MEDICAID AND TREASURY BORROWING SECTIONS OF THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN

HEARING

BEFORE THE

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

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MEDICAID AND TREASURY BORROWING SECTIONS OF THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN

FRIDAY, APRIL 25, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Morella, Horn and Norton.

Staff present: Ron Hamm, staff director; Howard Denis, counsel; Anne Mack, and Roland Gunn, professional staff members; Ellen Brown, clerk; and Cedric Hendricks, minority professional staff member.

Mr. DAVIS. Would the first panel be seated. Thank you.

Good afternoon and welcome. This is the fifth hearing for this subcommittee as we continue our review of the administration's National Capital Revitalization and Self-Government Plan. Today, we will focus on two of the most significant aspects of that plan, those sections dealing with Medicaid and Treasury borrowing. We are combining two subjects in this hearing in an effort to accelerate consideration and facilitate what I hope will be the timely emergence of consensus legislation.

We are most definitely at a critical junction in this process. This subcommittee has invested considerable time and effort to get as many stakeholders as possible moving in the same direction. The President has put down his marker, and it has been appropriate for us to use his initiatives as a starting point. But while we are all in general agreement that something significant must be done to revitalize the Nation's Capital, as well as the areas in which innovation is necessary, we are in danger of losing the momentum created by this rare environment.

I share the administration's goal of restructuring the relationship between the District of Columbia and the Federal Government. But I also agree with those responsible individuals and groups, some of whom have been witnesses at previous hearings, that the administration's proposals do not fully address concerns about tax relief, economic development, and fall short in other areas as well. So while I'm grateful to the administration for helping provide us with an opportunity to enact necessary reforms, there are also many issues about which we differ. And I am grateful for this opportunity to work together with all the stakeholders to craft a plan which moves up along the path to a revitalized city.

It is understandable that the administration desires that a Memorandum of Understanding be signed among the District government, the Control Board, and the Office of Management and Budget. Such a document would certainly help to facilitate the legislative process. But I must make it absolutely clear that neither Congress nor this subcommittee is a rubber stamp. We cannot be expected to blindly pass a proposal simply because it is reflected in a signed memorandum among only these interested parties. That is not the way the legislative process works, and that is not the way it is supposed to work.

In the final analysis, Congress is the branch of Government that passes the laws and supplies the resources. So we have not only the intention, but an obligation to do what we think best. In the meantime, we encourage the city and the administration to help us narrow the issues in the very limited amount of time remaining.

Today, we will explore the Medicaid and Treasury borrowing sections of the President's proposals. The proposed 70–30 Medicaid split would result in around $917 million in increased payments to the city over 5 years. In return, the city is expected to enact many reforms. I look forward to hearing from our witnesses today about the specifics and any connection that may exist between the formula changes and the implementation of reforms.

As to the critical Treasury borrowing section, the subcommittee is interested in the terms, conditions and window of availability the District would have. We also want to explore any impact on the city's overall cash position and any offset due to the suggested elimination of the Federal payment.

So we are continuing our review of the President's proposals in a serious way and will continue to do so.

Permit me to emphasize that time is now of the essence. This subcommittee and Congress are proceeding to keep momentum going. But there is just so far that we can go without the city and the White House. To the extent that they are absorbed with each other, they can't very well be engaged with us in a productive way. So, we encourage the move ahead on the Memorandum of Understanding and the other issues so we can more fully work with you to address the issues. We appreciate the initiative the administration is sharing.

The Chair now recognizes Ms. Norton.

Ms. NORTON. Thank you.

I want to thank Chairman Davis for calling this hearing today on the President's National Capital Revitalization and Self-Government Improvement Plan, and for his continuing cooperation in moving hearings on President Clinton's plan. A systematic and rapid schedule is necessary so that we can meet the timeframes necessary to have the changes in place by the next fiscal year beginning this October 1st.

Except for pensions, the two issues that are the subject matter of today's hearing are probably the most important in the President's plan, Medicaid because its escalating annual cost alone is enough to defeat the District's recovery, and a Treasury borrowing because its absence alone would preclude solvency.

The District's over $400 million projected Medicaid costs for fiscal year 1997, along with the city's $5 billion unfunded pension liability were the chief villains taking the city into inevitable insolvency. Medicaid ranks with pensions not only because of its annual cost, but because it presents a special case of unfairness. Cities don't pay for Medicaid; States do. Even New York City, the only city that contributes to Medicaid funding, pays for only 25 percent of the total city cost, while the plan before the subcommittee would leave the District with 30 percent of its Medicaid costs. Astonishingly, 39 States have a better Medicaid match than the District.

The second subject of our hearing is the sine qua non of solvency. Without a Treasury borrowing, the District cannot liquidate its almost $500 million accumulated deficit. The debate in the District and in our own appropriation committees here over progress in decreasing the city's annual deficit has failed to discuss or to produce a strategy for eliminating the large accumulated deficit. We ignore the debt we have been rolling over for 2 years at our peril. Even after a balanced budget is achieved on an annual basis, the large accumulated deficit could still block credit worthiness and access to the market.

While Congress may still make changes, President Clinton deserves great credit and praise for his proposals on Medicaid and a Treasury borrowing for deficit elimination in particular because of the significance of these two matters in achieving anything close to permanent financial stability for the city. These are just two more elements in the President's innovative package that the city did not entirely expect, but that give the plan the comprehensiveness that alone can assure the city's financial health.

It is necessary for the subcommittee to keep pace if we are to meet House and Senate timeframes beyond our control. The chairman and his staff have our appreciation for the attention they are giving to achieving this goal. I welcome today's witnesses and look forward to their testimony. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much.

I also recognize our colleague from California, Mr. Horn.

Mr. Horn, any opening comment?

Mr. HORN. No.

Mr. DAVIS. Thank you very much.

At this point, I would call our first panel to testify: Edward DeSeve, Controller of Office of Management and Budget; Deborah Chang, Director of Legislative and Intergovernmental Affairs, Health and Human Services; and the Honorable Mozelle Thompson, Principal Deputy Assistant Secretary for Government Financial Policy, Department of Treasury.

As you know, it is the policy of this committee that all witnesses be sworn before they testify. Would you please rise and raise your right hand.

[Witnesses sworn.]

Mr. DAVIS. I ask your comments be made part of the written record, as I request that in the interest of time you limit your oral statements to 5 minutes. We have read the statements, and we invite questions. I also want to thank you for addressing some of the questions in your opening statements. That will save us time.

Miss Chang, we will start with you, or we can start with Mr. DeSeve, if you prefer.

STATEMENTS OF EDWARD DeSEVE, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET; DEBBIE I. CHANG, DIRECTOR, LEGISLATIVE AND INTERGOVERNMENTAL AFFAIRS/HCFA, HEALTH AND HUMAN SERVICES; AND MOZELLE THOMPSON, PRINCIPAL DEPUTY ASSISTANT SECRETARY, TREASURY DEPARTMENT

Mr. DESEVE. I would like to briefly thank the committee for again having a hearing on these important items and indicate three things. One, this is a continuation of work we have done jointly with the committee for more than 2 years. The people with me today have also been working as part of the Presidential Task Force on the District of Columbia. We know that we are on a tight timetable with you to try to craft legislation, and we are anxious to do so. We think the continued cooperation that we have had with you is terribly important, and we look forward to continued cooperation with the District. You have indicated we have a long way to go, and I and my colleagues and my boss Frank Raines are committed and dedicated to getting that done.

We are delighted to have Debbie Chang and Mozelle Thompson with us today. I will be happy to answer any questions as well after they finish.

Mr. DAVIS. Thank you very much.

Ms. CHANG. Thank you, Mr. Chairman and members of the subcommittee. I am pleased to be here to talk about the Medicaid provisions in the President's plan for DC, as this is a vital aspect of the President's plan to reconfigure the obligations between the District and the Federal Government in terms of providing for a better financial situation and better management of the DC programs.

The committee has expressly asked about the link between the Medicaid legislative proposal and the Memorandum of Understanding, and I will speak directly to that. The way we have designed this is that the enhanced Federal match of 70–30, that has been discussed previously would not take effect until October 1, 1997, this year, or, when the Secretary has approved the management plans that are required in the Memorandum of Understanding, whichever is later. So, we have a direct link between the enhanced Federal match and the Memorandum of Understanding for the Medicaid provisions.

Now let me go to the logic of the Medicaid matching rate. As you may know, under the current law, the District has 50 percent of its program paid for by the Federal Government. In addition, under current law, a State can have localities contribute up to 60 percent of the State's share. Now DC, of course, is in a very unique position. It is not a State, but it is treated as a State under current law, and it is not a State in the sense that it cannot get contributions from other places either surrounding the District, and it can't use the State's economic base to help with the burden of the Medicaid costs.

So what we would do in the President's plan is we would basically change the current formula for DC, so that the matching rate is equal to the maximum amount a local government can be required to contribute under law, and what that means is you take the 60 percent that is permitted under Federal law and you apply that to the current States' 50 percent, and that results in 30 percent that the District would pay under the President's plan.

I want to stress that we think this is a good way to go for equity reasons, and that under this plan the Federal Government would pay 70 percent, and the District would pay 30 percent. But, in addition to this, we thought it was important to link this enhanced Federal match with other provisions in the Memorandum of Understanding, which I will now go through.

The first thing we would do is we would have the District develop an ongoing internal system to identify and collect moneys owed by third parties. Right now under Medicaid law, Medicaid is the payer of last resort; therefore, Medicare or other private payers pay first, Medicaid should pay last, and we would require the District to identify and collect moneys owed by these third parties.

In addition, we would want the District to address its current backlog in cost reports and unaudited cost reports for institutional providers, including hospitals, nursing facilities, and facilities for the mentally retarded.

Third, we would ask that the District develop and implement a comprehensive data system for management information requirements, and our rationale behind that is that we want a system where we can verify eligibility across programs, we can identify what services our beneficiaries are getting, we can monitor claims processing, and we can basically assess the overall quality of services and the quality of the program under the Medicaid program, under the—for the District of Columbia. So this is an essential part of what we think is a tool for the District to better manage its program.

Last, we would work with the District to develop a comprehensive behavioral managed health care system, and we have already begun discussions with the District on this. The purpose of this is to coordinate the services that are currently provided with respect to mental health, to both coordinate and provide a better set of services to beneficiaries.

You have asked in your request about the—what we feel about the capacity of DC, to implement this, in these areas. We feel that these conditions are reasonable and practical, and it is in the self-interest of the District to do these, and as you will hear later from the head of the Medicaid program and others, they too believe that the elements identified for the Medicaid program are reasonable and a good step toward really helping the District in improving its program.

Let me also mention before I close that we think there are a lot of signs that under its current new leadership, the Medicaid program has really improved, and, in fact, in terms of services, we have recently approved several different waivers where the District will provide home care to the mentally ill or mentally retarded, and that the District is providing comprehensive services to children with special needs. They have also taken steps to improve their eligibility verification system because, as you may know, they recently found there were about 19,000 people who were actually on the Medicaid program but were not actually eligible. So they have taken a lot of steps to improve the program.

We think what we have presented represents a set of tools that they can buildupon to improve the program further. With that, I will stop, and I will be happy to take any questions.

Mr. DAVIS. Thank you very much.

[The prepared statement of Ms. Chang follows:]

Good Afternoon, Mr. Chairman and Distinguished Members of the Subcommittee. My name is Debbie Chang. I am the Director of Office of Legislation and Intergovernmental Affairs in the Health Care Financing Administration (HCFA) which is the Federal agency that administers the Medicaid program within the Department of health and Human Services. I am pleased to appear before you to assist this Committee in its consideration of relevant portions of the President's National Capital Revitalization plan.

A central purpose of the President's plan is to reexamine and restructure the relationship between the federal government and the District of Columbia, in a way which will improve the District's financial and management capabilities and at the same time, is fair to both the federal and District taxpayer.

A vital aspect of this plan is the reconfiguration of the District's obligation for the Medicaid expenses of its citizens. This Committee has expressed a special interest in the linkage between our legislative plan, and the accompanying conditions in the Administration's memorandum of understanding with the District. We believe the District's endorsement of those conditions, and agreement to cooperate with our Department in meeting them, will produce critical management reforms to go with the reapportionment of federal and District Medicaid expenditures.

The President's proposed bill would amend the Medicaid matching rate for the District of Columbia. This amendment will not take effect until either October 1, 1997, or that date on which the Secretary of Health and Human Services has approved the management plans submitted by the District in accordance with the memorandum of understanding, whichever is later. Thereafter, the amended rate will stay in effect during each quarter for which the District remains in compliance with the memorandum of understanding.

First let me explain the logic behind the Medicaid matching rate change.

This bill would change the District's Medicaid matching rate to equal the maximum amount a local government could be required to contribute under existing law. Under the current statutory matching formula, the District is required to bear 50 percent of the costs of its Medicaid program. The Federal government matches State spending. The matching formula is based on the relative per capita income in each State. Those States with higher per capita income are expected to contribute more than those States with lower per capita income. The Federal matching ranges from 50 to 80 percent. In addition, under current Medicaid law, a State may require local governments to contribute up to 60 percent of the state's own share of the Medicaid program. This shares the burden between state and city or county.

This matching formula does not reflect the Districts unique position. The current law treats the District as a State. The District, however, is unique in this country. It is our Nation's capital city. Unlike similar cities, however, the District cannot spread the costs of its urban

Medicaid program across a broader, statewide economic base, or count on the revenues from such a base to cushion the Medicaid burden. In fact, the District does not even have the advantage of financial support from the surrounding "suburban" area that all other cities would be able to rely upon.

Using this measure of what states and their counties can do, and applying it to the District, sixty percent of the District's current "state" share, of 50 percent, would equal 30 percent of total Medicaid expenses. This is the key rationale for the President's plan to change the Medicaid matching rate. Under the President's plan, then, the District would pay this 30 percent. The federal government would continue to pay its 50 percent share, plus the 20 percent "state" contribution if the District were located in a state.

This brings me to the conditions agreed to in the memorandum of understanding between the Secretary and the District. Mr. Chairman, as I hope I have demonstrated, there is a strong argument based on equity to be made for changing the District's Medicaid formula on its own merits. But Secretary Shalala and the White House insisted on major improvements, included in the memorandum of understanding, in the District's management of its Medicaid program.

Under the memorandum, the District must develop and submit, and continue to make progress in implementing, plans to accomplish the following:

1. To develop an effective, ongoing internal system to identify and collect money owed by third parties for medical care and services to District Medicaid patients. The District's own Medicaid agency -- the Commission on Health Care Finance, which is now part of a new District Department of Health -- has been aware of the need for this capability, but has been hampered by reliance on one outside contract for such collections, and limited consulting assistance. Our Department will require, and is prepared to assist, the District in shifting these costs from the taxpayers to the responsible third parties.

2. To insure the completion of unsettled cost reports for institutional providers, including hospitals, nursing facilities, and intermediate care facilities for the mentally retarded. Starting last fall, the District revised its payment method to such providers to better control the rate of cost increase; however, there is a backlog of unaudited, unsettled cost reports for fiscal years 1993 through 1996. The Department of Health and Human Services has provided a great deal of technical assistance to the district over the past two years in resolving unsettled claims, and will require strict adherence to the plans to be submitted by the District for completion of same.

3. To develop and implement, internally or under contract, a comprehensive health care management information system to standardize health data bases, and to integrate health care delivery with a public health data system. At a minimum, such a system must incorporate a number of functions specified by our

Department, for instance: to assist eligibility verification; to identify services, including preventive care, received by patients under the program; to monitor claims processing and other operations of the District's Medicaid fiscal agent; and to monitor the quality of care the District gets from its managed care contractors. The District's Medicaid chief, and all others concerned, concur in the need for such a system. It will not only give the District a better assessment of its current Medicaid spending, but will enhance cost-effectiveness of services in the future; improve administrative efficiency; and improve client tracking and provider accountability.

4. Finally, to develop a comprehensive behavioral managed health care system. The District has already begun exploring with our Department the review and approval of such an initiative, including any waivers which may be required. This initiative would combine the resources of various mental health and substance abuse grant programs, which serve the same clients but do so through separate administrative structures. A comprehensive system would, for example, improve "gatekeeping" for acute inpatient psychiatric care to avoid unnecessary or overlong inpatient treatment and make better use of less expensive, community-based resources.

Your invitation to testify today, Mr. Chairman, requested our views on the District's capacity to implement its end of this deal. The revised Medicaid funding proposal, which the President has put forward, signifies a fundamental and equitable restructuring of rights and obligations between the District and the Federal government. The conditions outlined by our Department and the administration are reasonable and practical, and it is in the District's self-interest to work with us to meet those conditions.

But I would close by noting that we are alreadv seeing evidence of the District's resolve to grapple with its health care dilemma. Within the past several months, D.C.'s Medicaid agency has moved to complete the inclusion of the eligible population in managed care programs -- as many as 40 percent were still enrolled in fee-for-service. The agency has also moved to eliminate ineligible recipients from the Medicaid rolls, and to renegotiate fees to service providers. Through its new Department of Health, the city is well on the way to placing responsibility for public health services in the hands of a public benefits corporation, as recommended by a number of well-regarded critical studies.

No one expects reform to be easy. But you may be confident of our Department's vigilance in carrying out the President's program, as well as our responsiveness to the District's need for technical and other assistance, as we pursue the joint goals of a financially-secure and better-managed Medicaid program in the Nation's Capital.

Thank you.

Mr. DAVIS. Mr. Thompson.

Mr. THOMPSON. Chairman Davis, Congresswoman Norton and distinguished members of the subcommittee, I am pleased to appear before you today to discuss an important part of the President's National Capital Revitalization and Self-Government Improvement Plan—the financing of the District of Columbia's accumulated deficit.

As you know, the President's plan is a broad-based proposal to change the existing relationship between the Federal Government and the District of Columbia. It recognizes the District's unique needs and how the Federal Government can help to address them. A critical element for restoring the fiscal health of the District is providing some method of addressing the District's years of accumulated deficits. My testimony provides some background about borrowing issues and how the Treasury financing will provide an important tool to enable the District to better manage its debt and cash-flow needs.

In the past, Congress authorized the Treasury to provide the District with long-term financing for certain capital projects on a project-by-project basis. It also authorized the Treasury to make short-term advances for seasonal cash-flow purposes. Right now of those old loans, $50 million in long-term capital loans remains outstanding.

In 1981, the District obtained the authority to go to private financial markets to borrow. It borrowed about $6 billion, and about $3 billion remains outstanding. By the early 1990's, however, the District began to experience financial difficulties and accumulated operating deficits, and this deficit is now approximately $500 million.

Two years ago, when Congress enacted the District of Columbia Financial Responsibility and Management Assistance Act, Treasury was authorized to provide the District with two different kinds of loans. It was able to provide short-term loans to help the District finance its growing operating deficit on a temporary basis until a long-range solution was developed. Since 1995, Treasury has provided the District with $689 million in "transitional" short-term loans. Most of these loans were repaid from the Federal payment, but $223 million remains outstanding. Treasury's authority to provide this kind of loan expires on September 30, 1997.

The act also authorized the Treasury to make seasonal short-term cash-flow loans to the District. The terms of the loans are up to 11 months and those loans can cross fiscal years. That cash-flow lending window does not expire in September with the "transitional" loan authority. The District has yet to use the seasonal cash-flow window, and all of its borrowing instead has been done under the "transitional" facility.

The President's plan presents a blueprint for satisfying the District's long-standing, yet unaddressed, need for deficit financing. It would authorize the Secretary of the Treasury to make new loans with terms of up to 15 years to assist in financing the accumulating operating deficit. The interest rate on such loans would be based on Treasury rates and be subject to the Credit Reform Act of 1990, and must be scored as part of the budget in the year in which the loans are authorized. At the same time, the Secretary's authority under the 1995 act to make short-term cash-flow loans would continue to be available.

Providing the District with deficit financing would provide substantial benefits for the District and its residents.

First, it would allow the District to better manage its financing by breaking a pattern of annual rollovers of millions of dollars of deficit.

Second, it would allow the District to reduce its debt service costs by being able to repay its deficit over a longer time, utilizing longer-term interest rates.

Third, it would enable the District to more quickly rebuild access to credit markets to the extent that this vehicle provides the District with a stable and responsible means for eliminating the deficit.

The administration believes that any legislation that provides a deficit financing mechanism should have sufficient flexibility for the Treasury to work with the District and the DC Financial Responsibility and Management Assistance Authority to structure an appropriate loan. Our plan contemplates such flexibility. However, the Treasury also believes any deficit financing will only be successful if it also encourages appropriate accountability and management of District finances. Accordingly, the plan contemplates any deficit financing will contain the following elements.

First, the authority to make deficit loans will be available for only a limited time, and for a limited amount. By limiting the amount and timing of such borrowing, we will avoid creating a financing structure that could encourage the accumulation of new deficits.

Second, the District will continue to be required to demonstrate that it is unable to obtain credit from the private market on reasonable terms. The Treasury continues to believe the District benefits from using and maintaining its own access to credit markets. Consistent with this principle, any deficit loan mechanism would also allow the Treasury to require the District to refinance deficit loans in the private market if the Treasury determines the District is able to do so without adversely affecting its financial stability.

Third, any intermediate-term loans would be no longer than 15 years. We are aware the District believes it may benefit from some short-term borrowing on an "inter-year" basis, and our plan is flexible enough to permit such borrowing. However, we believe such loans should be made under conditions that would not lead to "rollover" financing of new deficits.

Fourth, we would continue to require the same kind of certificates and supporting materials that we have required in the past.

We believe this is precisely the kind of initiative and deficit financing vehicle that is worthy of the Nation's Capital. Mr. Chairman and Congresswoman Norton, this concludes my testimony.

Mr. DAVIS. Thank you very much.

[The prepared statement of Mr. Thompson follows:]

EMBARGOED UNTIL 2 P.M. EDT
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April 25, 1997

TREASURY PRINCIPAL DEPUTY ASSISTANT SECRETARY
FOR GOVERNMENT FINANCIAL POLICY
MOZELLE W. THOMPSON
HOUSE GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

Chairman Davis, Congresswoman Norton and distinguished Members of the Subcommittee, I am pleased to appear before you today to discuss an important part of the President's National Capital Revitalization and Self-Government Improvement Plan -- the financing of the District of Columbia's accumulated deficit.

As you know, the President's Plan is a broad-based proposal to change the existing relationship between the Federal Government and the District of Columbia. It recognizes that the District has unique needs and the Federal Government can help to address them. A critical element for restoring the fiscal health of the District is providing some method of addressing the years of deficits accumulated by the District. My testimony provides some short background about District borrowing issues and discusses how Treasury financing will provide an important financing tool to enable the District to better manage its debt and cash flow needs.

Historically, Congress has authorized the Treasury to provide the District with two kinds of financing. First, Congress authorized the Treasury to provide long-term financing for certain capital projects on a project-by-project basis. Through 1984, the Treasury made approximately $2.1 billion of long-term capital loans to the District, and approximately $50 million remains outstanding. Secondly, Congress authorized the Treasury to make short-term advances to the District for seasonal cash flow management. Seasonal cash flow needs result from mismatches in timing between revenue receipts and ongoing operational disbursements. Municipalities normally receive major revenues unevenly throughout each fiscal year (for example, District property taxes are paid in September and March), while expenditures are made fairly evenly throughout the year. The Treasury made $664 million of short-term seasonal cash flow loans to the District between 1971 and 1983.

In 1981, the District obtained the authority to borrow money from the financial markets to meet both its capital and seasonal cash flow financing needs. The District has borrowed approximately $6 billion from the private market, and approximately $3.3 billion remains outstanding. By the early 1990's, however, the District encountered financial difficulties and began accumulating operating deficits as its annual expenditures exceeded annual revenues. This accumulated deficit is now approximately $500 million.

