respond to Dr. Brimmer's questions. This hearing is adjourned. Thank you very much.

[Whereupon, at 1:45 p.m., the subcommittees were adjourned.]

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