Two years ago, Congress enacted the District of Columbia Financial Responsibility and Management Assistance Act of 1995, (which I will refer to in my testimony as the "1995 Act"), which authorized the Treasury to provide the District with short-term loans to help it finance its growing operating deficit on a temporary basis until a long-term financing solution was developed. Since 1995, the Treasury has provided the District with a total of approximately $689 million in "transitional" short-term loans to assist the District in meeting its financial obligations. Most of these loans were repaid from the proceeds of annual Federal payments to the District, and $223 million is presently outstanding. However, the Treasury's authority to provide this kind of short-term loan expires on September 30, 1997, and all amounts borrowed under this authority come due on October 1, 1997.

The 1995 Act also authorized the Treasury to make short-term seasonal cash flow loans to the District with terms of up to 11 months. These cash-flow loans can cross fiscal years, and the cash-flow lending window does not expire with the "transitional" loan authority. The District has yet to use this seasonal cash-flow lending window, and all of its Treasury borrowing since 1995 has been done under the "transitional" lending facility.

Now, in 1997, the President's Plan presents a blueprint for satisfying the District's longstanding, yet unaddressed need for deficit financing. The President's Plan would authorize the Secretary of the Treasury to make new loans with terms of up to 15 years to assist the District in financing its accumulated operating deficit. Also, the interest rate on the deficit loans would be based on comparable Treasury securities, plus 1/8th of 1 percent. These loans will be subject to the Credit Reform Act of 1990, and must be scored as part of the budget in the year in which they are authorized. At the same time, the Secretary's authority under the 1995 Act to make short-term cash-flow loans would continue to be available to assist the District in managing its cash.

Providing the District with a one-time deficit financing vehicle will provide substantial benefits for the District and its residents. It will enable the District: (1) to better manage its long-term finances by breaking a pattern of annual rollovers of millions of dollars of deficit; (2) to reduce its debt service cost by being able to repay its deficit over time utilizing longer term interest rates; and (3) to more quickly rebuild its access to credit markets to the extent that it provides the District with a stable and responsible means for eliminating its deficit.

Financing Elements

The Administration believes that any legislation that provides the District with a deficit financing mechanism should have sufficient flexibility to permit the Treasury to work with the

District and the D.C. Financial Responsibility and Management Assistance Authority (the "Authority") to structure an appropriate loan. Our plan contemplates such flexibility. However, the Treasury also believes that any deficit financing will only be successful if it also encourages appropriate accountability and management of District finances. Accordingly, the Plan contemplates that any deficit financing will contain the following elements:

First, the authority to make deficit loans to the District under the Plan will be limited in amount and will be available only for limited time. The total amount of seasonal cash flow loans is also limited. The Plan seeks to ensure that the new accumulated deficit loans are used only to liquidate a specific deficit amount -- the deficit that exists in the year in which the loans are authorized. We also believe that it is prudent to require that the District complete arrangements for its deficit borrowing within a one-year period beginning from the time that such borrowing becomes authorized. By limiting the amount and timing of deficit borrowing, we will avoid creating a financing structure that could encourage the accumulation of new deficits or undermine the efforts of the District and the Authority to bring the District's budget into balance.

Second, in order to access either the deficit or cash-flow loan facilities, the District will continue to be required to demonstrate that it is unable to obtain credit in the public credit markets in sufficient amounts and on sufficiently reasonable terms. The Treasury continues to believe that the District benefits from using and maintaining its access to credit markets so long as such access is available on reasonable terms. Consistent with this principle, any deficit loan mechanism would also allow the Treasury to require the District to refinance in the private markets all or a portion of the unpaid balance of a deficit loan obtained from the Treasury if the Treasury determines that the District is able to obtain credit without adversely affecting the financial stability of the District.

Third, any intermediate-term deficit loans made to the District would be required to mature no later than 15 years from the date of the first deficit loan. Maturities on short-term cash flow loans will continue to be within 11 months of when they are made. We are aware that the District believes that it may benefit from being able to engage in some short-term deficit borrowing on an "inter-year" basis, and the Treasury believes that the President's Plan is flexible enough to permit such borrowing. However, the Treasury believes that such loans should be made under conditions that would not lead to "roll over" financing of new deficit amounts, and would be made in conjunction with a shorter term repayment schedule.

Fourth, the Treasury would obtain for the new loans the same kind of certificates and supporting materials that the Treasury has obtained before making the transitional loans. For example, the Treasury would continue to make its loans contingent upon the Authority certifying that there is an approved financial plan and budget in effect under the 1995 Act for the fiscal year in which a financing request is made, and that the District is in compliance with the approved financial plan and budget. The District would also continue to be required to provide information to the Secretary of the Treasury so that the Secretary will be able to determine that there is reasonable assurance that the District would be able to repay any loans.

Conclusion

The Administration believes that the National Capital Revitalization and Self-Government Improvement Plan is precisely the type of far reaching initiative worthy of the Nation's capital, and the Treasury believes that providing a deficit financing vehicle is an important element in restoring the Capital to fiscal health.

Mr. Chairman, Congresswoman Norton, this concludes my testimony. I would be happy to answer any questions that you or Members of the Subcommittee may have.

-30-

Mr. DAVIS. Let me just try to—explain to me in layman's terms the scoring provisions of the Treasury borrowing.

Mr. DESEVE. Under the Credit Reform Act, any borrowing has to be scored. You don't know how it will score or what the amount is until the terms and conditions of the borrowing are presented.

So let's use an FHA loan as an example. We have a history of FHA loans—any FHA loan, and they are bundled together each year. You look at the potential loss rate on that loan, and in the first year, the year in which it is authorized, you set aside enough money to pay for that loan. We have been working with the credit rating agencies and the District to try to get our scores in OMB comfortable with the nature of that set-aside, that requirement. Mr. Horn is very familiar with this process, he has been working with us in other areas of debt collection and credit reform with that. CBO will provide scoring as well. When we did the Financial Responsibility and Management Assistance Authority Act, we looked at the Federal payment as a source of security. With that as a source of security, there was no scoring implication that was scored, but it was scored at zero by OMB because of the existence of the Federal payment.

Mr. DAVIS. Does this proposal replace the Treasury borrowings?

Mr. DESEVE. It extends them because they expire, and it also adds the 15-year intermediate term as well.

Mr. THOMPSON. It also changes it in one way. To the extent it provides an express provision for deficit financing over a longer term, it is different from what is contained in the act. What does remain from the act, though, is the continued authority to borrow on a short-term basis for seasonal cash-flow purposes.

Mr. DAVIS. Miss Chang, let me ask a question. How many other cities operate their Medicaid programs?

Ms. CHANG. Under current Medicaid law, the counties can operate their Medicaid programs, and it is really based on the States; the States decide.

Mr. DAVIS. Are there a lot of them?

Ms. CHANG. Yes, there are. There are at least 10 States where they have the counties operate and contribute financing for the Medicaid program.

Mr. DAVIS. How about cities; I know L.A. does it, and, I guess, New York.

Ms. CHANG. Again, it depends on the State, and in those States that I mentioned, they do in those States provide for the county to provide both money as well as administering the program.

Mr. DAVIS. Is it a 70–30 match? Is that a reasonable match, or is that a low end or a high end for a city and county operating; from the city's perspective, take the State out of it?

Ms. CHANG. Right now States can contribute ranging from 20 to 50 percent in terms of the program, and as I mentioned to you earlier, up to 60 percent of the State's share can be used by the counties. So it can take 60 percent. It's a range of about 12 percent to 30 percent, so in that sense, DC is on the high end of what a district would contribute.

Mr. DAVIS. Thinking of the city as a city, then, the share is on the high end. Thinking of the city as a State, makes it very good, so it depends on the perspective.

Ms. CHANG. That is true.

Mr. DAVIS. OK. How well do you think the city is doing managing a Medicaid program today?

Ms. CHANG. As I said earlier, I think the city has made a lot of improvements in managing the program under its new leadership, but clearly there are areas of improvement we have outlined in the Memorandum of Understanding. One of the key things is that the city needs to build an infrastructure of both information and accountability, financial accountability, and that is why the data system I mentioned, dealing with the cost reports, dealing with making sure that we—that the city collects all the third-party liability, all those things are very important for the city to move forward in improving its program.

Mr. DAVIS. Well, let me ask, assuming, say, Maryland or Virginia wanted to contract collections, is there anything to prohibit the city from contracting out collections to Maryland or Virginia if they wanted to do that?

Ms. CHANG. That is a complex issue, and there are legal issues as well as capacity issues. I don't really know the answer to that question.

Mr. DAVIS. And do you have any thought on that?

Mr. DESEVE. I don't. We would like to get back to you with a written response.

Mr. DAVIS. Or privatized. But say Maryland is next door and does a pretty good job and will, for a fee, do that as opposed to taking it.

Mr. DESEVE. Pennsylvania take over Delaware, something like that. Let us take a look and get that for you.

Mr. DAVIS. Is that feasible; is it easier than trying to reinvent the wheel? And I don't have any particular thoughts on it, but it is something that has been suggested up here, so I wanted to get your thoughts on that.

Well, let me ask this: Will the Treasury loans be at reduced rates or in terms of below the private market?

Mr. THOMPSON. The Treasury loans will be based on what the Treasury rates are, plus if that is where we have structured them now because of our cost of borrowing, we have to go out and borrow. Also, subject to whatever the credit story has to be, we are not looking to provide a subsidized rate here because that would have a substantial credit scoring impact.

Mr. DAVIS. I guess my last question I would like to ask all panelists—we will send you some other questions. We have two other panels here. The private bond markets, especially holders or insurers of outstanding District general obligation debt, have been concerned about the Treasury using Federal payment as collateral and having first called that funding source. How does this proposal and the elimination of the Federal payment affect future bond rates? Any thought on that?

Mr. THOMPSON. Sure. First of all, we at Treasury believe that we want to be cautious with someone else's bonds and obligations.

Mr. DESEVE. We have enough of our own to worry about.

Mr. THOMPSON. The purpose of——

Mr. DAVIS. You also understand you have us down the road.

Mr. THOMPSON. Sure. The important part about providing deficit financing on a longer-term basis is that will provide the District with stability and certainty to the extent that it provides a plan to provide stability, to the extent it provides certainty, that there is a mechanism to reduce outstanding obligations, we think both of those features are things the market looks for as a balance.

Mr. DAVIS. Plus any others; particularly, first call of cash and the predictability and the certainty of being able to be sure.

Mr. THOMPSON. Sure, but I don't think anybody is looking at the Treasury or anywhere else to do anything that threatens the District's ability to meet its obligations.

Mr. DAVIS. In fact, the whole idea is so the city can meet obligations and take obligations within a framework it can afford.

OK. I may have additional questions, but that covers it. Thank you very much. Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Miss Chang, I appreciate that the 70–30 formula is considerably better than what the city has now. I know you appreciate that. The Medicaid match you happen to have would bring down some States, States that are really struggling with Medicaid. Medicaid costs have remained quite uncontrollable, despite what I will not call our best efforts, but despite efforts here in the Congress. Therefore, this is a cost that I look to with some skepticism, particularly since the Congress hasn't said what in the world it is going to do with it. Since most of the money goes for nursing homes, it is in very many ways a middle class entitlement, since they were the people who were going in and becoming elderly.

The fact is the Federal Government has shares with entire States that range all the way up to 80 percent. While I understand the way in which you get to your figures, and it is a rational way, it is not a figure plucked out of the air, I wonder if it's possible to justify the Federal Government picking up an 80 percent share for a State like Louisiana and only a 70 percent share or a lesser share for a city which is rapidly losing its middle-income tax base.

Since the District is treated as a State, whenever it is to the advantage of the Federal Government, why was the District not treated as a State and looked at in comparison with other States in this regard so that we might have had a truer nexus to our own underlying economy, which you still have to cough up a lot of money because it is Medicaid and because of the escalated cost of Medicaid.

Ms. CHANG. You mentioned several things here. Let me try to address all of them.

With respect to the formula under the current program, in fact, as I think I already indicated, it ranges from 50 percent to 80 percent, and that is the very nature of the program. So there are programs that are getting 80 percent, higher than the 70 percent we propose for the District, and it is really due to the way the formula is crafted.

The way the formula is crafted is States with high per capita income basically pay more for their Medicaid program, and that is why the District pays the minimum amount, which is 50 percent, and that is just a function of the formula.

Now, with respect to your other point, however, I just want to underscore that while it is true that the Medicaid program does provide some long-term care costs, it is an essential safety net for low-income people, and, in fact, 50 percent of the recipients under Medicaid are low-income children who need health care services, and even the people who spend—who need nursing home services——

Ms. NORTON. Excuse me, I am talking about the money. I am interested in the money. Two-thirds of the money goes to people in nursing homes. The District of Columbia cannot control that. The fact is when people use the figures about poor children, they hide the real facts, and that is that people spend out their money, and they can't help it because it costs $40 to $50,000 a year, and that is who gets the money. It is true that the children in numbers are the larger representative, but DC, when it comes to paying out the money, DC is going to be paying it to nursing homes, and there is not anything they can do because it remains an entitlement, and that is what I was speaking to, and I wish you would respond to.

Ms. CHANG. You are asking me to respond why we came up with the 70–30 match?

Mr. DESEVE. Let me try that.

It is really a political question. We looked at the statutory formula; Congress enacted the formula. We did not invent the formula in the administration. In looking at the formula, we saw the rationale for city shares and State shares, and we chose the most difficult rationale for the District. It was a policy choice not done by technicians, but done broadly in the context of a plan. So we said, what is the most a city could pay? You may argue the proper construction is what is the least the State can pay, and I think that is a valid argument as well.

Ms. NORTON. Please understand that what you have done leaves the city very substantially—we are just killing the city. I am up here where I hear the States come forward on their knees, who are much richer than the District, and I am posing that question for that reason.

Let me ask another question. One State function that is very large that was not transferred, that you did not consider, was welfare. Now, if you insist upon treating the city as a city, then, of course, I am going to insist that you be consistent. If you insist upon treating the city as a city, look at the position the city is left in now, and here there is very clear and present danger, because if the city doesn't get 50 percent of its welfare recipients into work activity by 2002, and 25 percent by the end of this year, it begins to lose real money. This is the first time this has ever happened to the city, and it could lose up to 21 percent of its grant.

That could happen, of course, to any State. The difference is that in trying to put together, let's say, the 25 percent for this year, Maryland will not get anything like that number out of Baltimore because it has the whole State of Maryland with its State demographic base to draw from. And in the same way, Virginia will probably not get a lot of them from Richmond. In fact, there are jobs in northern Virginia that will make it easier to get, perhaps, a disproportionate share from northern Virginia, but the District has no place to get them from except its own inner city.

So if you are insisting upon the city formula, I want to ask you why you are not willing to take over some portion of welfare in the way you have taken over some portion of Medicaid?

Mr. HORN [presiding]. The question will be answered, and then we will go to the next panel.

Mr. DESEVE. Thank you, Mr. Horn. We are trying to work very hard in a new environment for laws, as you put it, in welfare reform. And we wanted to allow that new law to begin working. We are very sensitive to the District's plight here, and are working very closely with the District as they try to fashion their response to the new law. And we will look very, very carefully at it.

Ms. NORTON. Excuse me, that was a two-part question, sir. Would you consider supporting my bill, which would erase the discrimination the District now faces in having to essentially get its 25 percent and then its 50 percent from the inner-city population, erase it by allowing the District, with respect to the percentage, to be compared to cities so that if, for example, Baltimore and Richmond are contributing X percent to the State quota, the District could contribute approximately the same percent to the quota, rather than being treated as a State where we don't have a State demographic base?

Mr. DESEVE. May we take a look at that and get back to you? We didn't come prepared today to do welfare, I am sorry.

We would be delighted to take a look at that and get back to you with our positions on it.

Ms. NORTON. I appreciate that very much. Thank you, sir.

Mr. HORN. You are quite welcome.

The gentleman from California is recognized for 7 minutes on the equality of time.

Mr. DESEVE. The normal rule in the Horn subcommittee is only 5 minutes.

Mr. HORN. No, it isn't. Whenever I go over, I give another Member the extra time, so I am giving myself the 7 minutes this time.

Ms. Norton is pursuing a very interesting idea, and that was going to be my first question: Whose idea was this? You are saying it was the administration's idea. What type of consultation occurred with the District of Columbia government, and were there other areas you feel would be indeed a better increased Federal contribution?

Mr. DESEVE. Mr. Horn, the proposal of the President, as you know, encompasses criminal justice, infrastructure, economic development, pensions, Medicaid, borrowing and tax collection. We listened very carefully and looked very thoughtfully over the last 2 years—before the plan was put in place—at all of the testimony in this committee and other committees, read a whole series of reports, talked to our counterparts in the District of Columbia. And then the President and the Director of OMB made a decision that among the collection of proposals that we had seen put forward by a variety of the people, that this particular collection was the one that provided significant and substantial relief to the District; the collection provided significant and substantial relief to the District.

Mr. HORN. Well, Medicaid, how are you looking at it, is it simply dealing with consumable services, or is there a capital outlay program in here somewhere?

Mr. DESEVE. We know of no capital outlay program. All we are doing is mathematically changing the cash formula as it exists now to provide fiscal relief for the District at the same time we are asking the District to undertake a series of management reforms. That was the narrow intent of this particular part of the proposal.

Mr. HORN. Ordinarily when you are using bond money, you would have some sort of amortization of infrastructure involved, and this one you really don't have amortization of infrastructure, you have consumable services. Do you think it is improper to use bond money on consumable services?

Mr. DESEVE. This refers, of course, to the borrowing section of the proposal, and in the borrowing section of the proposal, we had to recognize that budget crises, as we have known them in municipalities, have two characteristics: One, you have a budget which you can't balance, and that is OK; it is not good, but it's OK for a city, as long as they have access to the credit, as long as they have liquidity. On the other hand, it's OK to have a balanced budget and no liquidity because normally, again, you can access the credit market in that case.

In the District's case, we have an unbalanced budget and lack of liquidity. The unbalanced budget occurred over several years; it didn't occur in any 1 year. The accumulated fund balance deficit as it exists now will be this year estimated in excess of $500 million. The question then is if we were an individual, would we do a debt consolidation loan, and would we finance that over a period of years to try to use the tax base as it exists now and savings that the District must achieve? In order to be able to afford that debt over time, would we do that kind of debt consolidation loan?

We believe it is the only way to restore liquidity to the District. As Mr. Thompson testified, we have—they will be holding their own fiscal feet to the fire in achieving a kind of capacity, over $50 million a year, I would guess, to pay off that accumulated deficit. Do you want to add to that?

Mr. THOMPSON. One thing we also looked at is if you look at every city that has gotten into some kind of fiscal trouble and had some accumulated deficit, there was some way provided to buy it off over time. In the case of New York, there was the Municipal Assistance Corp.; same thing was true in Philadelphia. So, we are providing a vehicle that in some cases a State would provide as a financing tool.

Mr. HORN. Basically, though, it isn't just Medicaid. We are really talking money expendable.

Mr. DESEVE. Right.

Mr. HORN. It doesn't matter where the operational deficit comes from, this is the way to pay for it, and if they fouled that up, I don't know what else they would do is what it boils down to.

Mr. DESEVE. That's correct. The fact is, this hearing combined Medicaid and borrowing; those were two elements of the President's plan. You are correct.

Mr. HORN. I personally happen to agree with Ms. Norton, and many Governors would take this position that maybe the Federal Government ought to take unto itself the funding of Medicaid because it has been a tremendous burden on the States in terms of matching money. It is very difficult to get services because repayment of those services is so low. Very few doctors will take MediCal in the State of California, and there is no question that the nursing home example is a good one. That is basically what pays the nursing homes in this country, and it is limited to poor people because you become rapidly poor if you have to go to a nursing home.

And I guess I am curious here, though, on the example—let's take Wyoming, Vermont and New Hampshire, among others, which is really about the population of the District of Columbia, certainly Wyoming is, and the degree to which there is a State/Federal proportion there. If you would put in the record at this point, and I would appreciate it—unless you have it, Ms. Chang?

Ms. CHANG. You said Wyoming?

Mr. HORN. Wyoming, Vermont and New Hampshire.

Ms. CHANG. Wyoming's Federal matching rate is 59.88; Vermont is 61.05. And, I am sorry, sir, what was the third one?

Mr. HORN. New Hampshire.

Ms. CHANG. New Hampshire is 50 percent in terms of the Medicaid matching rate.

Mr. HORN. Now let's take the Southern State that has the least State payment and the most Federal payment. Which one would that be?

Ms. CHANG. Southern State with the—oh, that would be Mississippi.

Mr. HORN. It is usually Mississippi. Nothing has changed in 30 years then.

And then what is that number?

Ms. CHANG. Actually, before I gave you what the Federal Government paid. The Federal Government pays 77.22, so the State pays about 22.8 percent.

Mr. HORN. Is that the highest Federal payment in the country, among States?

Ms. CHANG. I believe it is. Yes, it is, sir.

Mr. DAVIS [presiding]. May I ask you to yield for 1 second? What is Virginia's Federal matching rate?

Ms. CHANG. I am ready for that one; 51.45.

Mr. HORN. See, they weren't as poor as you thought they were. You never should have given it up during the Civil War; the War between the States, as you say.

Let me ask you, where is the administration of this particular financial aspect going to be controlled, or is the Control Board going to watch that throughout the life of the loans?

Mr. THOMPSON. First of all, one of the things we would ask for in this structure is that the money go to the Financial Control Board, as the loan proceeds do right now. There would continue to be required certification that any loans that we would make would be consistent with an approved budget and financial plan. So, there would be a series of checks and balances that would be required before the Secretary of the Treasury could make a loan.

Mr. HORN. In other words, the bondholders and the bond providers would be assured of some scrutiny beyond that of the District of Columbia.

Mr. THOMPSON. Well, I can only say with regard to any loan we would give, it would be subject to close scrutiny because we would be in charge of looking out for the taxpayers' interest.

Mr. HORN. What is the current life under law of the Control Board?

Mr. THOMPSON. I think it depends. It is defined in terms of a control period.

Mr. DESEVE. There are two tests. One is whether the Authority itself has any debt outstanding, and the second is the number of years after the city has balanced its budget, and I believe it is 4 years—I could stand corrected, but I believe it was 4 years after the city achieves a balanced budget, if they then have a budget that is unbalanced, it springs back into existence.

Mr. HORN. But, in other words, they would not go out of existence until these bonds were repaid.

Mr. DESEVE. If this were the debt of the Authority. The proposal is to make a debt of the District of Columbia, not of the Authority at this point, so this would not affect the life of this entity.

Mr. HORN. What is the Treasury's concerns that those bonds are not repaid?

Mr. THOMPSON. We always have a concern when any are not repaid, but one of the things that we will seek is assurances. We have a test called the reasonable assurance of repayment tests. We would be looking to see that the District would be able to budget and plan for sufficient debt service to cover any loans that we would make, the way we would have for any other obligation that they would incur. To the extent there is a control period during which the Authority will be in place, we would be looking to it to provide certifications, and as Mr. DeSeve pointed out, the way the law works is that after the point the Authority maybe goes out of business, should the District become out of balance again, the Authority comes back. So, we will be working closely with the District.

Mr. HORN. The last question is, do you see these as solely Federal bonds, as municipal bonds as that term is understood, when municipalities go on the market and secure funding?

Mr. THOMPSON. We don't look at them as bonds. We look at them as direct obligations between the District and the Treasury. So there would be a notice, and there will be direct debt from the District to us, not bonds. We don't calculate it that way.

Mr. HORN. How would you define the note versus bond and how it is typically retired. I mean, you have a payment schedule there?

Mr. THOMPSON. Right.

Mr. HORN. That is what a bond also has.

Mr. THOMPSON. Right. Well, there is no document that represents a bond that can be transferred, for example, in the secondary market or sold. That doesn't exist. So it would be like what you would have with any other loan. There would be a security agreement indicating that we have, a loan agreement with the District, as we have now for the existing debt.

Mr. DESEVE. For example, if a Member of Congress had a note with another Member of Congress that was not transferable, that would be a note, where if he had a loan like a mortgage, it would be sold in a secondary mortgage, that would have a different characteristic.

Mr. HORN. If it was between Members, you might want to turn it over to the mob for collection.

I am just wondering if the Treasury will be in that mode in the District of Columbia. I mean, do you really expect to get the money back?

Mr. THOMPSON. As I pointed out earlier, one characteristic of the District is that it has never defaulted on its debt.

Mr. HORN. It just kept getting debt. Is that the way they solved it? It sounds like the Federal Government to me.

Mr. THOMPSON. And also with respect to the long-term loans it has had, it has paid us on time or early on every one of those. The District owes us still about $50 million, but it is current.

Mr. DESEVE. We would never make a loan if we didn't expect it to be repaid.

Mr. HORN. I hope you are right.

Mr. DAVIS. Thank you.

Ms. Norton had one other question.

Ms. NORTON. I had one other question, and I have to warn you before the chairman does, he has to leave here at 4 p.m., so we are going to have to move more quickly, and I will certainly cooperate in that.

I do have a question that has to be put on the record. The Treasury drove a very hard bargain when it came to Treasury borrowings. It insisted that the Federal payment be collateral for its borrowings. Now it wants to take away the Federal payment and assume that the District will somehow, without collateral, be able to borrow from the Treasury, and presumably from the market. Will you tell us why you insisted upon collateral if you think the District no longer needs collateral?

Mr. THOMPSON. Well, I think the President's plan anticipates that with all the elements in place, that over time the District's surplus will grow, and I believe it also deals with the issues so the District will be better able to meet those obligations. We are currently working with the District and the Financial Control Board to determine an appropriate security mechanism. We are looking at what the District provides now in terms of security for other creditors, so that——

Ms. NORTON. Are you going to tell the committee at this time what you regard as appropriate security?

Mr. THOMPSON. One of the things we are going to look very closely at, and we will be talking to the District about, is the mechanism it sets up for its own bondholders to see if that is adequate security for us.

Ms. NORTON. This is something—this creates some anxiety obviously in the District. I hope it means that OMB, put in the same position again, would not require the Federal payment for collateral. I have to assume you have greater confidence in the District as well, and I appreciate what you have done in this bill. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you. Thank you all very much.

Second panel. The panel consists of Mike Rogers, the city administrator, District of Columbia; Mr. Jalal Greene, the deputy chief financial officer of Budget and Planning; Mr. Paul Offner, the commissioner of the Commission on Health Care Finance, DC Department of Health; the Honorable Charlene Drew-Jarvis, chairwoman pro tempore; the Honorable Linda Cropp, chairwoman of the Committee on Human Services; and Mark Goldstein, deputy executive director for the Financial Responsibility and Management Assistance Authority.

Miss Jarvis is not being asked to testify, but if she has any general comments, we can hear them at the outset.

As you know, the policy of this committee is to be sworn before they testify. Will you please rise and raise your right hand.

[Witnesses sworn.]

Mr. DAVIS. The subcommittee will carefully review any statements you care to submit, and they will all be a part of the record. I also will ask you to limit your testimony to 5 minutes or less. We have your full testimony, which we have read and have questions based on that subject, so the quicker you read it, the faster we can get to questions.

Let me start with Mr. Rogers. We would like to welcome you.

STATEMENTS OF MICHAEL ROGERS, CITY ADMINISTRATOR, DISTRICT OF COLUMBIA; JALAL GREENE, DEPUTY CFO/ BUDGET AND PLANNING, DISTRICT OF COLUMBIA; PAUL OFFNER, COMMISSIONER, COMMISSION ON HEALTH CARE FINANCE, DC DEPARTMENT OF HEALTH; LINDA CROPP, CHAIRWOMAN, COMMITTEE ON HUMAN SERVICES, CITY COUNCIL; AND MARK GOLDSTEIN, DEPUTY DIRECTOR, FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY

Mr. ROGERS. Thank you. Good afternoon, Chairman Davis, Ms. Norton, Mr. Horn, and members of the subcommittee on the District of Columbia. I am pleased to appear before you today to discuss the Medicaid provisions contained in President Clinton's White House plan for the District.

Let me first commend the President for recognizing the District's unique structure as the seat of the Federal Government and unique fiscal constraints and restrictions associated with this position. The President's plan has indeed energized our city with historic and unprecedented discussions of renewal, regrowth and restructuring of our Nation's Capital.

The President's plan recognizes the structural shortcomings of our city, particularly the untenable burden associated with misplaced State functions. It also recognizes the Federal Government's long-standing role in perpetuating the particular imbalances that have so defined the face of the District.

Mayor Barry welcomes the President's plan. It is by no means perfect, nor is it a panacea, but it is a welcome work in progress which deserves full attention and commitment.

Let me turn, specifically, to the Medicaid provisions. You have invited Dr. Paul Offner, commissioner of the Health Care Finance in the District, to join me today in giving testimony on the President's plan regarding Medicaid reform. I will speak broadly on this issue, while Mr. Offner follows with more specific information regarding program needs and challenges within the context of the President's proposal.

The President's plan proposes to increase the Federal Government's share of Medicaid payments from 50 percent to 70 percent, based on current Medicaid projections provided by the Health Care

Finance Commission. Savings from the proposed new matching rate will be $162 million in fiscal year 1998, $166 in fiscal year 1999, to $172 million in the year 2000.

As you know, as you have just discussed, with the exception of New York City, no other city pays Medicaid. Rather, States perform that role. One of the previous panelists, when you said "city," they said "county," and I am saying "city" here.

Even in the case of New York City, the Federal Government picks up 75 percent of the program costs.

The Federal Government picks up 75 percent of program costs.

The DC Financial Authority issued a report earlier this month which states that nearly every health and human service program provided by the District government has a component normally provided by a State. Also, with respect to Medicaid, the report indicated that the District has 2 taxpayers for every Medicaid recipient, versus 4.4 taxpayers in Maryland and 4.3 in Virginia per Medicaid recipient. The bottom line is that the District's per capita Medicaid expenses are 2.6 times the national average.

Given these figures, I am compelled to ask how much clearer can the inequity be? How can the District ever gain any semblance of control over rising Medicaid costs and public assistance needs with such a skewed participation rate in Medicaid costs?

As I mentioned earlier, the President's plan proposes to increase the Federal share from 50 percent to 70 percent. The Financial Authority in its April report on the White House plan recommends that the District be required to contribute no more than 20 percent of Medicaid program expenditures, and that a peculiar offset be provided for other assistance.

The District government supports the Financial Authority's Federal participation rate, which exceeds the proposed 70 percent. Whether that rate is set at 75 to 80 percent is an issue that deserves serious consideration by the White House and OMB and the Congress.

I am confident that Mr. Offner will provide more specific program comments on this issue. And I will defer to his assessment of the President's proposal in this regard. Mr. Offner will also provide a candid discussion on the current state of the District's Medicaid program and discuss critical issues relating to the ability and readiness to implement the MOU.

Let me say that progress has been made in the Medicaid program over the past year. We are pleased with the cost savings initiatives that have been implemented, but we still have a long way to go. But in committing to this MOU process, the District must be and is committed to implementing the changes required in the MOU. Thank you very much.

Mr. DAVIS. Thank you very much.

[The prepared statement of Mr. Rogers follows:]

MICHAEL C. ROGERS

CITY ADMINISTRATOR

DISTRICT OF COLUMBIA GOVERNMENT

GOOD AFTERNOON CHAIRMAN DAVIS AND MEMBERS OF THE HOUSE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE MEDICAID PROVISIONS CONTAINED IN PRESIDENT CLINTON'S WHITE HOUSE PLAN FOR THE DISTRICT. LET ME FIRST COMMEND THE PRESIDENT FOR RECOGNIZING THE DISTRICT'S UNIQUE STRUCTURE AS THE SEAT OF THE FEDERAL GOVERNMENT AND THE UNIQUE FISCAL CONSTRAINTS AND RESTRICTIONS ASSOCIATED WITH THIS POSITION. THE PRESIDENT'S PLAN HAS INDEED ENERGIZED OUR CITY WITH HISTORIC AND UNPRECEDENTED DISCUSSIONS OF RENEWAL, REGROWTH AND RESTRUCTURING OF OUR NATION'S CAPITAL. THE PRESIDENT'S PLAN RECOGNIZES THE STRUCTURAL SHORTCOMINGS OF OUR CITY, PARTICULARLY THE UNTENABLE BURDEN ASSOCIATED WITH MISPLACED STATE FUNCTIONS. IT ALSO RECOGNIZES THE FEDERAL GOVERNMENT'S LONG-STANDING ROLE IN PERPETUATING THE PECULIAR IMBALANCES THAT HAVE SO DEFINED THE FACE OF THE DISTRICT.

THE BARRY ADMINISTRATION WELCOMES THE PRESIDENT'S PLAN. IT IS BY NO MEANS PERFECT, NOR IS IT A PANACEA, BUT IT IS A WELCOMED "WORK-IN-PROGRESS," WHICH DESERVES OUR FULL ATTENTION AND

COMMITMENT.

FOR THE RECORD LET ME STATE THAT THE PRESIDENT'S COMMITMENT TO RESTRUCTURING THE NON-MUNICIPAL FUNCTIONS OF THE DISTRICT COINCIDE WITH THE MAYOR'S OWN PLAN TO TRANSFORM THE STRUCTURE OF THE DISTRICT GOVERNMENT AND CHANGE OUR APPROACH TO SERVICE DELIVERY. THE MAYOR ANNOUNCED HIS PLAN TO REDUCE THE SIZE OF GOVERNMENT, AND HE HAS--THE FISCAL YEAR 1995 BUDGET REFLECTED 47,074 FTES CITY-WIDE, AND THE FISCAL YEAR 1997 ALLOCATION STANDS AT 36,604 FTES.

WE ARE ALSO PRIVATIZING CITY SERVICES FOR GREATER EFFICIENCIES AND COST SAVINGS, INCLUDING THE 898 BED CORRECTIONAL TREATMENT FACILITY, OAK HILL EDUCATIONAL FACILITIES, FOOD SERVICES AT THE DEPARTMENT OF CORRECTIONS AND THE POLICE AND FIRE CLINIC.

WE HAVE RESTRUCTURED THE HEALTH CARE DELIVERY SYSTEM BY CREATING A PUBLIC BENEFIT CORPORATION, TRANSFERRING PUBLIC HEALTH CLINICS TO THE CORPORATION FOR MORE FOCUSED HEALTH CARE SERVICES. WE HAVE REDUCED AFDC BENEFITS, UNEMPLOYMENT

BENEFITS AND WORKERS COMPENSATION. WE HAVE CUT THE DEPARTMENT OF HUMAN SERVICES TO THE POINT THAT IT HAS LOST MORE THAN 2,000 POSITIONS SINCE 1995. WE HAVE INVESTED IN COMMUNITY POLICING AND CREATED AN INDEPENDENT WATER AND SEWER AUTHORITY. AND, MORE RECENTLY, WE ARE DEVELOPING A COMPREHENSIVE PERFORMANCE MEASUREMENT SYSTEM FOR THE DISTRICT WHICH WILL ALLOW US TO MONITOR, EVALUATE AND REPORT ON THE EFFECTIVENESS OF CITY SERVICES FOR WHICH CORE AGENCIES ARE RESPONSIBLE. THE FINANCIAL AUTHORITY RECENTLY APPROVED A CONTRACT WITH DELOITTE AND TOUCHE, WHICH IS ASSISTING US IN DEVELOPING THE INFRASTRUCTURE AND CAPACITY TO DEVELOP AND MAINTAIN SUCH A SYSTEM.

FINALLY, ON MONDAY AND TUESDAY OF NEXT WEEK, WE WILL HOLD THE FIRST ANNUAL CITY-WIDE MANAGEMENT SYMPOSIUM TO PROVIDE DISTRICT MANAGERS WITH AN OVERVIEW OF HOW THE DISTRICT WILL TRANSITION TO A PERFORMANCE-BASED ORGANIZATION AND TO LEARN HOW WE WILL USE PERFORMANCE MEASUREMENT, ACTIVITY-BASED COSTING AND PROCUREMENT REFORM AS TOOLS FOR IMPROVING SERVICE DELIVERY.

I AM CONVINCED THAT WITH OUR SUSTAINED FOCUS ON IMPLEMENTING THE MAYOR'S TRANSFORMATION PLAN, COUPLED WITH THE PRESIDENT'S EFFORTS TO STRENGTHEN THE CAPITAL CITY, WE WILL TURN THE CORNER ON WHAT HAS BEEN PERCEIVED AS A LOSING BATTLE.

MEDICAID PROVISIONS

YOU HAVE INVITED PAUL OFFNER, COMMISSIONER OF HEALTH CARE FINANCE IN THE DISTRICT, TO JOIN ME TODAY IN GIVING TESTIMONY ON THE PRESIDENT'S PLAN REGARDING MEDICAID REFORM. I WILL SPEAK BROADLY ON THIS ISSUE, WHILE MR. OFFNER FOLLOWS WITH MORE SPECIFIC INFORMATION REGARDING PROGRAM NEEDS AND CHALLENGES WITHIN THE CONTEXT OF THE PRESIDENT'S PROPOSAL.

THE PRESIDENT'S PLAN PROPOSES TO INCREASE THE FEDERAL GOVERNMENT'S SHARE OF MEDICAID PAYMENTS FROM 50-70 PERCENT. BASED ON CURRENT MEDICAID PROJECTIONS, PROVIDED BY THE HEALTH CARE FINANCE COMMISSION, SAVINGSINGS FROM THE PROPOSED NEW MATCHING RATE WILL BE $162.4 M IN FY98, $166.78 M IN FY99 AND $172.76 M IN THE YEAR 2000. AS YOU KNOW, WITH THE EXCEPTION OF NEW YORK

CITY, NO OTHER LOCALITY PAYS FOR MEDICAID--RATHER, STATES PERFORM THIS ROLE. AND EVEN IN THE CASE OF N.Y. CITY, THE FEDERAL GOVERNMENT PICKS UP 75 PERCENT OF THE PROGRAM COSTS.

THE D.C. FINANCIAL AUTHORITY ISSUED A REPORT EARLIER THIS MONTH WHICH STATES THAT NEARLY EVERY HEALTH AND HUMAN SERVICE PROGRAM PROVIDED BY THE DISTRICT GOVERNMENT HAS A COMPONENT NORMALLY PROVIDED BY A STATE. ALSO, WITH RESPECT TO MEDICAID, THE REPORT INDICATES THAT THE DISTRICT HAS TWO TAXPAYERS FOR EVERY MEDICAID RECIPIENT, VERSUS 4.4 IN MARYLAND AND 4.3 IN VIRGINIA. THE BOTTOM LINE IS THAT THE DISTRICT'S PER CAPITA MEDICAID EXPENSES ARE 2.6 TIMES THE NATIONAL AVERAGE.

GIVEN THESE FIGURES, I AM COMPELLED TO ASK, HOW MUCH CLEARER CAN THIS INEQUITY BE? HOW CAN THE DISTRICT EVER GAIN ANY SEMBLANCE OF CONTROL OVER RISING HEALTH CARE AND PUBLIC ASSISTANCE NEEDS WITH SUCH A SKEWED FEDERAL PARTICIPATION RATE FOR MEDICAID COSTS?

AS I MENTIONED EARLIER, THE PRESIDENT'S PLAN PROPOSES TO INCREASE THE FEDERAL SHARE FROM 50 PERCENT TO 70 PERCENT. THE FINANCIAL AUTHORITY IN ITS APRIL REPORT ON THE WHITE HOUSE PLAN, RECOMMENDS THAT THE DISTRICT BE REQUIRED TO CONTRIBUTE NO MORE THAN 20 PERCENT OF MEDICAID PROGRAM EXPENDITURES, AND, THAT A SIMILAR OFFSET BE PROVIDED FOR OTHER STATE TYPE PUBLIC ASSISTANCE. THE DISTRICT GOVERNMENT SUPPORTS THE FINANCIAL AUTHORITY'S RECOMMENDATION OF A FEDERAL PARTICIPATION RATE WHICH EXCEEDS THE PROPOSED 70 PERCENT. WHETHER THAT RATE IS SET AT 75-80 PERCENT IS AN ISSUE THAT DESERVES SERIOUS CONSIDERATION BY THE WHITE HOUSE AND OMB.

I AM CONFIDENT THAT MR. OFFNER WILL PROVIDE MORE SPECIFIC PROGRAM COMMENTS ON THIS ISSUE, AND I WILL DEFER TO HIS ASSESSMENT OF THE PRESIDENT'S PROPOSAL IN THIS REGARD. MR. OFFNER WILL ALSO PROVIDE A CANDID DISCUSSION ON THE CURRENT STATE OF THE DISTRICT'S MEDICAID PROGRAM AND DISCUSS CRITICAL ISSUES RELATING TO OUR ABILITY AND READINESS TO IMPLEMENT THE MOU PROVISIONS.

LET ME CLOSE BY STATING THAT IT GOES WITHOUT SAYING THAT AGGRESSIVE AND EXTENSIVE MANAGEMENT REFORM EFFORTS MUST BE SUSTAINED AND CONTINUOUSLY PURSUED ON THE DISTRICT'S END OF THE FEDERAL/DISTRICT PARTNERSHIP. THIS MEANS A VASTLY STREAMLINED ORGANIZATION, BETTER COST AND PERFORMANCE INFORMATION, MORE EFFECTIVE MONITORING AND CONTROL SYSTEMS AND MORE EFFICIENT ALLOCATION OF RESOURCES.

AS I HAVE INDICATED EARLIER, THE DISTRICT HAS ALREADY BEGUN MAKING DOWN PAYMENTS ON ITS END OF THE BARGAIN. THE PRESIDENT'S MEDICAID PLAN IS A SIGNIFICANT STEP IN THE RIGHT DIRECTION. I CERTAINLY ENCOURAGE THIS ESTEEMED BODY TO STAND IN SUPPORT OF THE PRESIDENT'S PLAN AND THUS, IN SUPPORT OF AMERICA'S FIRST CITY. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MIGHT HAVE.

Mr. DAVIS. Mr. Greene.

Mr. GREENE. Thank you.

Good afternoon, Mr. Chairman and Members of the Congress. I am Jalal Greene, the chief financial officer for Budget and Planning for the District of Columbia. I am pleased to have this opportunity to discuss the President's plan for revitalizing the District. Today, I will discuss the Medicaid portion of the President's plan and offer some brief comments on the impact of the overall plan on the District's budget.

From the perspective of the District's budget, reducing Medicaid costs is a critical issue. For fiscal year 1998, the District will spend approximately $40 million in local funds on the Medicaid program. This expenditure represents approximately 12 percent of the District's local funds budget. And in the recent past, Medicaid spending has grown at a rate that is not sustainable. Since 1990, the District's local fund spending on Medicaid has more than doubled from approximately $170 million in 1990, to $384 million in 1996. Cost containment measures instituted by the District will restrain the growth in Medicaid to some extent; however, it is clear that something must be done to relieve the District of some part of its current Medicaid obligation.

The President's plan called for increasing the 50–50 ratio to a 70–30 ratio. We currently estimate that the Medicaid provisions of the President's plan will lead to over $160 million in direct savings in fiscal year 1998. This would provide much needed budget relief to the District.

We believe that the current 50–50 match cannot be justified. It was determined according to the standard Federal medical assistance percentage. This formula compares State per capita personal income with national per capita income. States with a lower than average per capita income receive a relatively higher match than States with higher per capita incomes. According to this formula, the District receives the lowest possible match of 50 percent.

It has been recognized by many authorities, including GAO, that the Federal medical assistance percentage formula does not accurately reflect the ability of a State to pay for Medicaid programs. In the District's case, the formula does not account for its high levels of poverty and small size. Currently five States, Mississippi, Louisiana, South Carolina, New Mexico, and Alabama, receive a 70 percent match. The District receives a much smaller Medicaid match than those States even though they have comparable levels of poverty.

Given the congressionally imposed limitations on the District's ability to raise revenue, it is unfair to expect it to deal with the large and increasing burden of Medicaid at the same match rate as wealthy States. The President's plan correctly recognizes this fact and offers a reasonable proposal for increasing the match to 70 percent.

A strong argument can be made for increasing the Medicaid match above 70 percent. The District faces the challenge of serving a high-poverty population in a high-cost area. The large percentage of its population which lives in poverty and faces serious health problems requires greater Medicaid expenditures. In 1995, the District's per capita Medicaid expenditures of $1,429 was almost 2.5

times the national average. This figure includes both the high percentage of the population receiving Medicaid benefits, almost 21 percent in 1995, and the high cost of medical services in the Washington metropolitan area. Furthermore, the District's small size makes it difficult to achieve economies of scale for administration. I recommend that Congress consider these factors as it decides what is the appropriate Medicaid match for the District.

The President's plan will provide approximately $49 million in net benefits to the District in fiscal year 1998. This benefit will grow to around $140 million in fiscal year 2001. The net benefits of the President's plan will represent a significant step toward resolving the District's financial crisis.

However, I must emphasize the fact that the President's plan alone will not bring long-term financial stability to the District. To restore financial stability over the long run, the District must continue to improve in areas of management efficiency and service delivery. The District must also take steps to reduce the tax burden on businesses and residents to levels that are competitive with surrounding jurisdictions.

I urge the Congress to pass the President's plan as it stands. It provides significant benefits to the District which will grow over time. Thank you.

Mr. HORN [presiding]. We thank you very much for your testimony.

[The prepared statement of Mr. Greene follows:]

Good morning. My name is Jalal Greene. I am the Deputy Chief Financial Officer for Budget and Planning for the District of Columbia. I am pleased to have this opportunity to discuss the President's Plan for revitalizing the District. Today I will discuss the Medicaid portion of the President's Plan and then offer some brief comments on the impact of the overall plan on the District's budget. After my initial remarks, I will be happy to answer any questions that the Members of the Committee may have.

Medicaid

From the perspective of the District's budget, reducing Medicaid costs is a crucial issue. For FY 1998, the District will spend $409 million in local funds on the Medicaid program. This expenditure represents approximately 12% of the District's local funds budget. In the recent past, Medicaid spending has grown at a rate that is not sustainable. Since 1990 the District's local funds spending on Medicaid has more than doubled from approximately $170 million in FY1990 to $384 million in FY1996. Cost containment measures instituted by the District will restrain the growth in Medicaid to some extent. However, it is clear that something must be done to relieve the District of some part of its current Medicaid burden.

The President's Plan calls for increasing the Medicaid match from its current 50-50 ratio, which is the lowest level that a state can receive, to a 70-30 ratio. We currently estimate that the Medicaid Provisions of the President's Plan will lead to over $160 million in direct savings in FY1998. This would provide much needed budget relief to the District.

We believe that the current 50-50 match cannot be justified. It was determined according to the standard Federal Medical Assistance Percentage. This formula compares state per capita personal income with national per capital income. States with a lower than average per capita income receive a relatively higher match than states with higher per capita incomes. According to this formula the District receives the lowest possible match of 50%.

It has been recognized by many authorities, including the GAO, that the Federal Medical Assistance Percentage formula does not accurately reflect the ability of a state to pay for the Medicaid program.[1] In the District's case, the formula does not account for its high levels of poverty and small size. Currently five states, Mississippi, Louisiana, South Carolina, New Mexico, and Alabama, receive a seventy percent match. As the attached chart illustrates, the District receives a much smaller Medicaid match than these states even though they have comparable levels of poverty.

Given the Congressionally imposed limitations on the District's ability to raise revenue, it is unfair to expect it to deal with the large and increasing burden of Medicaid at the same match rate as wealthy states. The President's Plan correctly recognizes this fact and offers

[1] See: U.S. General Accounting Office. *Changing Medicaid Formula Can Improve Distribution of Funds to States.* GAO/GGD-83-27, Mar. 9, 1983; *Medicaid: Alternative for Improving the Distributions of Funds.* Fact Sheet for the Honorable Dale Bumpers. GAO/HRD-91-66FS. May 20, 1991.

a reasonable proposal for increasing the match to 70%. However, it should be noted that this is still well below the maximum federal match of 83%.

A strong argument can made for increasing the Medicaid match above 70%. The District faces the challenge of serving a high poverty population in a high cost area. The large percentage of its population which lives in poverty and faces serious health problems requires greater Medicaid expenditures. In 1995 the District's per capita Medicaid expenditures of $1,429 was almost 2.5 times the national average.[2] This figure includes both the high percentage of the population receiving Medicaid benefits-almost 21% in 1995-and the high cost of medical services in the Washington metropolitan area. Furthermore, the District's small size makes it difficult to achieve economies of scale for administration. I recommend that the Congress consider these factors as it decides what is the appropriate Medicaid match for the District.

Overall Impact of the President's Plan

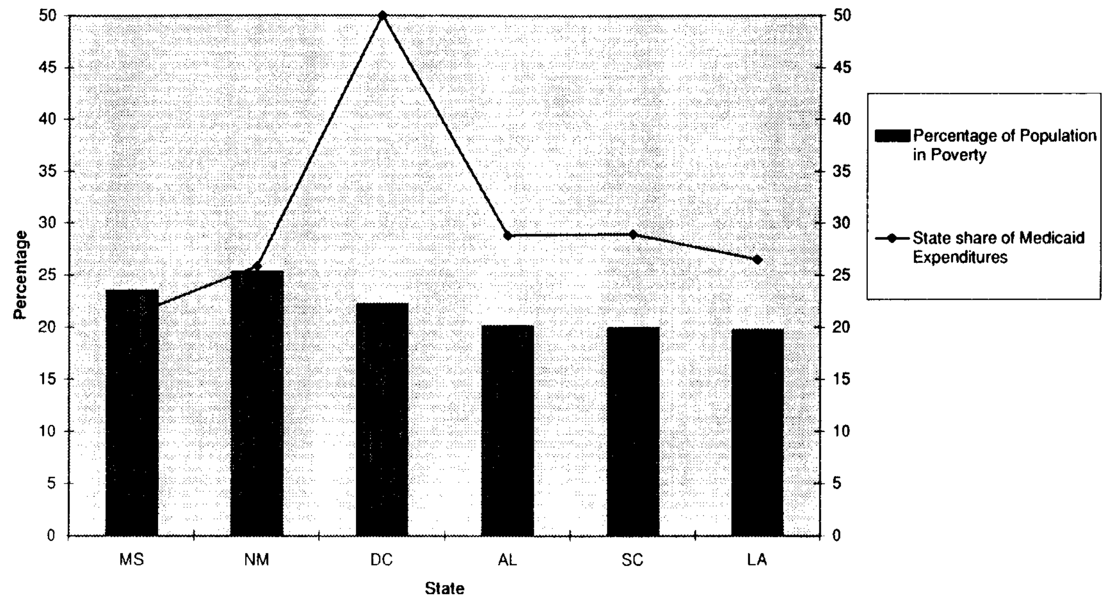
The attached chart shows the overall impact of the President's Plan. The President's Plan will provide approximately $49 million in net benefits in FY1998. This benefit will grow to around $140 million in FY2001. The net benefits of the President's Plan will represent a significant step towards resolving the District's financial crisis.

However, I must emphasize the fact that the President's Plan alone will not bring long term financial stability to the District. To restore financial stability over the long run, the District must continue to improve in the areas of management efficiency and service delivery. The District must also take steps to reduce the tax burden on businesses and residents to levels that are competitive with surrounding jurisdictions.

I urge the Congress to pass the President's Plan. As it stands it provides significant benefits to the District which will grow over time. I will now be happy to answer any questions that you might have.

[2] See: Linda J. Blumberg, *Medicaid and the District of Columbia: Historical Patterns, Projections, Burdens, and Alternative Financing Options*, The Urban Institute, March 1997, p. 6.

Medicaid Reimbursement Rate and the Percent of the Population in Poverty



States using zip code abbreviations.
Source:US Census Bureau population data. HCFA Medicaid reimbursement data

Effects of the President's Plan on the District's Operating 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	$ 187,995	$ 189,875	$ 191,774	$ 193,691
Pretrial	3,889	3,903	4,245	4,434
Parole Board	5,715	5,728	5,731	5,686
Court of Appeals	6,023	6,056	6,090	6,090
Public Defender	7,797	7,992	8,192	8,192
Superior Court	70,214	72,280	71,202	71,081
DC Court System	33,453	34,321	35,216	35,216
Medicaid	161,693	168,950	174,890	179,130
Pension savings with $1.275 Billion assets with District	250,000	269,000	290,000	312,000
Total Direct Savings to District	$ 726,779	$ 758,105	$ 787,340	$ 815,520
Loss of Federal Payment	$(660,000)	$(660,000)	$(660,000)	$(660,000)
Direct Savings to District	$ 66,779	$ 98,105	$ 127,340	$ 155,520
INDIRECT EFFECTS ON BUDGET DUE TO PRESIDENT'S PLAN				
Department of Public Works (Reduced cost of road maintenance)	200	200	200	200
Increased Borrowing Costs to Fund Cash Needs	(15,338)	(15,338)	(15,338)	(15,338)
Loss of interest earning from the federal payment	(2,300)	$ -	$ -	$ -
Total Indirect Effects on Budget due to President's Plan	$ (17,438)	$ (15,138)	$ (15,138)	$ (15,138)
NET BUDGET BENEFIT UNDER THE PRESIDENT'S PLAN	$ 49,341	$ 82,967	$ 112,202	$ 140,382
Target Net Savings to District	$ 60,000			
Difference between target and Net budget benefit	$ (10,659)			

Note: Except for the pension numbers, all figures in this table are derived from the District's FY 1998 budget which was submitted to the Financial Authority on March 18, 1997. In accordance with an agreement with OMB the pension savings figure is based on an actuarial study by the firm of Milliman & Robertson.

Mr. HORN. And the next giver is Mr. Offner, the commissioner of Health Care Finance for the District of Columbia.

Mr. OFFNER. Members of the committee, my name is Paul Offner. I am in charge of the District's Medicaid program. Before this I was in charge of health and welfare on the Senate Finance Committee. I want to assure you that this is harder work.

The District of Columbia has a problem because historically it has not invested the resources both in systems and in personnel that should have been invested, and the four specifics that have been identified in this Memorandum of Understanding are really testament to that. They represent management failings that we are now beginning to cope with but that historically have not gotten the attention they should have.

Third-party recovery. There are literally millions and millions of dollars to be made by States in making sure that Medicaid is the payor of last resort. The District's third-party recovery program is underfunded, understaffed and underautomated. It has nowhere near the level of sophistication of other States. I used to run the Medicaid program in the State of Ohio. We have begun to make some progress here. The last 6 months the recoveries have risen. We have a long way to go.

The second item is audits. We have providers of health care for whom we don't have a settled audit for 6 or even 8 years. Trying to run a Medicaid program under those circumstances is like trying to navigate a ship in the dark. It's impossible. We need desperately to get those audits up to date. You can't reform reimbursement systems if you don't know what the costs are, and in too many cases we don't. We have made some progress in that area, but again, we have a long way to go.

The most important, and the most expensive area is, of course, the Medicaid Management Information System. The District has an antiquated system that provides management with very little of the information that is really needed to manage a program like this. Here we are spending close to $1 billion a year, yet we don't know where the money is going, or who is getting paid. We have none of the management information that a manager ought to have for a program of this size. We have started over the last few months to plan a total overhaul of this system, but we still have a long ways to go, and the inclusion of this item in Memorandum of Understanding, I think, is important.

Finally, there is the mental health initiative. Some time ago, Mayor Barry launched a comprehensive effort to integrate the mental health system. The District spends more money on mental health than any jurisdiction in the world. It is a remarkably expensive program, largely because our clients spend too much time in hospitals, and our whole mental health system is not integrated in any meaningful way. We have now hired the former Commissioner of Mental Health from Massachusetts to come in and head up this effort, and I think it has enormous promise both to improve services and over time to save money.

Over the last year, the District's Medicaid program has undergone a total overhaul. We have—as was, I think, just referenced—we have removed 25,000 individuals from the rolls, representing over 15 percent of our caseload, people who were found to be ineligible. We have reduced our inpatient hospital rates by 25 percent. We have reduced our HMO rates by 17 percent. We have cut long-term care rates by $14 million. We are in the process over the next 12 months of moving all of our AFDC recipients into HMOs, and are now implementing a waiver so we can provide comprehensive services in the community to disabled people to keep them out of our group homes for the mentally retarded, which also are the most expensive in the country; over $100,000 per person per year.

So we have made enormous progress, but we still have a long way to go, and I believe the provisions in this Memorandum of Understanding will be a major asset.

Mr. DAVIS [presiding]. Thank you very much.

[The prepared statement of Mr. Offner follows:]

TESTIMONY OF PAUL OFFNER
COMMISSIONER OF HEALTH CARE FINANCE
DISTRICT OF COLUMBIA
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM & OVERSIGHT
APRIL 25, 1997

Chairman Davis, and members of the Committee on Government Reform and Oversight, thank you for this opportunity to testify on the Medicaid provisions of the President's National Capital Revitalization and Self-Government Improvement Plan. As you know, Mayor Barry has endorsed these provisions, believing that the increase in the Medicaid match will help place the federal-District relationship on a more equitable footing. I have been asked to comment on the Draft Memorandum of Understanding between the City and the Administration that accompanies the plan.

The MOU's provisions make good sense. When I joined District government a year and a half ago, the Medicaid program was in sad shape. We were way behind on our audits, and our antiquated computer system couldn't generate most of the information needed to manage the program properly. Since then, we've started correcting these problems, but progress has been slow. All of these changes involve contract help, and as the Mayor himself said recently, our contracting system is a mess.

What difference would full implementation of the MOU make? Start with audits. In many cases, the most recently audited cost report for a provider is six or seven years in the past. What that cost report is six or seven years in the past. So we don't really know whether we're paying them too much or too little. And we can't negotiate effectively with them because we don't have up-to-date information on their costs. Over the last year, we've started catching up, but we've still got a long way to go.

Information systems. You can't run a $1 billion insurance program without accurate and timely management information, but that's what we're doing. Extracting such information from the existing Medicaid Management Information System is almost impossible. Political leaders, as well as members of the press and of the public, want to know how much prenatal care pregnant welfare mothers are getting, how much we're spending on AIDS patients, how many poor children are seeing a doctor . . . but our information system won't give us that data in a timely fashion. So bad decisions are made. We're now over-hauling our information system, but progress is slow, and we've got a ways to go.

Third party recovery. Under federal rules, Medicaid is supposed to be the payor of last resort. Private insurance, Medicare, and other payers, are supposed to pick up the tab before we kick in. But the District's Third Party Recovery program is understaffed, underfunded, and under-automated. So we're missing out on millions of dollars that could be recovered from other payers. Again, we've started turning this around, and TPR collections are up in the last six months, but we've got a long way to go.

Mental health reform. The District has the most expensive mental health system in the nation, mostly because our clients are hospitalized too often and for too long. Furthermore, care is uncoordinated -- while the District's public mental health system spends $180 million a year, Medicaid spends another $70 million to provide care to many of the same individuals. Recently, Mayor Barry launched a campaign to integrate these systems so we can eliminate duplication and redirect funds from hospitals to less expensive community settings. Eileen Elias, the former Mental Health Commissioner from the State of Massachusetts, has been hired to coordinate this effort, with strong support from the federal Health Care Finance Administration. But again, we have a long way to go. The MOU will force us to persevere with this initiative.

Does the District have the capacity to implement the MOU? Haven't the District's past Medicaid reform efforts fallen short? Yes, they have. But things have changed in the last year. Look at the record:

* in 1996, we removed 25,000 ineligible people from the rolls, saving the program $18 million a year. That's 15 percent of the caseload. These were people who were left on the program as a result of computer mistakes, whose eligibility should have been terminated but wasn't.

* we cut inpatient hospital rates by 20 percent, and HMO rates by 17 percent, saving over $40 million a year.

* we cut payments to nursing homes and group homes for the mentally retarded by $14 million.

* within a year, all our AFDC recipients will be enrolled in health maintenance organizations. And we'll provide comprehensive support services to disabled people in the community, thus avoiding more expensive institutional care.

The bottom line is this: while Medicaid grew at an average annual rate of 13 percent between 1988 and 1995, contributing significantly to the City's fiscal difficulties, last year it grew 7 percent, and this year it will grow 3 percent, less than half the national rate.

Still, implementing the MOU effectively will be a challenge because it depends on our procuring several outside contractors, and the District's procurement system has been fraught with problems in the past. But there's good news here too. The new Department of Health has been authorized to run its contracts through the federal Department of Health and Human Services rather than the District's contracting agency. So we should be able to move more quickly than in the past.

What else can Congress do to help us? First, give us more flexibility. Repeal the Boren Amendment. Allow states to implement managed care without having to get waivers at every step of the way. And so on. These proposals are included in many of the reform bills before Congress, and they would help all states manage their programs more efficiently and effectively.

Second, you can support our efforts to get a federal waiver so we can expand coverage to low-income uninsured people. States all over the nation are doing it. They're called 1115 waivers. The premise is simple: as we cut Medicaid spending, we're saving money for both the District and the federal government. Since we're a 50-50 jurisdiction, every time we cut Medicaid by a dollar, we save the federal government 50 cents. Through an 1115 waiver, states are allowed to capture these federal savings, and use them to cover the uninsured. In the District where almost one quarter of the population lacks insurance, an 1115 waiver could be a godsend. Our waiver application should be ready within six months.

Mr. Chairman, thank you again for this opportunity to testify. I would, of course, be glad to answer any questions.

Mr. DAVIS. Ms. Cropp.

Ms. CROPP. Thank you very much.

Good afternoon, Mr. Davis, Ms. Norton, Mr. Horn. I am Linda W. Cropp, chair of Council's Committee on Human Services. On behalf of council, I am pleased to appear before you today to testify on the Medicaid section of the President's plan.

The President's proposal on Medicaid begins to create a more equitable relationship between the District and the Federal Government by recognizing that the District, unlike any other city in the Nation, is not supported by a State. This lack of support by a State has been felt in many areas including the funding and managing of health and human services programs. State-type functions account for approximately 85 percent of the District's Department of Human Services budget. These State-type programs, and I believe someone had asked that question earlier, within the department include Medicaid, public assistance, mental health, foster care, child day care, and substance abuse treatment and prevention.

By far the District's most costly health and human services program, as it is in all States, is the Medicaid program. The Medicaid program accounts for approximately 48 percent of District appropriations for the Department of Human Services.

The current use of the per capita income standard is an inequitable standard when applied to the District. The District of Columbia is an urban jurisdiction with a high percentage—approximately 38 percent—of our population living at or below the poverty line. The District, not unlike many other cities, has a population that is older, sicker, and poor. But unlike other cities, it cannot be normed in with the more affluent suburban areas of other States to help offset the high cost of the city.

The President's proposal would increase the Federal Government's share of Medicaid costs from 50 percent to 70 percent, thereby reducing the District's share to 30 percent. While the council enthusiastically supports the increased Federal share of Medicaid costs, the District would still remain the only city in the Nation to contribute such a high percentage toward Medicaid costs, and five other States would receive a higher matching rate. New York has been cited as a city which pays 25 percent because of its county-type status.

The effect of the increased Federal match would be a reduction in the District's Medicaid expenditures. The District and the Office of Management and Budget have agreed on the extent of the Medicaid savings that ought to be achieved over the 5-year period, and, in fact, our figures were extremely closely aligned.

I am pleased to report that the Council further agrees with OMB on the conditions placed upon the District in return for the increased Medicaid. Under the President's plan, the District would develop and implement an effective system for identification and collection of amounts owed by third parties. Mr. Offner just talked about that, and, in fact, the council's committee just approved additional personnel positions in that line area so that we could start this process of increasing the third parties.

We also support a system to ensure the timely audit and settlement of cost reports. In fact, if you look at where Medicaid was 3 years ago, there has been an awful lot achieved in a short period of time with regard to the audits. An awful lot of work still needs to be done.

A comprehensive behavioral managed health care system which combines substance abuse and mental health grant programs has already been moving forward and is already in the planning stage, and we look forward to its implementation.

All of these conditions reflect sound management policies that, regardless of the President's plan, the District is already moving forward to implement. Collections from third parties will benefit by both the District and the Federal Government. The District has made progress in eliminating the backlog of audits and settlements.

The implementation of these conditions will require commitment and additional resources on the part of the District. I have requested that the Medicaid Administration prepare an analysis of what additional resources will be necessary to carry out the President's plan. I am pleased that under the plan, the U.S. Department of Health and Human Services will continue to provide more intensive technical assistance to help the District move toward improving the management of the Medicaid program. They have been very helpful in the recent past.

The District is making progress in the implementation of Medicaid cost containment measures. Reimbursement rates for hospitals, nursing homes, and the intermediate care facilities for the mentally retarded have been reduced significantly. All Medicaid beneficiaries who receive public assistance will be enrolled in the managed care organizations that are compensated at a capitated rate, and we should receive savings there. The contract to implement mandatory managed care enrollment is close to the award stage. Quite frankly, it has been a long time coming, but I am happy it is about to be awarded.

Other initiatives include reducing the pharmacy dispensing fee, increasing pharmacy copayments, reducing reimbursement for transportation, and reducing payments for day treatment and residential treatment facilities.

In addition, the District has recently obtained a home- and community-based services waiver for the developmentally disabled population. A similar waiver for the elderly population will be submitted this fiscal year, and as Ms. Norton had talked about, the cost of nursing homes, this would help to significantly reduce the costs in that particular area.

Many of the delays in implementing reforms in the Medicaid program are due to systemic problems with the District's procurement process. The council is addressing this problem with the enactment of procurement reform legislation. In addition, the Medicaid program will be able to take advantage of the Federal procurement system through a Memorandum of Understanding executed by the District and Federal Governments.

The council has reviewed the District's 26 optional Medicaid services for possible Medicaid expenditure reductions. It is my understanding that Virginia funds 21, Maryland 22, optional services. However, the District is not out of line when compared with other jurisdictions.

In working with the Medicaid Administration, it has been determined that significant savings would not be realized, as some beneficiaries would be eligible for those services whether an option or not existed, such as ICF/MR services. The District would still be left to bear the full cost of the service, and in essence that would mean the District would end up paying more money if that option were to be implemented.

In conclusion, the Medicaid proposal within the President's plan begins to address the financial burden placed on the District by assuming the financial responsibility of State functions. With the additional Federal funding of State functions, the District will be able to focus its resources on quality of life issues. The District must focus on these quality of life issues, such as education and public safety, if it is to restore the health and viability of our Nation's Capital.

I thank you very much for this opportunity to testify before you.

Mr. DAVIS. Thank you very much.

[The prepared statement of Ms. Cropp follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA
WASHINGTON, D. C. 20004

LINDA W. CROPP
Councilmember at Large
724-8032

Chair
Committee on Human Services
724-8196

TESTIMONY OF COUNCILMEMBER LINDA W. CROPP
CHAIRPERSON, COMMITTEE ON HUMAN SERVICES
COUNCIL OF THE DISTRICT OF COLUMBIA

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT'S
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
ON
"MEDICAID SECTION OF THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN"

APRIL 25, 1997

GOOD AFTERNOON. CONGRESSMAN DAVIS AND MEMBERS OF THE SUBCOMMITTEE, I AM LINDA W. CROPP, CHAIR OF THE COUNCIL OF THE DISTRICT OF COLUMBIA'S COMMITTEE ON HUMAN SERVICES. ON BEHALF OF THE COUNCIL, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO TESTIFY ON THE MEDICAID SECTION OF "THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN."

THE PRESIDENT'S PROPOSAL ON MEDICAID BEGINS TO CREATE A MORE EQUITABLE RELATIONSHIP BETWEEN THE DISTRICT AND THE FEDERAL GOVERNMENT BY RECOGNIZING THAT THE DISTRICT, UNLIKE ANY OTHER CITY IN THE NATION, IS NOT SUPPORTED BY A STATE. THIS LACK OF SUPPORT BY A STATE HAS BEEN FELT IN MANY AREAS INCLUDING, THE FUNDING AND MANAGING OF HEALTH AND HUMAN SERVICES PROGRAMS. STATE TYPE

FUNCTIONS ACCOUNT FOR APPROXIMATELY 85% OF THE DISTRICT'S DEPARTMENT OF HUMAN SERVICES BUDGET. THESE STATE-TYPE PROGRAMS WITHIN THIS DEPARTMENT INCLUDE MEDICAID, PUBLIC ASSISTANCE, MENTAL HEALTH, FOSTER CARE, CHILD DAY CARE, AND SUBSTANCE ABUSE TREATMENT AND PREVENTION.

BY FAR THE DISTRICT'S MOST COSTLY HEALTH AND HUMAN SERVICES PROGRAM, AS IT IS IN ALL STATES, IS THE MEDICAID PROGRAM. THE MEDICAID PROGRAM ACCOUNTS FOR APPROXIMATELY 48% OF DISTRICT APPROPRIATIONS FOR THE DEPARTMENT OF HUMAN SERVICES.

THE CURRENT USE OF THE PER CAPITA INCOME STANDARD IS AN INEQUITABLE STANDARD WHEN APPLIED TO THE DISTRICT. THE DISTRICT OF COLUMBIA IS AN URBAN JURISDICTION WITH A HIGH PERCENTAGE --- APPROXIMATELY 38 PERCENT--- OF ITS POPULATION LIVING AT OR BELOW THE POVERTY LINE. IN ADDITION, APPROXIMATELY 21 PERCENT OF THE POPULATION IS ON MEDICAID.

THE PRESIDENT'S PROPOSAL WOULD INCREASE THE FEDERAL GOVERNMENT'S SHARE OF MEDICAID COSTS FROM 50 PERCENT TO 70 PERCENT, THEREBY REDUCING THE DISTRICT'S SHARE TO 30 PERCENT. WHILE THE COUNCIL ENTHUSIASTICALLY SUPPORTS THE INCREASED FEDERAL SHARE OF MEDICAID COSTS, THE DISTRICT WOULD STILL REMAIN THE ONLY CITY IN THE NATION TO CONTRIBUTE SUCH A HIGH PERCENTAGE TOWARD MEDICAID COSTS AND 5 OTHER STATES WOULD RECEIVE A HIGHER MATCHING RATE.

NEW YORK CITY HAS BEEN CITED AS A CITY WHICH PAYS 25% OF THEIR RESIDENTS MEDICAID COSTS. HOWEVER, WHEN ONE FACTORS IN THE EXEMPTED SERVICES, SUCH AS LONG TERM CARE, FROM THE MATCHING PAYMENT, THE PERCENTAGE OF NEW YORK CITY'S CONTRIBUTION IS SIGNIFICANTLY LOWER.

THE EFFECT OF THE INCREASED FEDERAL MATCH WOULD BE A REDUCTION IN THE DISTRICT'S MEDICAID EXPENDITURES. THE DISTRICT AND THE OFFICE OF MANAGEMENT AND BUDGET (OMB) HAVE AGREED ON THE EXTENT OF THE MEDICAID SAVINGS TO BE ACHIEVED OVER THE 5 YEAR PERIOD.

I AM PLEASED TO REPORT THAT THE COUNCIL FURTHER AGREES WITH OMB ON THE CONDITIONS PLACED UPON THE DISTRICT IN RETURN FOR THE INCREASED MEDICAID MATCHING RATE. UNDER THE PRESIDENT'S PLAN, THE DISTRICT WOULD DEVELOP AND IMPLEMENT: 1) AN EFFECTIVE SYSTEM FOR IDENTIFICATION AND COLLECTION OF AMOUNTS OWED BY THIRD PARTIES; 2) A SYSTEM TO ENSURE THE TIMELY AUDIT AND SETTLEMENT OF COST REPORTS; 3) A COMPREHENSIVE HEALTH CARE MANAGEMENT INFORMATION SYSTEM; AND 4) A COMPREHENSIVE BEHAVIORAL MANAGED HEALTH CARE SYSTEM WHICH COMBINES SUBSTANCE ABUSE AND MENTAL HEALTH GRANT PROGRAMS.

ALL OF THESE CONDITIONS REFLECT SOUND MANAGEMENT POLICIES, THAT REGARDLESS OF THE PRESIDENT'S PLAN, THE DISTRICT IS MOVING FORWARD TO IMPLEMENT. COLLECTIONS FROM THIRD PARTIES WILL BENEFIT BOTH THE DISTRICT AND THE FEDERAL GOVERNMENT. THE DISTRICT HAS

MADE PROGRESS IN ELIMINATING THE BACKLOG OF AUDITS AND SETTLEMENTS. HOWEVER, MORE NEEDS TO BE DONE. THE DISTRICT IS IN THE PROCESS OF UPDATING ITS MEDICAID MANAGEMENT INFORMATION SYSTEM. EILEEN ELIAS, A NATIONALLY RECOGNIZED LEADER IN DESIGNING AND RESTRUCTURING PUBLIC AND PRIVATE BEHAVIORAL HEALTH CARE DELIVERY SYSTEMS, WAS RECENTLY APPOINTED TO HEAD THE DISTRICT'S MENTAL HEALTH COMMISSION. FOR THE PAST YEAR SHE HAS SERVED AS A FEDERAL CONSULTANT TO THE DISTRICT ASSISTING IN THE DESIGN OF A BEHAVIORAL HEALTH MANAGE CARE INITIATIVE.

THE IMPLEMENTATION OF THESE CONDITIONS WILL REQUIRE COMMITMENT AND ADDITIONAL RESOURCES ON THE PART OF THE DISTRICT. I HAVE REQUESTED THAT THE MEDICAID ADMINISTRATION PREPARE AN ANALYSIS OF WHAT ADDITIONAL RESOURCES WILL BE NECESSARY TO CARRY OUT THE PRESIDENT'S PLAN. I AM PLEASED THAT UNDER THE PRESIDENT'S PLAN THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES WILL CONTINUE TO PROVIDE MORE INTENSIVE TECHNICAL ASSISTANCE TO HELP THE DISTRICT IMPROVE THE MANAGEMENT OF ITS MEDICAID PROGRAM.

THE DISTRICT IS MAKING PROGRESS IN THE IMPLEMENTATION OF MEDICAID COST CONTAINMENT MEASURES. REIMBURSEMENT RATES FOR HOSPITALS, NURSING HOMES, AND INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED HAVE BEEN REDUCED. ALL MEDICAID BENEFICIARIES WHO RECEIVE PUBLIC ASSISTANCE WILL BE ENROLLED WITH MANAGED CARE

ORGANIZATIONS THAT ARE COMPENSATED AT A CAPITATED RATE. THE CONTRACT TO IMPLEMENT MANDATORY MANAGED CARE ENROLLMENT IS CLOSE TO THE AWARD STAGE. OTHER INITIATIVES INCLUDE REDUCING THE PHARMACY DISPENSING FEE; INCREASING PHARMACY CO-PAYMENTS; REDUCING REIMBURSEMENT FOR TRANSPORTATION; AND REDUCING PAYMENTS FOR DAY TREATMENT AND RESIDENTIAL TREATMENT FACILITIES.

IN ADDITION, THE DISTRICT HAS RECENTLY OBTAINED A HOME AND COMMUNITY-BASED SERVICES WAIVER FOR THE DEVELOPMENTALLY DISABLED POPULATION. A SIMILAR WAIVER FOR THE ELDERLY POPULATION WILL BE SUBMITTED THIS FISCAL YEAR. THIS IS ONE AREA IN WHICH I WOULD LIKE TO SEE THE DISTRICT EXPAND ITS EFFORTS. THESE WAIVERS WILL ALLOW THE USE OF COSTLY INSTITUTIONAL CARE DOLLARS TO PROVIDE HEALTH SERVICES TO THE ELDERLY AND DISABLED POPULATIONS IN THE LESS COSTLY HOME SETTINGS.

MANY OF THE DELAYS IN IMPLEMENTING REFORMS IN THE MEDICAID PROGRAM ARE DUE TO SYSTEMIC PROBLEMS WITH THE DISTRICT'S PROCUREMENT PROCESS. THE COUNCIL IS ADDRESSING THIS PROBLEM WITH THE ENACTMENT OF PROCUREMENT REFORM LEGISLATION. IN ADDITION, THE MEDICAID PROGRAM WILL BE ABLE TO TAKE ADVANTAGE OF THE FEDERAL PROCUREMENT SYSTEM THROUGH A MEMORANDUM OF UNDERSTANDING EXECUTED BY THE DISTRICT AND FEDERAL GOVERNMENTS.

THE COUNCIL HAS REVIEWED THE DISTRICT'S 26 OPTIONAL MEDICAID SERVICES FOR POSSIBLE MEDICAID EXPENDITURE REDUCTIONS. IT IS MY UNDERSTANDING THAT VIRGINIA FUNDS 21, AND MARYLAND 22, OPTIONAL SERVICES. HOWEVER, THE DISTRICT IS NOT OUT OF LINE WHEN COMPARED WITH OTHER JURISDICTIONS. IN WORKING WITH THE MEDICAID ADMINISTRATION, IT HAS BEEN DETERMINED THAT SIGNIFICANT SAVINGS WOULD NOT BE REALIZED, AS SOME BENEFICIARIES WOULD BE ELIGIBLE FOR THOSE SERVICES WHETHER AN OPTION OR NOT AND WITH SOME OPTIONS, SUCH AS ICF/MR SERVICES, THE DISTRICT WOULD BE LEFT TO BEAR THE FULL COST OF THE SERVICE. THE REDUCTION OF OPTIONAL SERVICES DOES NOT IMPROVE HEALTH CARE DELIVERY TO THE INDIGENT.

IN CONCLUSION, THE MEDICAID PROPOSAL WITHIN THE PRESIDENT'S PLAN BEGINS TO ADDRESS THE FINANCIAL BURDEN PLACED ON THE DISTRICT BY ASSUMING THE FINANCIAL RESPONSIBILITY OF STATE FUNCTIONS. WITH THE ADDITIONAL FEDERAL FUNDING OF STATE FUNCTIONS, THE DISTRICT WILL BE ABLE TO FOCUS ITS RESOURCES ON QUALITY OF LIFE ISSUES. THE DISTRICT MUST FOCUS ON THESE QUALITY OF LIFE ISSUES, SUCH AS EDUCATION AND PUBLIC SAFETY, IF IT IS TO RESTORE THE HEALTH AND VIABILITY OF OUR NATION'S CAPITAL. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

Mr. DAVIS. Mr. Goldstein.

Mr. GOLDSTEIN. Good afternoon, Mr. Chairman, Members of the committee. My name is Mark Goldstein. I am deputy director of the Financial Authority. I'll be brief. I know you have a lot of witnesses here today. With me is Doneg McDonough, the program manager for Health and Human Services at the Authority. He can respond to any questions you may have that I can't answer.

The President's plan proposes to increase the Federal Government's contribution for District Medicaid expenditures to 70 percent. This will have the effect of increasing the Federal Government's contribution for the District's Medicaid benefit expenditures from the 50 percent rate that is in place today to 70 percent for fiscal years 1998 and beyond. The President's plan does not include recommendations for changing the financing of the other State-type health and human service programs.

The Authority applauds the administration's recommendation on Medicaid, but believes it is necessary to expand the proposal to include a greater share of Medicaid program expenditures and to address other health and human service programs.

The Authority has been working over the past several months to re-examine the relationship between the District and the Federal Government. Two weeks ago, as Mr. Rogers has mentioned, the Authority issued a report entitled "Toward a More Equitable Relationship: Structuring the District of Columbia's State Functions." The report identified that if the District were to have a relationship with its "State," the Federal Government, that is akin to the State-local financial relationship found across the country, the District would be required to contribute no more than 20 percent of the State-type health and human service programs. At present, the District covers 100 percent of these costs.

Today, I would like to make the specific recommendation of Authority that the Federal Government contribute 100 percent of the funding for Medicaid, TANF, Temporary Assistance to Needy Families, formerly the AFDC program, and the related child care expenditures.

The Authority's recommendation was generated after reviewing the relationships States have with their local jurisdictions in regard to financing a range of health and human services. In addition to our own research, the Authority commissioned a study by the Urban Institute to assemble more detailed information regarding the financing and administration of State Medicaid programs and to consider various options. The Authority's recommendation was also framed by the fact that all major State-type health and human service programs are either federally mandated or require the maintenance of a minimum funding level.

If I may, I would like to request that the Authority's report on State functions and the Urban Institute report be entered into the record.

Briefly I will review the information that led the Authority to make these recommendations.

Rather than recommend a refashioning of the financial and administrative relationships across the myriad of State-type functions, the Authority has chosen to limit the proposed changes to the two largest Federal-State programs.

Three structural factors exist in the District that when combined produce relative demands on the District that are multiples of the demands shouldered by other jurisdictions. The first structural factor is high per beneficiary costs under Medicaid. The District's per beneficiary Medicaid expenditures are nearly 70 percent higher than the country as a whole. This finding is not surprising as urban settings are typically associated with higher costs of living as well as more intense health problems, such as the number of AIDS cases and the level of violence.

In the Urban Institute report, the District's Medicaid program costs were compared against those of high-cost States such as New York and Massachusetts. The District's average costs were actually lower than the average costs in these States. The message from this is the District has higher than average Medicaid per beneficiary costs, although it is not out of line with what might be considered reasonable for a high-cost jurisdiction.

The second structural factor is a high concentration of poverty. This reality lends for a greater demand for public assistance and as such a relatively higher percentage of population enrolled in Medicaid and other public assistance programs.

The third structural factor is the narrow pool of individuals available to support these relatively high demands for services. The District does not have suburban populations over which to spread these costs, of course.

If you take the relatively high cost of services, compound that with the greater percentages of the population requiring these services, and add a third factor, the narrow pool of individuals that comprise the District's tax base, it produces an insupportable situation.

The District has, for instance, only two taxpayers per Medicaid recipient, whereas Maryland and Virginia have 4.4 and 4.3 respectively. From this it is evident that the burden of Medicaid is tremendously greater in the District as each District taxpayer is required to carry not only a proportionately greater number of public assistance recipients, but the cost per recipient is higher.

These findings provide ample justification for a major restructuring of the financing of the District's Medicaid program. An additional finding of the Urban Institute is that if the District were treated similar to the counties in New York, the State that requires the greatest contribution of its local jurisdiction, the District's effective contribution for Medicaid would be 16.5 percent of expenditures versus the 30 percent required under the President's plan.

Another relevant comparison is that if the District had a relationship with its State, the Federal Government, akin to the relationship between State and local government in three-quarters of the States today, the District would be required to make no direct contribution toward Medicaid program expenditures.

It is this comparative analysis of how States interact with their local jurisdictions, as well as the disproportionate burden found in the District which is the result of its urban characteristics, that requires the Authority to recommend that the Federal Government act in the capacity of the District's State and assume full financing of the District's Medicaid program. The savings to the District resulting from such a Medicaid policy change are estimated to be approximately $2.4 billion over fiscal years 1998 to 2002.

The findings in the Authority's April 15th report show that on average States cover 92 percent of the costs of the major health and human service programs, including health care, mental health services, welfare, et cetera, which led the Authority to recommend that, as a step to begin to equalize the District's overall burden, the TANF program and related child care expenditure should be assumed by the Federal Government. The savings to the District resulting from such a change are estimated to be $550 million over fiscal years 1998 to 2002.

It should be recognized that the Authority's recommendations are not overly generous for the District. Even with the implementation of the Authority's recommendations, the District would be in a relatively less favorable position than all other local jurisdictions in the country.

If the recommendations of the Authority are implemented whereby the funding for the two largest State-Federal programs is assumed by the Federal Government, the District would continue to carry a relatively greater share of program costs than local jurisdictions nationally at 33 percent, but the relationship would be tremendously improved over what exists today.

Mr. Chairman, that concludes my statement, and my colleague and I would be happy to respond to questions you or the committee have.

Mr. DAVIS. Thank you.

[The prepared statement of Mr. Goldstein follows:]

TESTIMONY OF MARK GOLDSTEIN
DEPUTY EXECUTIVE DIRECTOR
DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
April 25, 1997

Chairman Davis and members of the Committee on Government Reform and Oversight, I am Mark Goldstein, Deputy Executive Director of the District of Columbia Financial Responsibility and Management Assistance Authority. On behalf of the Authority, I am pleased to be able to testify today on the issue of the Medicaid proposal contained in the President's National Capital Revitalization and Self-Government Improvement Plan. With me is Doneg McDonough, Program Manager for Health and Human Services at the Authority.

The President's Plan proposes to increase the Federal government's contribution for District Medicaid expenditures—what is referred to as the Federal Medical Assistance Percentage, or FMAP—to 70 percent. This will have the effect of increasing the Federal government's contribution for the District's non-administrative Medicaid benefit expenditures from the 50 percent rate that is in place today to 70 percent for fiscal years 1998 and beyond. The President's Plan does not include recommendations for changing the financing of the other "state-type" health and human service programs.

The Authority applauds the Administration's recommendation on Medicaid but believes it is necessary to expand the proposal to include a greater share of Medicaid program expenditures and to address other health and human service programs.

The Authority has been working over the past several months to reexamine the relationship between the District and the Federal government. Two weeks ago, the

Authority issued a report entitled "Toward a More Equitable Relationship: Structuring the District of Columbia's State Functions." The report identified that if the District were to have a relationship with its "state"—the Federal government—that is akin to the typical state-local financial relationship found across the country, the District would be required to contribute *no more than* 20 percent of the state-type health and human service programs. These include Medicaid, welfare and child care, mental health, foster care and child welfare, SSI Supplement, and addiction prevention and recovery services. In fact, if made comparable to the average burden on other local jurisdictions, the District contribution to state-type health and human service programs would be significantly below the 20 percent figure. At present, the District covers 100 percent of these costs.

Today, I would like to communicate the specific recommendation of the Authority that the Federal Government contribute 100 percent of the funding for the Medicaid, TANF (Temporary Assistance to Needy Families, formerly the AFDC program), and the related child care expenditures. The funding arrangements for the remaining programs, such as mental health services, would remain as they are today.

The Authority's recommendation was generated after reviewing the relationships states have with their local jurisdictions in regard to financing a range of health and human services. In addition to our own research, the Authority commissioned a study by the Urban Institute to assemble more detailed information regarding the financing and administration of state Medicaid programs. The Authority's recommendation was also framed by the fact that all major state-type health and human service programs are either federally mandated or require the maintenance of a minimum funding level.

If I may, I would like to request that the Authority's report on state functions and the Urban Institute report be entered into the record.

I would like to review the information that led the Authority to make these recommendations. While today's hearing is specifically on the topic of Medicaid, the

Authority holds the position that the adequacy of any particular Medicaid reform option can be judged only in the context of other changes being considered for the District government, particularly in relation to financing other health and human service programs. As such, the recommended level for the Federal government's contribution to the Medicaid program is influenced by how other health and human service costs are shared between the District and the Federal government.

Rather than recommend a refashioning of the financial and administrative relationships across the myriad of state-type programs, the Authority has chosen to limit the proposed changes to the two largest federal-state programs.

Three structural factors exist in the District that, when combined, produce relative demands on the District that are multiples of the demands shouldered by other jurisdictions. This assessment holds under both "DC to state" and "DC to city" comparisons. And, this is the case for Medicaid as well as for the other health and human service programs.

The first structural factor is high per beneficiary costs under Medicaid. The District's per beneficiary Medicaid expenditures are nearly 70% higher than the country as a whole. This finding is not surprising as urban settings are typically associated with higher costs of living, as well as more intense health problems such as the number of AIDS cases and the level of violence. In the Urban Institute report, the District's Medicaid program costs were compared against those of "high cost" states, such as New York and Massachusetts. The District's average costs were actually lower than the average costs in these states. In comparison to Maryland, the District's per beneficiary costs are just 14 percent above their average. The message from this is that the District has higher than average Medicaid per beneficiary costs, although this is not out of line with what might be considered reasonable for a high cost jurisdiction.

The second structural factor is a high concentration of poverty. This reality leads to a greater demand for public assistance, and as such, a relatively higher percentage of the population enrolled in Medicaid and other public assistance programs. For instance, 20.9 percent of District residents receive Medicaid compared to an average of 13.9 percent nationally. As to welfare recipients, in 1994 the District ranked first with 13 percent of its residents receiving AFDC cash payments. The next closest state was California with 8.5 percent. Maryland was below 5 percent and Virginia below 3 percent. It is important to note that the District does not rank high on this measure as a result of generous eligibility criteria—as the District is ranked 29th nationally on this measure. The District has higher percentages of its population on Medicaid and other programs because a greater percentage of its population lives in poverty.

The third structural factor is the narrow pool of individuals available to support these relatively high demands for services. The District does not have suburban populations over which to spread these costs.

If you take the relatively high cost of services, compound that with the greater percentages of the population requiring the services, and add a third factor—the narrow pool of individuals that comprise the District's tax base, it produces an insupportable situation.

If I may, I'd like to take a moment to illustrate this point. I mentioned that the District's *average cost per Medicaid beneficiary*—which is the average per recipient cost for Medicaid services—is roughly 14 percent higher than in Maryland. If we consider the *average per capita cost*—which is the total District Medicaid expenditures divided by the total District population—a different picture emerges. The District's per capita Medicaid spending is nearly 300 percent higher than that of Maryland--$1,339 per resident in the District versus $457 per resident in Maryland. This is primarily a result of the greater percentage of the population on Medicaid. Compared to Virginia, the District's per capita Medicaid spending is 450% higher. This difference is a result of both a higher concentration of recipients on Medicaid as well as higher costs per recipient. (The District's per Medicaid beneficiary costs are 126 percent higher than Virginia.)

The narrow pool of individuals available to support the high demand can be further illustrated by considering a Medicaid recipient-to-taxpayer ratio. The District has only 2 taxpayers per Medicaid recipient whereas Maryland and Virginia have 4.4 and 4.3 respectively. From this it is evident that the burden of Medicaid is tremendously greater in the District as each District taxpayer is required to not only carry a proportionately greater number of public assistance recipients, but the cost per recipient is higher.

A fourth factor to consider, one which is structural but within the control of the District itself, is that of poor management. Problems with the District's Department of Human Services are now nearly legendary. But in the area of Medicaid program operations, some significant improvements have been realized over the past eighteen months, and a foundation is in place to build on these initial reforms. In January of this year, Medicaid was moved into a new Department of Health. To deal with the perpetual procurement problems of the District, the new Department entered into an agreement with the US Department of Health and Human Services to provide procurement support. While significant problems remain, progress is measurable in this area. For instance, annual increases in Medicaid expenditures have been cut by more than half.

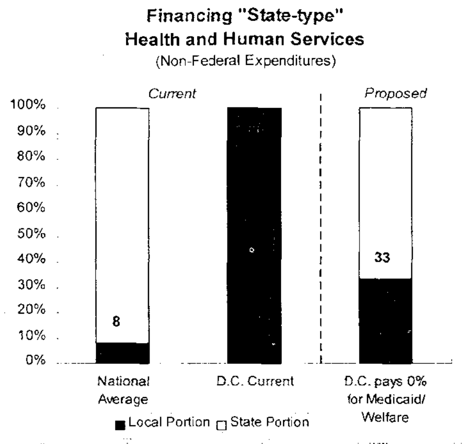
These findings provide ample justification for a major restructuring of the financing of the District's Medicaid program. An additional finding of the Urban Institute is that if the District were treated similar to the counties in New York, the state that requires the greatest contribution of its local jurisdiction, the District's effective contribution for Medicaid would be 16.5 percent of expenditures versus the 30 percent required under the President's Plan. Another relevant comparison is that if the District had a relationship with its state—the Federal government—akin to the relationship between state and local governments in *three quarters* of the states today, the District would be required to make no direct contribution toward Medicaid program expenditures.

It is this comparative analysis of how states interact with their local jurisdictions, as well the disproportionate burden found in the District which is a result of its urban characteristics, that requires the Authority to recommend that the Federal government act in the capacity of the District's state and assume full financing of the District's Medicaid program. The savings to the District resulting from such a Medicaid policy change are estimated to be approximately $2.4 billion over fiscal years 1998-2002.

The finding in the Authority's April 15 report that, on average, states cover 92 percent of the costs of the major health and human service programs (including health care, mental health services, welfare, etc.) led the Authority to recommend that, as a step to begin to equalize the District's overall burden, the TANF program and related child care expenditures should be assumed by the Federal government. The savings to the District resulting from such a change are estimated to be $550 million over fiscal years 1998-2002.

Also, both the Urban Institute report and the Authority report review administrative changes that might be required as a result of these proposed changes in program financing.

It should be recognized that the Authority's recommendations are not overly generous for the District. Even with implementation of the Authority's recommendations, the District would still be in a relatively less favorable position than all other local jurisdictions in the country. The graph shown in my written testimony illustrates the effect of these recommendations on the District and provides a comparison to the typical cost sharing arrangements that exists in other states today.



The graph illustrates that, on average, localities cover 8 percent of the non-federal health and human services program costs.[1] In contrast, the District pays 100 percent of these non-federal costs today. If the recommendations of the Authority are implemented whereby the funding for the two largest state-federal programs is assumed by the Federal Government, the District would continue to carry a relatively greater share of program costs than local jurisdictions nationally at 33%, but the relationship would be tremendously improved over what exists today.

Mr. Chairman, that concludes by statement. My colleague and I would be happy to respond to any questions that you, or the Committee, have concerning the District's Medicaid program.

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[1] Governing: Sourcebook 1997, p.47. The Census Bureau's definition of welfare is used, which includes Medicaid, cash payments, and a range of other health and human service programs.

Mr. DAVIS. I have just got a couple questions for the panel. Mr. Goldstein, let's start with you. The Authority is basically recommending the Feds pick up 100 percent of the costs——

Mr. GOLDSTEIN. Yes, Mr. Chairman.

Mr. DAVIS [continuing]. In its capacity as the District's State government, but you haven't said that the District will give up its taxing powers, specifically income and sales that States use to pay for Medicaid and other programs. So in effect you are asking the Federal taxpayers to pay 100 percent of the State share without the State share being apportioned amongst District taxpayers. That is OK, but we need to understand the policy and ramifications. Is this basically because the city's tax base is just too low?

Mr. GOLDSTEIN. Yes, Mr. Chairman, we recognize that is an issue that needs to be resolved as this process went forward, but that is the Authority's recommendation.

Mr. DAVIS. Yes. It is always dangerous to think out loud, but my gut feeling is this, as the Federal Government takes over some things, we should look for some tax relief in the city, because I think that would make the city more competitive economically over the long term. But we will be working with everybody involved here as we fashion a solution.

Linda, let me ask a question, and, Charlene, you can chime in. The city has basically cut the Medicaid benefits that they were giving out 2, 3 years ago, and it is more on a par with Virginia and Maryland.

Ms. CROPP. We have initiated an awful lot of savings——

Mr. DAVIS. I don't mean cuts, that is a radioactive word, but you have adjusted the way that it is sorted out, and it is more in line with Virginia and Maryland.

Ms. CROPP. Yes, and also our benefits actually were not too far out of line. We offer 26 benefits. Maryland and Virginia offer, I think, 21 and 22. We offer 26. We are in line. And with the other services, we are fairly comparable with those services.

Mr. DAVIS. What we'd like, and I am not sure if we have it in the record, we would like a chart showing what the city offers and what the two suburban jurisdictions offer. Not that you need to model everything after what the other jurisdictions do, and I think you pointed out that there are other costs to not offering these programs that are paid in other areas.

Ms. CROPP. Exactly. For example, the ICFMRs, if we did not have them in the Medicaid program. The District would be responsible for paying the entire cost of that program, and in essence it would end up costing the District more money. That is one of the optional benefits that we offer that perhaps some of the other States don't offer, but it would not be beneficial for us to eliminate that option.

Mr. DAVIS. Thanks.

Let me ask Mr. Rogers and you, Mr. Offner, and others, have the issues regarding the payments to the Charter Health Plan been resolved?

Mr. ROGERS. That matter is still under review by the CFO, and I don't believe it has been resolved.

Mr. DAVIS. OK. Those are my questions.

We had some others. We appreciate your heading some of the questions up in your testimony that we have had already.

Ms. NORTON. Yes, Mr. Chairman. I will—I have only a few questions in that regard as well.

Mr. Offner, first of all I want to congratulate you for the work you are doing in Medicaid. I know how difficult it is in the best of circumstances, and I can't imagine how you have done what you have done.

I want to ask Ms. Cropp, I guess Mr. Rogers, I am not sure, Ms. Jarvis, it has to do with the state of the welfare reform or welfare reform in the District of Columbia, and I would like to know from you whether or not the District is, my bill notwithstanding—and I am going to try to get my bill into this bill—is in danger of simply losing before it gets started. That is to say it looks like you are trying to do something that is very difficult under the circumstances, and the whole government—the Department of Human Services is in collapse apparently. At least it has not begun to be reformed. Training has been—all of the training, I take it, has been in the Department of Human Services at the same time you are trying to get up a welfare reform bill, which at least, as it is presently, as it presently stands, would mean that you are on line to lose, what is it, 5 percent this year. You are on line to lose money. And I just have to ask you what is the state of that? Is anybody being trained? Is the welfare program—is DC going to lose money from its welfare grant this year? I want to be able to know whether or not you are on line to lose some money, and you should have planned for that in your budget if that is going to happen.

Ms. CROPP. The District has developed quite a few work activities that would fit within job definitions of the new Federal bill. However, by nature of the District being a city and not having suburban areas that would offer jobs, we are in a very precarious situation in actually placing our welfare recipients in those particular areas.

We are developing them, we are moving forward, and we hope that we would be fairly successful. We have already placed I believe it is about 18 percent at this point within the job definition. But my anxiety level is extremely high because I think the District is penalized by the bill, but we are still working toward trying not to lose any money.

Ms. NORTON. It really is penalized. That is why I have a bill in to correct that. I am going to have a hard time getting that bill out in any case, but particularly if I can't show that the District is doing the very best it could, because I have nothing to do with whether or not the District is starting up its own program to place people in work activities. I would like to have someone—perhaps Mr. Rogers can tell me some progress on that.

Mr. ROGERS. Well, we will give you a more complete response subsequent to this hearing, but let me say it certainly is our intent to lose not one nickel, and we are positioning ourselves so that that won't happen. There are——

Ms. NORTON. That means that you are going to have 25 percent in work activities by—what is the month?

Ms. CROPP. September, I think, of this year.

Ms. NORTON. Twenty-five percent by worker activities. Otherwise—the reason I ask is otherwise you are going to begin the fiscal year the way you did last time, making cuts before you spend, and all without a plan to do so, and just picking up the cuts wherever you can find them.

Mr. ROGERS. We have, as you know, the Welfare Reform Task Force, the external and internal task force that made its report. We are acquiring technical assistance to complete the last leg of the process in preparation for a better training program. The recent issues with training notwithstanding, we intend to move forward if it is on a contracted basis. We don't have to provide it in-house. There are ways to, you know, contract out the training so that we can meet our mission.

Ms. NORTON. I am having a very hard time, because they are not going to give anybody any slack. I am not going to be able to get any slack for the District because everybody else is running for something. So I have to have some early warning, too, if there are problems in meeting that.

Could I just quickly ask on two issues that I raised at the last hearing? I don't know if—Ms. Cropp was not here, but I have sent her a letter about people who came to see me that I referred the city to, but I was so concerned about it that I looked into the matter myself, and that is I was told in spite of our foster care problem, and it is just like everybody else's, it is not any different from New York and Philadelphia and anybody else, but it is heartbreaking, that there was a backlog of people wanting to adopt children in the District of Columbia and couldn't get through our court systems.

I called up the chief judge and said, my God, and he said that it was the—the way the law was written, and it had been very strictly construed, and obviously once you have a precedent, it is hard to get over that precedent. And he suggested if the law were changed, and that it could be changed, and I have sent you the relevant sections of the 1997 Uniform Adoption Act. Could I ask what is the status of that?

Ms. CROPP. Ms. Norton, I have had a dialog with Chief Judge Hamilton with regard to that. We have decided we were going to meet. There is one component of that act of which he has great concern. We are prepared to move that act as expeditiously as possible.

Ms. NORTON. What does that mean, though, Ms. Cropp? The notion that there would be people who would come to me to say, we represent providers who want to adopt children, we can't do that. Can you give me a month, are you going out for summer, what are—can this be done before you go out on your summer vacation so the courts could move this backlog?

Ms. CROPP. Could I get back with you? Judge Hamilton wanted to speak——

Ms. NORTON. I will talk to Judge Hamilton. I thought the whole problem is they needed people to adopt children, and to find out they can't do it in the District because of the way this law is construed, seems to me there ought to be some kind of a fast track on which to put that before you go to summer vacation.

Ms. CROPP. We could look a that, but I don't think it is in isolation, I think it is in combination, and we do have a policy of available parents——

Ms. NORTON. I understand that, but to the extent that there are people who line up in court who can't get through, it seems the first thing we should do is clear the legal paraphernalia out of the way.

Ms. CROPP. As I said, Judge Hamilton and I are working to move that as quickly as possible.

Ms. NORTON. I wish you would provide me information on whether you will be able to get a bill passed before you go out on summer vacation.

Finally, Mr. Rogers, I wrote you concerning something that cities would kill for, and that is to get on the so-called FTS–2000 system of the Federal Government. We could have been on that for at least the last 4 years. We are informed that GSA tried and has repeatedly failed to be able to get you to do that. I have to ask this question, because they have told us you could be paying about $13 per, what is it, per line, and that they estimate you are now paying something close to $30 at a time when you are having to cut the hell out of everything. I have to ask you, what you provided me indicated you are not using FTS. If you are not using FTS, I would like to know why.

Mr. ROGERS. Well, one, we will, and that directive has been given. Second, with respect to the ISDN platform, the system that we have, that helps us in terms of our instruments. It helps us in terms of our local call costs——

Ms. NORTON. What is that; what is the ISDN?

Mr. ROGERS. The ISDN is a telephone platform that helps us tie in the local telephone company, Bell Atlantic, in providing our service. It helps us reduce our costs and manage our system better. The FTS–2000 relates to long distance costs. There is information we are collecting from the agencies that will help us implement that system.

Ms. NORTON. Are you working with anyone from GSA? I would like to facilitate that if I could.

Mr. ROGERS. I am advised that the staff of the Department of Administrative Services has been working with GSA and AT&T. Once the information that we have out to the agencies is back in, it will be furnished over to AT&T, and we will be able to——

Ms. NORTON. Mr. Rogers, that will take us back to where we were. That is where it was last time we were waiting from information from the District that would then allow them to proceed. The amounts are so great here. You are paying, it looks like, more than twice what you could be paying at a time when you are having to cut everything. Could I ask that you provide us for the record the information that you provided to GSA——

Mr. ROGERS. OK.

Ms. NORTON [continuing]. Before we close our record? When would that be?

Mr. DAVIS. Ten days.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you.

Mr. Horn.

Mr. HORN. Thank you Mr. Chairman.

Mr. Rogers, following up on that, since I Chair the investigating subcommittee that relates to GSA and the FTS–2000, do you need any particular legal authority in order to access the GSA rates, or do you already have that?

Mr. ROGERS. I believe we already have that.

Mr. HORN. All right. Because Ms. Norton is right, the best deal in America are the GSA rates. We don't know where we are going next, but hopefully it will be a better deal, and the District ought to be taking advantage of that.

Mr. Offner, you indicated the need for the authority in your testimony. Could you describe what that would permit you to do?

Mr. OFFNER. Mr. Horn, the 1115 waiver is a broad authority that the Government has, and in this application, as a State cuts its reimbursement or its expenditures, different States have been able to get waivers to allow them to capture the Federal part of those savings to, in effect, expand coverage to the uninsured. Obviously every time the District of Columbia cuts Medicaid by $1, we not only save ourselves 50 cents, but we save the Federal Government 50 cents. If we could capture that Federal 50 cents and use that to expand coverage to the uninsured, which is a proposition that Tennessee and a lot of States have gone with, it would allow us to do something about the 110,000 uninsured people.

Mr. HORN. If—I think you need specific authority in law so you don't have to go through the appeal like the other State does; is that what your desire is?

Mr. OFFNER. Well, at this point, Mr. Horn, we are about to start working with a consultant to develop our proposal, and the people at the Health Care Finance Administration have been extremely cooperative. If we run into problems, maybe we could reserve the right to——

Mr. HORN. I was going to say, if they are going to sign off, wonderful, but many Governors have found it takes them forever to sign off, and since you are in a unique relationship to the Congress, we ought to be able to consider that if they don't approve it and make sure you get those economies.

Mr. Rogers, I am curious, is there an inspector general in the District of Columbia?

Mr. ROGERS. Yes.

Mr. HORN. And to whom does he report?

Mr. ROGERS. Reports to the Mayor, the Council, and the Financial Authority; or shall I say sends information, kind of reports. They are independent.

Mr. HORN. I understand that.

Has the inspector general ever inspected the Medicaid situation in the District of Columbia?

Mr. OFFNER. Actually, Mr. Horn, we have four separate investigations, again, not cosmic ones, but as I indicated, we removed 125,000 ineligible people from the rolls. The Inspector General initiated an investigation of whether or not we could recover for the expenditures that were made for those people while they were being covered inappropriately, and that is still in progress. And there are several other investigations that we are currently working with them on.

Mr. HORN. Now, do you have your own audit staff in your agency?

Mr. OFFNER. I have a small audit staff. We also contract out the field audits. I have a small audit staff of five people.

Mr. HORN. How much fraud have we found in Medicaid recipients?

Mr. OFFNER. Recipients?

Mr. HORN. Among the recipients, how much are on there fraudulently?

Mr. OFFNER. Mr. Horn, I will tell you I don't know the answer to that, but I will tell you the 25,000 people that we removed, it was not a fraud issue. It was an issue of computer systems that weren't talking to each other. My experience as a newcomer to the District is that more of our problems are due to systems malfunctioning and inadequate staffing and resources than to fraud. We are much more involved with provider fraud, and we hand over those cases to the Corporation Counsel, but again, we need to do much more in that area, and that is the kind of improvement that I think we would want to make as we get some additional resources.

Mr. HORN. Now, do you have any jurisdiction over the Welfare Department?

Mr. OFFNER. No.

Mr. HORN. Is there much need for cooperation between the Medicaid services and the Welfare Department?

Mr. OFFNER. There is enormous need. The eligibility function for Medicaid is in the Welfare Department, so we have to work very closely with them on the eligibility side, but that is not something directly under my control.

Mr. HORN. Maybe the members of the Council know, is there an identification card when one has welfare and a photo on it as well as a fingerprint?

Ms. CROPP. I am not certain about an identification card. If I can get that information back.

[The information referred to follows:]

In the District, TANF recipients receive two identification cards for public assistance benefits. Food Stamp recipients receive a photo identification card without fingerprint identification, Medicaid recipients receive a Medicaid identification card which does not include photograph or fingerprint identification.

Mr. OFFNER. But there is an identification card for Medicaid, and it does not have either a photograph or a thumbprint. Most States don't do that. Now, what does happen, someone walks into a provider's office, the provider types in the number into the telephone and accesses an electronic system. So, you know, if the computer is working properly, we, in fact, can verify eligibility with great accuracy.

Mr. HORN. You verify eligibility of the card, but you don't know that the person carrying the card that day is the same person that is presumably represented by the card.

Mr. OFFNER. That is correct.

Mr. HORN. Los Angeles County found years ago when you put a photo, thumbprint on it, thousands left the welfare roll, because they were double-dipping in terms of separate names, whatever. It seems the Council ought to be energetically demanding of the administration, and the administration on its own initiative ought to be undertaking simple little things like that to make sure that the limited money we have in the District of Columbia goes to people that really need it and not people that are simply tapping the till.

Now I get to doctors, and the question is has there been any investigation by auditors of the billing of the doctors in the District of Columbia under Medicaid, and the nursing homes under Medicaid, and home care? Has any home care come up during Medicaid? All of those areas——

Mr. OFFNER. We have audits for all of them, most of those providers, and we are working right now with the Corporation Counsel on—and we have a staff of people who work on ferreting out cases that look questionable, which we then hand over to the Corporation Counsel's office, and we are working with them to pursue those. Now, I will admit we could be doing more, and if we had more staff, we would do more.

Mr. HORN. Well, it would be nice if you only had four, if they are targeted in on some of these areas that have shown up in other States. When I came here in 1993–94, I was on Mr. Towns' subcommittee on the Government Reform, then known as the Government Operations Committee, and his subcommittee went to New York, found substantial fraud in the Medicaid program, in this case by doctors. And many doctors in California don't even take MediCal because the rates are so low, but in New York they had their hands in the till substantially, and there were indictments brought.

So I just would commend the administration to a little more vigor in terms of examining those situations and getting yourself your own audit staff if you need it, if the inspector general isn't going to do it, to zero in on this. That would give everybody a better sense that the fiscal concerns of the District are being taken seriously by the people responsible for administrating. Thank you.

Ms. MORELLA [presiding]. Thank you, Mr. Horn.

I think that Ms. Norton doesn't have any other questions.

I want to thank this panel very much for your testimony and for appearing here today. Thank you.

I am now going to call on the third panel, the next panel, which is going to testify on the Treasury borrowing section of the President's plan from the perspective of local officials.

And this panel is going to consist of Mr. Thomas Huestis, who is the deputy chief financial officer for finance and treasurer of the District of Columbia; Mr. Rogers; Council Chair Pro Tempore Jarvis; the Honorable Frank Smith, chairman of the Council's Committee on Finance and Revenue; and Mr. Dexter Lockamy, CFO for the Control Board. Also present, but not at the witness table, is Ms. Marguerite Owen, deputy general counsel to the Control Board, who will be available to answer any questions.

I think as you all know, it is the policy of this committee that all witnesses be sworn in before they may testify, and so I would kindly ask you if you would please rise with me and raise your right hand.

[Witnesses sworn.]

Mrs. MORELLA. The record will show that you responded in the affirmative. Thank you.

Ms. DREW-JARVIS. Madam Chair, excuse me, since there is an able complement of officials from the District of Columbia here, and since we are to meet with Dr. Brimmer at 4 p.m., and my colleagues have already gone ahead, do you think I might be excused from this panel, since you have such an array of experts here?

Mrs. MORELLA. As you presented, Ms. Jarvis, it is so hard to refuse. I can understand why you are in politics, and indeed I think it is all right with this subcommittee, yes, indeed. Thank you.

Mr. ROGERS. Madam Chair.

Mrs. MORELLA. And I wanted to mention, Ms. Jarvis, that there is no objection, so we have unanimous consent, that your statement will be included in the record.

Mr. ROGERS. Madam Chair, I have to attend the same meeting. My statement has been provided. Mr. Huestis is very able on these matters, and if you look at our testimony, we are totally in sync with the issues raised with respect to the President's plan and the borrowing opportunity for the District. I would like to be excused as well.

Mrs. MORELLA. Mr. Rogers, we will also excuse you, and your testimony will also be in the record.

Mr. Huestis, I am glad you are not leaving.

Mr. HUESTIS. Madam Chair, I am not going to leave.

Mrs. MORELLA. You have an awesome responsibility now.

STATEMENTS OF THOMAS HUESTIS, DEPUTY CFO/FINANCE AND TREASURER, DISTRICT OF COLUMBIA; FRANK SMITH, CHAIRMAN, FINANCE AND REVENUE COMMITTEE, DISTRICT OF COLUMBIA CITY COUNCIL; AND DEXTER LOCKAMY, CHIEF FINANCIAL OFFICER, FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY

Mr. HUESTIS. Good afternoon, members of the committee, and thank you very much for having me. My name is Tom Huestis, deputy CFO and treasurer for the District, and thank you again for inviting me to appear before the subcommittee to comment on the President's plan.

The President's plan includes a funding proposal that will help solve the District's cash-flow problem. Included in this plan is a proposal for up to $500 million U.S. Treasury borrowing with a 15-year repayment term, and this is designed to fund the cash needs and a portion of the accumulated deficit. In addition, the U.S. Treasury is proposing a short-term financing vehicle that would be structured similar to the current U.S. Treasury advance provisions.

My staff has worked closely with Mr. Rogers' staff, the Office of Management and Budget, the Council's staff and the Authority's staff on evaluating this and how it would be implemented, and I'd like to address that now. Currently the District has an accumulated deficit of approximately $453 million, as a result of cumulative net operating deficits in the past. At the end of fiscal year 1997, the District's accumulated deficit is projected to increase to $527 million as a result of the budget deficit for fiscal year 1997. Although the accumulated deficit is expected to be over $500 million, the District's cash deficit is only approximately $300 million. That means what the District has had to do, in order to stay liquid, is borrow at least $300 million from next year into this year in order to make payments.

It has accomplished that this year through the use of U.S. Treasury advances. So it has advanced payments from next fiscal year, brought against next fiscal year's Federal payment in order to pay its bills currently.

One of the things that happens with the President's plan is, it proposed that the Federal payment goes away. That means the District will be left with no source to repay these $300 million Treasury advances. So in the first, in advance, the financing portion of this plan is essential because the District has no other source of repaying its U.S. Treasury advances.

Second, the financing portion of this plan is, in itself, healthy for the District. Currently, these advanced provisions, where we have to do three or four borrowing Treasury advances every year in order to get that money up to this year from next year's Federal payment, are extremely burdensome. By implementing this plan, we can take those Treasury advances and finance those into a long-term obligation, thereby eliminating the annual advances and giving some order into the market.

In addition, the credit markets—we believe that by changing these advances into a long-term financing will give us better access into the credit markets. There are some concerns. Our existing bond holders have relied on the Federal payment as a source of repayment, a last source of repayment. So eliminating the Federal payment does provide our existing bondholders with some concern.

However, the word we get back from them is, if the plan does what it is designed to do, give the District significant expenditure relief, and takes care of the ever present pension problem, which is projected to explode, if the President's plan takes care of those items, that it will be a net benefit to the District and to those bondholders.

Because of the time, I would like to cut through a lot of my testimony and it will be in the record.

One of the major things that we have done is, we have gone to the rating agencies and the credit market participants, or bondholders, and talked to them about the size of the financing and about how much we should essentially borrow and how much Congress should authorize.

What they have come back to us and said is that the Congress needs to authorize $500 million of this financing, but the District should only borrow the minimum amount it needs up front, so all it needs to borrow is the $300 million up front, but the Congress and the administration need to authorize the entire $500 million because, essentially, what we are doing is, we are financing our cash deficit and then using the surpluses that will be generated from the President's plan to pay down the balance of the accumulated deficit.

From the Office of the Chief Financial Officer and the rating agencies, we agree that this is the most prudent course and this will allow the District to not become cash flushed, so it doesn't have to stop, so it won't have to stop, the critical reforms in management initiatives that need to happen in the District, but it will provide the District with a sufficient amount of cash to operate efficiently and then pay down the balance of the accumulated deficit over time.

There is a cost to this plan. We talk about it here, of $13 million if we borrow the $300 million, or $15 million if we borrow the $500 million. The cost is due not to the borrowing in itself, it is due really to the loss of the Federal payment.

If you think about it, we receive $660 million day one, and we are trading that for expenditure relief, spread across the fiscal year, all 12 months. And because we operate at such a narrow cash margin, by that cash tradeoff, we have to borrow more money and we have to borrow it sooner in the fiscal year. We have to essentially borrow day one into the fiscal year to match the cash that we would have normally received through the Federal payment.

So the increase in the cost of this financing that we talk about in our analysis and our budget and in our testimony here is not due to the deficit borrowing itself, it is due to the tradeoff between the Federal payment and the expenditure reductions.

Thank you. That concludes a summary of my testimony, and thank you very much, and I will be happy to answer questions.

[The prepared statement of Mr. Huestis follows:]

Testimony of Thomas F. Huestis
Deputy Chief Financial Officer for Finance and Treasurer
District of Columbia

Good afternoon Chairman Davis and members of the Subcommittee on the District of Columbia of the House Government Reform and Oversight Committee. Thank you for inviting the Office of the Chief Financial Officer to appear before the subcommittee to comment on the Treasury borrowing section of President Clinton's National Capital Revitalization and Self-government Improvement Plan. This is an important provision of the President's Plan which the Office of the Chief Financial Officer strongly endorses. After my initial remarks, I will be happy to answer any questions that the Committee might have.

Treasury Borrowing

The President's Plan includes a funding proposal that will help solve the District's cash flow problem. Included is the proposal for a $500 million U. S. Treasury borrowing with a 15-year repayment term to finance the District's cash needs and a portion of the accumulated deficit. In addition, the U.S. Treasury is proposing short-term financing vehicles that would be structured similar to existing U.S. Treasury Advance provisions. My staff has continued to work closely with the Office of Management & Budget, U.S. Treasury and the District of Columbia Financial Responsibility and Management Assistance Authority to evaluate options of how the District may best use these new sources of financing.

The District currently has an accumulated deficit of $453 million as a result of the cumulative net effect of past operating deficits and surpluses. As of the end of FY 1997, the District's accumulated deficit is projected to increase to $527 million as a result of the budgeted deficit for FY 1997. Although the District's accumulated deficit will exceed $500 million by the end of FY 1997, the District's cash deficit is approximately $300 million. Essentially the District's cash deficit is the amount of money that has been advanced from the next year's revenues (currently consisting of a portion of the Federal Payment). By the end of FY 1997, the District's $300 million cash deficit will have been financed through Treasury Advances and a General Obligation Note financing.

Rationale

The financing portion of the President's Plan is an essential element and without it, the District could not continue to operate without an alternative large source of cash. Due to the fact that the President's Plan proposes an end to the Federal Payment and the District needs to advance approximately $300 million to meet fiscal year 1997 expenses in order to continue to operate, the District will need a financing source to repay these U.S. Treasury advances. Currently, there is no other source of financing available to repay these advances other than the Treasury borrowing proposed in the President's Plan.

In addition to being an essential part of the Plan, the proposed borrowing is itself a tool that will contribute to the financial improvement of the District. The implementation of a long-term financing will reduce and possibly eliminate the annual roll over of Treasury Advances and the administrative burden associated with those advances. Furthermore, by using a Treasury borrowing now to reduce a portion of the accumulated deficit, the District will be given additional time to improve its financial condition and to gain better market access to do a refinancing in the capital markets as most other major cities have done. Given these reasons, the Office of the Chief Financial Officer is a strong supporter of the Treasury borrowing section of the President's Plan.

Structure

Given the different borrowing amounts needed to fund the cash and accumulated deficits, the District, along with OMB and Treasury staff have evaluated the advantages and disadvantages associated with funding either the cash deficit or the larger accumulated deficit amount. Both financing options assume deferred principal payments amortized over a 15 year period in conjunction with legislative changes to the District's debt ceiling. The deferred payment is needed in order to avoid hardships on the District's operating budget, and to prevent the District from exceeding its authorized debt capacity.

Financing the District's $300 million cash deficit means that the District will no longer need to finance this amount on an annual, short-term basis. However, with the proposed loss of the Federal Payment, the monthly cash net balances for the first few months of the District's 1998 fiscal year create substantial net shortages. As such, the District will have to implement a seasonal cash flow borrowing to achieve a minimum cash balance during the first quarter of fiscal year 1998 instead of the current seasonal needs cash borrowing which occurs in the 4th quarter of the fiscal year.

Following the completion of a financing of the District's cash deficit, approximately $230 million of the District's accounting accumulated deficit would be left on the District's balance sheet. The District anticipates paying down the remaining deficit by making continued improvements to operating inefficiencies, realizing additional revenues through asset sales, and using budget surpluses resulting from implementation of the President's Plan.

One problem with financing only the cash deficit is that due to that fact that the District has run past operating deficits, any unanticipated cash need must be met with a borrowing. If the District is only authorized to borrow the cash portion of the deficit and if the initial financing does not cure the cash problem, the District has no other financing mechanism in place to cover for shortfalls or unexpected cash outflows. Without the Federal Payment, the District will be faced with even tighter cash constraints, especially during the first plan year. As such, the District needs to obtain the financing authority which would allow the District to mitigate unforeseen cash outflows. The District has discussed with OMB and Treasury staff the need to "reserve" additional borrowing capacity to finance future cash needs.

Financing $500 million of the District's accumulated deficit will not only fund the cash deficit, but will essentially replace cash surpluses that were previously drawn down upon. This option would allow the District to restore fund balances and provide the District with a cash cushion which would mitigate the impact of unexpected net cash outflows.

The net impact on the District's operating budget is approximately $13.168 million and $15.838 million for the $300 million and $500 million borrowings, respectively. The net operational impact is primarily due to the increased borrowing costs related to the loss of the Federal Payment. As mentioned previously, the District usually completes a seasonal cash flow borrowing during the 4th quarter of the fiscal year. However, without the Federal Payment the District must implement both its cash deficit borrowing and its seasonal cash flow borrowings at the beginning of the fiscal year which increases short-term borrowing costs. The amount of and need for seasonal borrowings will decrease in the out-years, as the District realizes the overall benefits of the President's Plan.

In addition to the increased borrowing costs, loss of the Federal Payment will cost the District approximately $2.3 million in fiscal year 1998 due to a reduction in interest earnings assuming the $500 million borrowing. The District's daily cash balances are significantly lower without the Federal Payment, the result is lower interest earnings than what the District would have realized had the Federal Payment been received.

The difference in annual debt service between the two options is approximately $2.675 million. Since the District is already operating in a cash restricted environment, this additional debt service requirement would place an even greater burden on the District's operating budget and existing debt ceiling.

The major rating agencies have communicated that although liquidity is an important factor for a credit rating upgrade, they would look more favorably upon the District if its liquidity position improved through its own efforts as opposed to through a $500 million deficit borrowing. The major rating agencies indicated that a flexible financing structure which allowed deferred principal repayment and call features would be preferable. This type of structure would provide the District with the most flexibility in that at a time when there are significant cash constraints principal repayment could be delayed and when the District's cash position significantly improved, it could prepay the borrowing at any time. In addition, the rating agencies indicated that in order to reduce its borrowing costs, the District should have the authority to refinance the Treasury loan with a market borrowing as soon as feasible. This office and the District's financial advisors feel that in order to successfully refinance the Treasury loan through the capital markets, the transaction will have to be done on a negotiated basis.

Given the comments from the rating agencies and due to the additional strain on the District's operating budget and debt capacity, a $500 million long-term financing that eliminates the entire accumulated deficit does not provide the optimal solution to the District. There is general agreement that the best approach for the District is to initially finance only the cash portion of the deficit ($300 million), while reserving the additional ($200 million) borrowing capacity for long-term or inter-year borrowings to mitigate against unforeseen cash outflows. This financing structure would provide the District with the best balance of addressing cash operating problems as it would provide sufficient operating liquidity, allow the District to eliminate the accumulated deficit over time, and provide a flexible debt structure. In addition, the District would be forced to maintain the same sense of urgency for expenditure reductions and revenue enhancements that having a minimal amount of cash provides.

In addition to this change in borrowing authorization, the District has identified a number of other changes which need to be made to the District's debt authorization statutes. These changes are needed to ensure that the District's municipal finance powers and practices are consistent with the tools and efficiencies demanded in the current capital and debt markets. The District plans to come before the Committee to present the proposed legislative changes at a later date.

Chairman Davis, thank you again for the opportunity to testify and work with your subcommittee on this historic initiative.

Mrs. MORELLA. Thank you, Mr. Huestis.

And for all of our panelists, your testimony in total will be included in the record.

I now recognize Mr. Smith.

Thank you for being with us.

Mr. SMITH. Thank you very much, to Congresswoman Norton and you as acting chairman.

I am Frank Smith, I am the chairman of the City Council Committee on Finance and Revenue. I guess I would have to say that I have to rely on my other 10 colleagues to adequately represent me with Mr. Brimmer in the Control Board; I am sure they are capable.

Mrs. MORELLA. You are very noble to stay here to testify.

Mr. SMITH. Since this is my first opportunity to testify on this matter, I figured I would stay around myself.

I am chairman of the Council Committee on Finance and Revenue, pleased to appear before you, to appear to discuss the Treasury borrowing element of the President's National Revitalization Government Improvement Plan.

First, just a little bit of history. The Home Rule Act has served the District government since January 1975. They granted the District autonomy on how to spend its money, both locally raised revenue as well as the Federal payment. Indeed, the Home Rule Act specified that the Mayor had to provide meaningful information to the Congress regarding expenditures and to show how these expenditures benefited the District population.

The comparison was to include an estimate of the amount of property tax lost because of taxes on land and the amount of unreimbursed services to the Federal Government, and a tax burden relative to the suburbs.

The question of how local government could possibly cover costs associated with running a city was raised at the beginning. This leads me to conclude the proposed Treasury borrowing authorization does not offset the proposed elimination of the Federal payment, even from a cash standpoint. Absent the Federal payment, projections by the Authority show that the District will experience a surplus for only 1 or 2 years, even with the financing of the deficit.

In the beginning of the Home Rule period between 1972 and 1989, they were good financial years for the District. Although there were severe fiscal problems during this period, we believed we could overcome the problems, and you probably know we had some good times and the District fared well.

In the past few years, we experienced a growing deficit. The Council is struggling to find a solution within the confines of the limitations of the financial realities with which we are now confronted. Two immediate hurdles face us, however, if we use the proposal for Treasury assistance in eliminating the accumulated deficit. One is the need to restructure the District's debt limitation requirements as currently imposed by the Home Rule Act. And I think you probably know this already, that the home rule act limits the amount of borrowing we can do to, I believe, 14 percent of what all of our revenues are, and that 14 percent application applies to our revenues, including the Federal payment.

The other city long-term financing debt service of the accumulated deficit would exceed the statutory debt limit if you do not either amend that provision or exempt us from it.

And so that is one of the problems that I think you have to look at, and I am sure you intend to do that in an effort to pursue this. Without a waiver or increase in the current debt limitations, the District will not be able to finance its multiyear programs because, as I said earlier, the culmination of these two would exceed our ability to borrow, unless you exempt us from the ceiling.

The impact of the terms proposed by the President's plan on the District's overall financial conditions, its cash position, and cash-flow is significant. It would free up current cash to pay operating expenses. The Office of the Chief Financial Officer projects in the absence of any borrowing, the District would end 1997, with a negative cash position of approximately $247 million.

The negative cash position is caused by advancing revenues from future fiscal years to meet current year's expenditures, which is, of course, our accumulated deficit. I think the District's accumulated deficit and any approved deficit should be fully funded through long-term borrowing and other means, including the need for capital projects funding pending the ability of the District to access the private market, the Treasury loan provisions, with continued authority that exists in the Home Rule Act but has been suspended by the Authority.

Finally, Madam Chair, I would like to remind everyone, in August 1991, Public Law 102–102 was passed by the Congress and signed by the President to establish a formula-based Federal payment. The amount of the Federal payment was set at 24 percent of the prior year's revenue source collected by the District.

Since that time, the legislation has been introduced by the Congress, but to change the Federal payment, but you know as I do, that has never been changed, so that we never had an adequate Federal payment to take care of our problems, and, therefore, we have had this accumulated deficit develop for us here in the District of Columbia.

Let me also say in closing, the Council has taken the view that it wanted the Congress to continue the Federal payment, primarily for the purpose of trying to find a way to provide some tax relief to our businesses and to our citizens, and if you don't do that, you must enact some form of Ms. Norton's bill in order to provide some tax relief for our citizens. That is the only way to guarantee the long-term sustained growth of the District of Columbia and the ability of our citizens to take care of themselves and also to provide for the Nation's Capital.

Thank you.

[The prepared statement of Mr. Smith follows:]

STATEMENT OF

COUNCILMEMBER FRANK SMITH, JR.

Chairman, Committee on Finance and Revenue

COUNCIL of the DISTRICT OF COLUMBIA

Before the
U.S. House of Representatives
Committee on Government Reform and Oversight
SubCommittee on the District of Columbia
Thomas M. Davis, III, Chairman
APRIL 25, 1997

Mr. Chairman and Members of the Subcommittee:

I am Frank Smith, Jr., Chairman of the Council of the District of Columbia's Committee on Finance and Revenue. I am pleased to appear before you today to discuss the treasury borrowing elements of the President's National Revitalization and Self-Government Improvement Plan. The parameters of the District's financial crisis are well known and the proposed solution to it requires a joint undertaking by the Administration, the Congress and the District. We know the District has a large accumulated deficit and it is evident that financial solvency is not possible without a long-term financing plan.

For those of you who are history bluffs, as I am, let me recap. The Home Rule Act has served as the governmental structure of the District since January 2, 1975. The Act granted the District autonomy over how to spend its money, both locally raised revenue and that received in the federal payment. Indeed, the Home Rule Act was specific about the federal payment. It stated that the Mayor was to provide meaningful inner city revenue and expenditures comparisons to show costs and benefits of being the capital of the nation in order to determine the annual federal payment. This comparison was to include estimates on the amount of property tax lost because of tax exempt land, amount of unreimbursed services to the federal government and the tax burden relative to the suburbs. The question of how the local government could possibly cover the costs associated with running the city was raised at the beginning. **This leads me to conclude that the proposed Treasury borrowing authorization doesn't offset the proposed elimination of the federal payment even from a cash standpoint. Absent the federal payment, projections by the Authority show that the District will experience a surplus for only one or two years even with the financing of the accumulated deficit.**

In the beginning of Home Rule, the period between 1972-1989 were good financial years for the District. Although there were severe fiscal problems during this period, we believed we could overcome those problems. By 1989, the District's financial condition had changed for the worst. Only in 1991 and 1992 did the budget balance. Between 1994 and 1997, the District has experienced a growing deficit. The Council is struggling to devise a solution within the confines of the limitations of the financial reality with which we are confronted.

Two immediate hurdles face us, if we use the proposal for Treasury assistance in eliminating the accumulated deficit. **One is the need to restructure the District's debt limitation requirements as currently imposed by the Home Rule Act.** The District of Columbia Self-Government and Governmental Reorganization Act of 1973(Home Rule Act) only allows the District to issue long term general obligation bonds for capital improvement or to refund outstanding indebtedness. The DCFRMA Act provides that the Secretary of the Treasury may advance funds to the District government for the limited purpose of meeting its general expenditures Under this process, however, the District may only borrow an amount not to exceed the amount of the annual federal payment to meet capital and/or cash flow needs. Such "treasury advances" are repayable from the subsequent year's federal payment. Furthermore, the District cannot issue general obligation bonds in an amount which would cause the amount of the principal and interest paid in any fiscal year on all long term general obligation debt to exceed 14% of its estimated revenues. Section 603(b) of the Home Rule Act probihits issuance beyond this amount. Currently, the District's debt service is approximately 11.9%??? of our estimated revenues. Thus any long-term financing debt service of the accumulated deficit would exceed the statutory debt limit. If we are to undertake long term borrowing as Dr. Brimmer has advocated or as the President has proposed in his Plan, the restriction on the use of the general obligation bonds must be removed and a waiver from the current debt cap or an increase in the debt limitation as a percentage of revenues is necessary.

Without a waiver or an increase in the current debt limitation the District will be unable to finance its multi-year capital program. **You have heard from the Chief Financial Officer on the expected impact such borrowing would have on the District's bond rating and on its outstanding general obligation debt. I defer to their expertise in such matters.** The impact of the terms proposed by the President's Plan on the District's overall financial condition, its cash position and cash flow is significant. It would free-up current cash to pay operating expenses as they become due. The Office of the Chief Financial Officer projects that in the absence of any borrowing, the District would end FY1997 with a negative cash position of approximately $247 million. This negative cash position is caused by advancing revenues from future fiscal years to meet current years expenditures(the effect of) the accumulation of past operating deficits.

I think that the District's accumulated deficit and any approved projected deficits should be fully funded through longer-term borrowings or other means, including the need for any approved capital projects funding.

Pending the ability of the District to access the private market, the treasury loan provisions would continue authority that exists in the Home Rule Act but has been superseded by the Authority.

Finally, Mr. Chairman, I would like to remind everyone that in August 1991, P.L. Law 102-102 was passed by Congress and signed by the President to establish a formula-based federal payment for the District. The amount of the federal payment was set at 24% of the second prior year's own-

source revenues collected in the District. Since that time, legislation has been introduced to Congress(H.R. 2902) to amend the Home Rule Act to provide for a formula-based federal payment which would increase from 24% to 30% over a six year period. No action was taken on this bill.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions that you or the other members of the subcommittee may have at this time.

Mrs. MORELLA. Thank you, Mr. Smith.

I note your last commentary is not in the written testimony, and obviously it was very heartfelt in you and spontaneous. Thank you.

Mr. Lockamy, delighted to hear from you, sir.

Mr. LOCKAMY. Thank you, Madam Chair, members of the committee. I am Dexter Lockamy, chief financial officer of the District of Columbia, Financial Responsibility and Management Assistance Authority, which I will refer to as the Authority. And with me, I would like to recognize, is Marguerite Owen, deputy counsel to the Authority.

We are pleased to appear before you to present the Authority's assessment into Treasury borrowing. I will be brief, given that the testimony is in the record, but I do want to point out a couple of things.

Madam Chairwoman, Dr. Brimmer, the Authority's chair, stated in his remarks to the subcommittee on March 13, the Authority advocated in a strategic plan the District ought to take a long-term borrowing to pay down its accumulated deficits, and we are pleased that the present plan also calls for such a borrowing and proposes that the U.S. Treasury provide a financing.

I will not go into the details of the specifics of what is being proposed, but I do want to say the Authority fully endorses the concept that the District be provided with the Authority to obtain 15-year term financing of the District's accumulated deficit of the Treasury. However, we do have some observations that I would like to point out.

In our remarks, we would like to emphasize two very important points: That a Treasury borrowing facility for the District's accumulated deficit, while extremely helpful, will not, without a continued Federal payment, allow the District to achieve financial stability with respect to its present and future capital and financing needs.

Second, the current uncertainty concerning the Federal payment caused by this proposal and the District's borrowing authority must be clarified and settled as soon as possible. Otherwise, we believe the District's ability to finance its 1997 and 1998 could be jeopardized.

Clearly, we believe Congress must enact additional borrowing authority for the District. We believe the proposal in the President's plan for intermediate-term borrowing facility with the Treasury will provide most, if not all, of the necessary additional borrowing authority that is required by the District. But we also believe that the provisions for transitional short-term Treasury advances, which are due to expire on September 30, need to be extended by the Congress.

With respect to specific recommendations, we realize that some of the savings that people anticipate in terms of asset sale surpluses may not be realized in the next couple years, and so we therefore recommend that the District have the ability to finance the full accumulated deficit at its discretion, subject of course to the approval of the Authority as provided in Public Law 104–8.

The Authority further suggests the District be granted the authority to borrow the entire amount of the accumulated deficit from the Treasury in tranches over a period of not more than 3 years.

The Authority urges the Congress to extend the transitional short-term Treasury borrowing authority provided in DC Code 47–3401, and/or modify the seasonal cash management provisions of that section to include any short-term borrowing requirement of the District.

We also recommend that the authorizing legislation specifically provide the intermediate-term borrowings have a maximum term of 15 years, and allow the District to elect a shorter period if it so desires, and that there be no penalty for prepayment.

And while we do not object to the Secretary having the provision to suggest refinancing by the District, we strongly recommend that any decision to refinance the Treasury borrowing in the capital markets be left to the District's discretion, after consultation and approval by the Authority and made subject to—by specific criteria, which will not result in increased financing costs to the District.

Last, because the current structure of the District's debt includes large principal payments through fiscal year 2003, we request the legislation should provide principal payments be deferred until fiscal year 2004, when level debt service could begin, and that the Treasury borrowings be exempt from the requirements of DC Code 47–25, which requires that general obligation bond principal payments begin not more than 3 years after the date of such bonds.

Regarding my conclusions, in conclusion, Madam Chairwoman, we view the Treasury borrowing projections in the President's plan are acceptable, provided the details and conditions associated with the borrowing be finalized as soon as possible, along the lines that we have proposed.

We emphasize that prompt clarification of the issues discussed is necessary to avoid any market confusion and concerns that may be generated as the District moves forward with its planned fiscal year 1997 and 1998 capital borrowings.

We are happy to answer any questions that you might have.

[The prepared statement of Mr. Lockamy follows:]

Mr. Chairman and Members of the Subcommittee:

I am Dexter Lockamy, Chief Financial Officer of the District of Columbia Financial Responsibility and Management Assistance Authority and with me is Marguerite Owen, Deputy General Counsel. We are pleased to appear before you to present the Authority's assessment of the Treasury borrowing section of the President's National Capital Revitalization and Self-Government Improvement Plan (President's Plan).

Introduction

Mr. Chairman, as Dr. Andrew F. Brimmer, the Authority's Chairman, stated in remarks to the Subcommittee on March 13, 1997, the Authority advocated in its Strategic Plan that the District undertake a long-term borrowing to pay down its accumulated deficit 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.

Specifically, the President's Plan states that, "The United States Treasury will provide loans of up to 15-year terms to assist the District to eliminate its accumulated fund balance deficit and to manage its liquidity position. The combined amount of the Treasury loans may not exceed $500 million." The President's Plan as embodied in the April 11, 1997 draft of the Memorandum of Understanding envisions among other things, that:

-- The Treasury loans will have an interest rate equal to the prevailing yield on outstanding Treasury marketable securities of comparable maturity plus 1/8th of one percent.

-- The Treasury may also provide intra-year loans for the purposes of seasonal cash flow management.

-- The Secretary of the Treasury may require early reimbursement if the District can obtain credit in the commercial market on reasonable terms for refinancing as determined by the Secretary.

-- The Federal government will work with the District government to amend its general obligation debt limit provisions in order to allow implementation of the District's capital plan in an orderly and sustainable manner.

The Authority fully endorses the concept that the District be provided with authority to obtain fifteen year term financing of the District's accumulated deficit from the Treasury. However we do have some observations concerning the District's cash flow and accumulated deficit financing needs, in addition to the specific terms and conditions mentioned in the President's Plan, which I will describe. Our remarks also emphasize two very important points: First, that a Treasury borrowing facility for the District's accumulated deficit while extremely helpful, will not, without a continued Federal Payment, allow the District to achieve financial stability with respect to its present and future capital financing needs. Secondly, the current uncertainty concerning the Federal Payment and the District's borrowing authority must be clarified and settled as soon as possible, otherwise the District's ability to obtain 1997 and 1998 capital financings is in serious doubt.

District's Current Borrowing Authority

At present, the District has no authority to borrow funds on an intermediate or long-term basis to finance the accumulated deficit. The District has authority to issue general obligation bonds only for the purposes of (1) refinancing existing District debt, and (2) acquiring or undertaking capital projects. DC Code § 47-321.

The District's ability to borrow on a short-term basis to finance cash flow requirements attributable to the accumulated deficit is also severely restricted. The District's authority to issue notes is limited to (1) general obligation notes under DC Code § 47-327, to finance an appropriated budget deficit -- which will not be applicable beyond fiscal year 1997 if a budget deficit is not approved or appropriated by Congress for any subsequent fiscal year; and (2) revenue anticipation notes under DC Code § 47-328, which must be repaid in the same fiscal year in which issued (intra-year borrowing). Presently, the District's authority to obtain transitional short-term advances from the United States Treasury under Title VI of the District of Columbia Revenue Act of 1939, DC Code § 47-3401, as amended by the District of Columbia Financial Responsibility and Management Assistance Act of 1995, Public Law 104-8, expires at the end of fiscal year 1997. After which, the District will retain authority to obtain short-term advances from the Treasury under Section 47-3401 only for seasonal cash-flow management, and the feasibility of such borrowing will be greatly reduced if not eliminated if the District no longer receives a Federal Payment after fiscal year 1997.

Clearly, Congress must enact additional borrowing authority for the District. The proposal in the President's Plan for an intermediate-term borrowing facility with the Treasury will provide most, if not all, of the necessary additional borrowing authority that is required by the District, but we also believe that provisions for transitional short-term Treasury advances which are due to expire on September 30, 1997 need to be extended.

Specific Terms of Borrowing

The Authority urges that the Treasury borrowing legislation provide the following terms for the accumulated deficit financing:

1. The legislation should provide the District with authority to borrow the full amount of the District's accumulated deficit as of the end of fiscal year 1997, currently estimated at $527.856 million. As the District will make clear in its remarks, the District may well limit its initial borrowing to the amount of the District's cash deficit, currently estimated $300 million by the District; and attempt to pay down the remaining accumulated deficit by making continued improvements to operating inefficiencies, realizing additional revenues through assets sales, and using any budget surpluses resulting from the implementation of the President's Plan and/or a restructuring of the District's existing heavily front-loaded debt. Realize however, that for a variety of

reasons, including legitimate or unavoidable new operating spending pressures, or additional urgently needed capital projects, any attempt to pay down the remaining accumulated deficit may not be fully satisfied. We therefore recommend that the District have the ability to finance the total amount of the accumulated deficit at its discretion, subject of course to approval by the Authority as provided in Public Law 104-8. The Authority further suggests that the District be granted the authority to borrow the entire amount of the accumulated deficit from the Treasury in tranches over a period of not more than three years.

In order to provide the District with an additional shorter-term borrowing option for a portion of its deficit financing needs, the Authority urges the Congress to extend the transitional short-term Treasury borrowing authority provided in DC Code Section 47-3401, and/or modify the seasonal cash management provisions of that section to include any short-term borrowing requirement of the District.

2. We also recommend that the authorizing legislation specifically provide that the intermediate term borrowings have a maximum term of fifteen years and allow the District to elect a shorter period if it so desires, and that there be no penalty for prepayment. While we do not object to a provision that the District evaluate its refinancing options at any time at the request of the Secretary, we strongly recommend that any decision to refinance the Treasury borrowing in the capital markets be left to the District's discretion, after consultation and approval by the Authority, and made subject to specific criteria which will not result in increased financing costs to the District. To

facilitate any such refinancing, we also strongly suggest that the District be given the authority to negotiate the sale of refinancing bonds, subject to Authority approval. The District currently does not have the authority to do negotiable bond transactions and we believe that having the authority to refinance any take-out of the Treasury loan will allow the District to obtain the best possible terms in issuing refinancing bonds.

3. Because the current structure of the District's debt includes large principal payments through fiscal year 2003, the legislation should provide that principal payments be deferred until fiscal year 2004, when level debt service payments could begin, and that the Treasury borrowings be exempt from the requirements of DC Code § 47-325(b) that general obligation bond principal payments begin not more than 3 years after the date of such bonds.

Debt Ceiling Restriction

Concerning debt limit restrictions, presently the DC Code § 47-313 provides that no general obligation bonds (other than bonds to refund outstanding indebtedness) or Treasury borrowings, except advances under Section 47-3401, shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid in any fiscal year to exceed fourteen per cent of District revenues, less certain fees.

Without the Federal Payment, and even if the District limits its intermediate-term deficit borrowing to the amount of the cash deficit, the District would exceed the current debt limitation provided in Section 47-313. Hence, the authorizing legislation would have to exempt any Treasury deficit borrowing from the requirements and calculations of Section 47-313, thereby eliminating the need to immediately change the District's current statutory debt ceiling. However, we want to highlight the fact that without a Federal Payment, the District's ability to borrow for its on-going capital needs will be severely restricted without a change to the current debt limit; and even if the statutory debt ceiling is raised, it is unclear how the market will respond to additional capital borrowing in the absence of a Federal Payment.

Timing of Legislation

Finally, Mr. Chairman, the Authority wishes to emphasize that any accumulated deficit financing and/or additional cash flow borrowing authority be provided to the District as soon as possible to dispel any market concerns that may be caused by the potential loss of the Federal Payment and uncertainty concerning the District's financing capacity. As you know, the District currently plans to issue two capital borrowings between now and the end of the 1997 fiscal year. Moreover, the transitional short-term Treasury advances obtained by the District during fiscal 1997 become due on October 1, 1997 and are expected to be repaid from the fiscal year 1998 Federal Payment. If there is to be no Federal Payment, the District's only course of action under current law is to refinance the Treasury advances by issuing general obligation bonds. Significant preparation time would be required if this course had to be followed, including passage of a general obligation bond act by the Council of the District of Columbia, approval of the Authority followed by Congressional review. Once again, we would argue for the ability to negotiate the sale of refunding obligations. Also, it is unclear how the market would react to such bonds. On this subject, I would like to reiterate the Authority's position that without an annual Federal Payment as compensation for the restrictions imposed upon the District by the Federal government on its ability to generate revenue, the District cannot achieve long-term financial and fiscal stability, and its ability to market additional capital bond financings on reasonable terms becomes in doubt.

In conclusion, Mr. Chairman, we view the Treasury borrowing revisions in the President's Plan to be acceptable, provided that the details and conditions associated with the borrowing be finalized as soon as possible along the lines that we have proposed. We emphasize that prompt clarification of the issues discussed is necessary to avoid any market confusion and concerns that may generate as the District moves forward with its planned fiscal year 1997 and 1998 capital borrowings.

We thank you for this opportunity to set forth the Authority's views on the proposed Treasury borrowing provisions, and are happy to answer any questions you may have.

Mrs. MORELLA. Thank you very much, Mr. Lockamy.

I just thought I would ask several questions and then look to Ms. Norton for her questioning.

First of all, I think that from your testimony, I pretty much heard a response to the fact that you do support the Treasury proposal as you understand it. Did I hear you say that?

Mr. HUESTIS. Yes.

Mrs. MORELLA. What is the status of the MOU, the Memorandum of Understanding, which includes the Treasury proposal, as I understand?

Mr. SMITH. Do you want me to answer that?

Mrs. MORELLA. Yes.

Mr. SMITH. We have—just this afternoon, actually—the Council had a few minutes of consultation on that matter, and we will be taking it up again over the weekend.

As you know, we are scheduled to vote upon it on Tuesday, the 29th, and I would not presume to tell you what my colleagues are going to do in a vote before it happens. You operate in a body similar to mine, and I am sure you understand.

Mrs. MORELLA. Do you know how you are going to vote?

Mr. SMITH. Yes.

Mrs. MORELLA. Shall I ask you? Shall I ask you, or would you prefer to wait?

Mr. SMITH. Well, they might be watching this. I know we are on television. I don't want to tip my hat too early.

Mrs. MORELLA. That's perfectly understandable. But Tuesday, the 29th.

Mr. SMITH. Yes. And I will say this to you. I am sure you are aware the Council had some concerns with some aspects of it. We have returned what we consider to be a proposal that we could all work off of, and some negotiations are going back and forth on it now, and I hope those will be concluded by the time we get to the Tuesday vote.

Mrs. MORELLA. That will be good, because we want to move the whole program ahead.

You know, the Home Rule Act, like most city charges, requires the District to have a balanced budget and not run deficits. We know that the District inherited and accumulated operating deficit of more than $200 million. You mentioned that in your testimony, Mr. Huestis.

In 1991, Congress allowed the city to sell $331 million in deficit financing bonds to liquidate its accumulated deficit, and now we are faced with the prospect of authorizing the District to liquidate an accumulated deficit of more than $400 million well before the 1991 bonds are paid off.

What can Congress do to ensure that the District not get into that kind of deficit situation in the future, requiring such action? I mean, what kind of assurance do we have on top of the concept of debtor budget?

What else can we do? What can Congress do to restrict or require of the District government?

And then I wonder, whatever you will see, if you do have something to offer that we should suggest, should it be legislated? And I guess, let's start out that way.

Mr. SMITH. I think that Congress is doing many things now to help us to solve that problem. And let me just say, I think the District government itself, too, has done a great deal to help solve the problem. It has sobered up to the reality it has to control spending, and that was one of the missing elements back in the early days when you did the first refinancing, and the Council itself did not engage itself in the kind of arduous process we have been engaged in in the last 2 years to try to cut spending and then to get it under control.

Second, you know, already you have given us a Control Board and CFO and various other stopgap measures you have employed to help us maintain the discipline and the cuts that we have put in place.

Third, you have taken a step to try to take over some of the State functions that the District government should never have been saddled with in the first place.

And fourth, I guess among those things, you have taken over some responsibility for a pension payment that the Congress said it was going to take over, and it is just now getting around to doing so. And let me say any budget that would have had to carry an item in it that large for such a long period of time would probably eventually run into a wall the way we did in this one.

But I think we are taking steps that can assure you and others that we will get this matter under control, we will discipline ourselves to keep it under control, and with a little help to reseed our economy of tax breaks and things like that, we think we can guarantee you a future in the Nation's Capital that we can all be proud of.

Mrs. MORELLA. I mean, that sounds all well and good, and I appreciate you saying it, and I know you truly mean it. I am also saying we are going to have a hard time selling this to other Members of Congress, and they are going to say, what assurances do you have? And it is easy to say, well, now we have a Control Board and now things are going better. I think Congress is probably going to ask for more than that, maybe something a little more tangible.

And if anyone else has any comment—Mr. Huestis, did you want to comment? Mr. Lockamy.

Mr. HUESTIS. I agree with Mr. Smith. I think Congress has already done a lot. I think the Control Board and CFO have been a big part of the District turning around and good—a very good reason why the deficit bonds are not going to be wasted this time.

And I think if you just look at the results of last fiscal year, where we had a budgeted deficit of $116 million and we ended up with an operating deficit of less than $60, and that is quite extraordinary, and that was, in part, to the good work of the Control Board and the CFO of ratcheting down spending and making sure that agencies did not overspend their budgets and deficits were not acceptable—so I think there is already some history that the actions that Congress has taken in the past have been effective.

I think that the other thing is that, in reviewing the President's plan, you want to make sure that the—when, after the plan is implemented, that expenditure growth does not outpace revenue growth.

I mean, what we have now is, we have expenditure growth of 6 or 7 percent in the District; if left unattended and revenue growths are very, very small, 1 percent, 2 percent. So you have this structural imbalance, and the President's plan is designed to narrow it. But the District will never be able to fully function as a normal operating government unless that structural imbalance is narrowed, and so the Congress must make sure that that structural imbalance is taken care of with the President's plan or another plan.

Mrs. MORELLA. I would like to ask Mr. CFO himself to comment on that.

Mr. LOCKAMY. Well, Madam Chair, the meeting both Ms. Jarvis and Mr. Rogers left and that is being held right now at the Control Board is in an attempt to try to reach a balanced budget for fiscal year 1998, 1 year earlier than what was required by the law. And the struggle is balancing the budget in such a way that we try to achieve true structural balance going forward, rather than rely upon various sorts of conventions that will balance it this year but then to bring about a recurring problem in the future.

I think the Congress, I think, has done a lot. I think I concur with my colleagues on this panel that the independent CFO, ourselves, the new leadership that we see on the City Council is going a long way in terms of restoring confidence. But one of the things that could derail all of these efforts is the flat revenue stream that the District has to contend with, and that is why we feel that pulling away the Federal payment without having identified new, viable revenue sources is only going to put in jeopardy a lot of the efforts that are under way.

Mrs. MORELLA. Yes. I guess we also—I hear that often too.

I wanted to also ask: You know, the private bond market, especially holders or insurers of outstanding District general obligation debt, was concerned about Treasury, using the Federal payment as collateral, and having first call on that funding source.

How do you think this proposal and the elimination of the Federal payment will affect current district bonds and future bond ratings? And remember, you have spoken about that, Mr. Huestis. You may all just want to briefly respond to that so we have it on the record.

Mr. HUESTIS. I did respond to that in my testimony, and I think that our conversations with the holders think that if the goals of the President's plan are carried out, that the pensions are taken care of, and that the structural imbalance is narrowed in any way, that this would be a positive for the bondholders, even losing the Federal payment, which is part of the existing security structure of the GO bonds.

Mrs. MORELLA. Mr. Smith, you also feel that the Federal payment is critical?

Mr. SMITH. Yes, I think Mr. Huestis has made it plain, and I think Mr. Lockamy said in his testimony, we need to be settling this issue early, as soon as possible, and early in the next fiscal year, because we have some outstanding bonds out there that are going to come due in 19—in fiscal year 1998, one of which I know is—says right at the bond issue, we are going to use the full faith and credit, District government included in Federal payment, and I can tell you right now, bondholders are looking to the Federal payment. So, if it is not there, or, alternatively, if we don't do this long-term debt restructuring quickly, they are going to get very nervous.

Mr. LOCKAMY. I would like to say that we have been in touch with Mr. Huestis and his office and his conversations with rating agencies. We independently have had conversations with the rating agencies to explore this issue.

One of the things we are concerned about is what the collateral is that the U.S. Treasury will require with respect to this loan, and so long as there is nothing that is created that would create a higher order of priority over the existing general obligation bondholders, we feel the market would be comforted.

I think going forward, the market is really looking for a reasonableness that they can get paid back in terms of the full general obligation pledge of the District.

Surely, pulling out the $660 Federal payment does have a negative impact, and so long as there is a corresponding sort of cost avoidance or reduction in expenditure, the market could probably get comforted. And I think the real issue for the market is liquidity of the District going forward and flexibility to deal with unforeseen and unexpected issues. If the District—you know, if the debt becomes such a burden to the District going forward, I think the market will have an unfavorable reaction.

Mrs. MORELLA. Do you want to speculate about what you think the Federal payment should be if the other reforms are enacted?

Mr. LOCKAMY. I am sorry?

Mrs. MORELLA. Do you want to speculate what you think the Federal payment should be if the other reforms are enacted?

Mr. LOCKAMY. The Authority's position is, the full Federal payments stay in place with the President's plan.

Mrs. MORELLA. With the President's plan.

Mr. Smith.

Mr. SMITH. Yes, I would say we ought to do it, at least for a—for a considerable period of time, the full Federal payment, because, as I said earlier, among other things, the District government would like to—the Council, certainly, on the leadership of the Finance and Revenue Committee, would like to find a way to make the tax structure of the District of Columbia more compatible with surrounding jurisdictions. That is the only way to ever guarantee a full economy there where we can have a tax base that can produce the kind of revenue that will give us a sustained base so that all of our creditors and our citizens, too, can be employed and also can be—our creditors can be paid back. So we would like to have a Federal payment so we have flexibility. Without the Federal payment, we do not have any flexibility or capability to do that.

Mrs. MORELLA. You think it should be $660 also, Mr. Huestis, or you don't have any comment?

Mr. HUESTIS. It is a policy decision, and I think the revenue should be sufficient for the District to continue to operate, and whether that is a Federal payment or increased taxes from Congresswoman Norton's plan or another facility that is a policy decision, we will evaluate that.

Mrs. MORELLA. Thank you. I want to thank you, gentlemen.

I am now going to recognize Ms. Norton, the ranking member of this subcommittee, for her line of questioning.

Ms. NORTON. Madam Chair, I don't have specific questions. I do note the difference here on the Federal payment, some difference between the CFO and Control Board.

Mr. HUESTIS. No difference.

Ms. NORTON. In any case, it is not in any of your hands.

Mr. HUESTIS. Right.

Ms. NORTON. And we are just going to have to do the best as we can.

What we would most like is to keep the Federal payment. I feel irresponsible if I simply say we are going to keep the Federal payment and want everybody to try to help us to figure out what to do in case we don't get to keep it all. I want everybody to know that the Federal payment is going to be used to pay for the plan and don't want to leave the impression that there is any free lunch up here.

Therefore, what we have got to figure, and I think what you all ought to be figuring out right now, you want the Federal payment, you can probably get it. It is now worth $500 million. You will lose some part of what the President's plan has.

And so what I would like the Control Board and the Authority and the Council and the Mayor to engage in is some thought about tradeoffs, because the chairman and I are now engaging in tradeoffs.

In other words, the chance that what we will do is to get the President's plan, which is more than any of us thought he would come through on in the first place. And on top of that is $660 million.

You must not be living where the Washington Post comes out every day to talk about deficit reduction. I do that only because I cannot pander on an issue as critical as this. We need that cash. It would make us much more stable, much more secure.

All you say about collateral and bondholders is exactly right. They also understand the President's plan to be the substantial linchpin to the District's payment, not the Federal payment.

I have to be very careful because, in essence, I want the Federal payment, and I also do not want to pull the rug from under the plan, and I do not want to give Members who don't want to give the District 2 cents the opportunity to say, well, you all really haven't figured out this plan, there is no understanding about what would be traded off, and we don't want to do this any way.

So one of the things I would like to ask you to do in your own councils is to think if, in fact, the Congress of the United States is unwilling in a year, when there is only one issue on the table, and that is deficit reduction, to give the District everything the President's plan says plus—and the Control Board of course says, also, other State functions plus the Federal payment—if for some reason that doesn't happen, we can't beat something with nothing, and what I am never caught up here with is, they come back and at some point somebody is going to come back, and they are going to say, OK, here is what we want.

The only way I am able to get anything for the District up here is, I am the one that comes and says this is the tradeoff we make, because it will otherwise be on their terms.

Any thought you can give and any advice and counsel you can give on that, considering the plan has some things in it we never thought would be in it—economic development corporation, infrastructure, all kinds of things about the prisons we didn't think would be in it; we were not sure they would take 100 percent of the pensions; on Medicaid, we had no idea they would go to 70, 30.

That is how it works up here. I just want everybody to know that. It does not work like, here is some more. The President hardly gets what he asks for—now we are going—hardly ever gets what he asks for, much less, here is what you asked for, and here is more. There may be ways for us to still come out ahead.

When I say tradeoffs, I don't mean we end up with a lesser package than we have now necessarily, but I am very, very anxious about being caught with somebody listening, overhearing our conversations in our hearings, and coming back, because it has happened to me before.

Let me say, the chair asked about the MOU. First let me say, with the Council, which I think just handled this very well, I mean the Council, which, after all, has a constituency, and we have lived with the Federal payment for almost 200 years, can't be expected to say, OK, take the Federal payment. Therefore, it is perfectly understandable you would want some accommodation with the Federal payment. And what you have—what you have come forward with, all, it seems to me, ought to be taken into account as we try to figure out what to do.

The MOU, I think everybody ought to get the chairman's opening remarks on the MOU. And I want to caution everybody that there is needless polarization out here in conversations that I think progresses somewhat with the chair pro tem, and with the Mayor, and Mr. Evans.

That was this week. I have also had conversations with the senior operatives at OMB. And I know that the Council has had conversations, and I believe progress is being made.

The chairman has told me—I think you heard it—that in a real sense, we want the MOU, we want to be able to point to it to undergird us when Members lack confidence that this thing is going to go well.

But it would be a monumental mistake to let the fight over the President's plan take place on the MOU. It would be a monumental mistake, because it would then feed into people who would say, look, they have problems.

What we get back then is, they are fighting over the particulars of whether they even do what their own administration wants them to do, and you want me to vote for this bill when, in fact, what is being fought over doesn't have anything to do with that, it has to do with Mr. Davis's plan. And I think one of the first rules of politics is, understand when you have won, declare victory, go home.

So we are fighting over Mr. Davis's bill, and he is the one, that Mr. Davis's prison section—I can't understand what the fight between two parties, neither of whom have the ultimate say on that, the administration on the one hand, the Council on the other. We know where you both stand on that, so I think we can get over that, and I think there is kind of language that we can deal with that on the Federal payment.

There was already a victory that could have been declared and everybody went home, when it wasn't in the MOU. Then it got back in the MOU, rubbing the administration's face in it. You hit somebody that hits you back. Once it was out, it seems to me somebody had a victory somewhere who could say, you know, you hadn't signed anything with the Federal payment in it; I am talking to everybody concerned.

I am sure, having talked with everybody concerned, that this is not going to be a problem. I just raise this now because I would like everybody to understand, I have said the same thing to the OMB. They are now going back with some suggested language we have been talking about. Ms. Jarvis knows about some suggested language.

And I just want to say for the record, there is not real disagreement on the two items such that they affect the MOU; that is to say, the Federal payment and the prison section. They are matters for Congress, and the administration and the city have worked so well up until now that it has really helped the bill, and so I encourage you to really work as you have, and I am going to continue to work with both sides, because you have both come very far, in my judgment, and I appreciate the way in which you have responded to what would otherwise be a very difficult situation.

Mr. SMITH. Let me say on behalf of the Council, we appreciate your effort in this, too, your effort and also the effort of our colleagues from the surrounding jurisdictions, from Maryland and Virginia, in helping us with this fight. I know it hasn't been easy, and this is, I think, an important step for all of us, for our city and for the Nation's Capital.

My understanding is that the—these—that there is a considerable amount of progress in negotiations and some language that is being worked out and might enable us all to go forward. I hope that will happen over the weekend and, by the time we vote on Tuesday, we will be ready to go.

Ms. NORTON. It won't happen over the weekend, but I have already spoken with your chair pro tem.

One thing that would be helpful is, given the fact, only today, for example, if I talk with people from the OMB, particularly since the MOU is not up against any timeframe wall, we won't have answers back from OMB before then, but we are making progress. So I hope you are not up against a wall on a vote that won't be necessary, but I already talked to Ms. Jarvis about that. And, again, you all have helped in what you did, I guess it was yesterday. And while we are not there yet, I have every confidence, based on how you all have been moving and based on my conversation, that we are going to get there. We will not be there, though, by Tuesday.

Mrs. MORELLA. Thank you, Ms. Norton.

And I think all of us on the subcommittee agree with what you said. I know I have some concerns about the criminal justice element, and I think we will probably be changing that, but we are all committed to do everything that we can, working cooperatively with you to make sure that this capital city is the capital with a capital C.

I am going to ask unanimous consent that written statements from this panel and from anyone else who has testified, that written statements be included in the permanent record.

I want to thank you for being here. The record will be open for 10 days, and there may be some other questions we will get back to you on, other Members that may not be here, if that is acceptable.

Thank you very much, and the subcommittee hearing is adjourned. Thank you.

[Whereupon, at 4:43 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

DISTRICT OF COLUMBIA HOSPITAL ASSOCIATION

1250 EYE STREET NW
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20005-3930
TEL: (202) 682-1581
FAX: (202) 371-8151

May 9, 1997

Mr. Ronald Hamm
Majority Staff Director
District of Columbia Subcommittee
B-349 A Rayburn House Office Building
Washington, DC 20515

Dear Mr. Hamm:

As I indicated in our telephone conversation today, I am submitting two letters dated April 30, 1997 and November 14, 1996 that were sent to Paul Offner, the head of the Medicaid program for the District of Columbia. We would have liked the opportunity to testify at the hearing on April 25,1997 as we had talked about in our meeting of March 7, 1997. However, these two letters address the Program's management problems and possible solutions.

Let me state also for record that it is the District of Columbia Hospital Association's position that the any legislation addressing the financial problems of the District of Columbia Government should include an increase in the United States Government's share of the federal match formula to a minimum of 70 percent. I have also submitted a copy of my testimony on President Clinton's National Capital Revitalization and Self-Government Improvement Plan before the Council District of Columbia that discusses our rationale for this position.

If you have any questions or would like to discuss these issues in more detail, please call me at (202) 682-1581.

Very truly yours,

Robert G. Eaton

Robert G. Eaton
Vice President & General Counsel

cc: Joan Lewis, Acting President, DCHA

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April 30,1997

Mr. Paul Offner
Deputy Director
Department of Health
Division of Health Finance
2100 Martin Luther King, Jr. Ave. S.E.
Room 302
Washington, DC 20020

Dear Mr. Offner:

I am writing this letter in response to your memorandum of April 14, 1997, to Chief Financial Officers of DC Medicaid Hospitals regarding moving on an interim basis to a methodology that reimburses hospitals for APDRG claims at cost. The District of Columbia Hospital Association (DCHA) strongly objects to this change as another example of the District of Columbia Government's inability to provide payment predictability to DC Medicaid hospitals. Prior to the risk corridor being put in place in August of 1996, DCHA informed you that these frequent changes in reimbursement methodology were making it difficult for hospitals to do financial planning due to the inability to predict cash flows. You ignored this concern and instituted the risk corridor. Now six months later, you come back with yet another change in methodology, the sixth reimbursement change this decade.

The Department of Health (the Department) simply has to understand that hospitals are businesses and like any business, they must have some reasonable basis for predicting payment streams to allow them to conduct financial and capital planning. A change from a prospective payment methodology is regressive in nature in that it deserts a methodology that provides economic incentives for health providers to be efficient in favor of a methodology that induces wastefulness. Additionally, the rationale you give for the change, an 18% increase in the monthly average for discharges for the first six months of the fiscal year, does not reflect the fact that more recipients are being served.

The proposed reimbursement change also constitutes another cut in Medicaid payments, the second in less than a year. Yet despite our frequent and consistent communications to you regarding the underpayment of outpatient claims, the Department has not responded to our pleas other than to increase outpatient hospital emergency services payments, the smallest percentage of outpatient visits. To the extent the Department feels it is paying more than reasonable cost, those dollars should be shifted to address the outpatient underpayment problem.

DCHA members have shown good faith in working with the Department to assist the District Government through a difficult financial period. We have supplied you with Medicaid/health data you did not have. We have performed outstationing functions to help more people become Medicaid eligible, even though we have frequently told you that it is not our responsibility and we have yet to be paid by the District Government for performing this service. DCHA has also come to the aid of the District by writing Judge Kessler to ask her not to force the Department to reissue the health maintenance organization solicitation by requiring Medicaid recipients to be assigned to the health provider located nearest their residence. Additionally, DCHA has recently agreed to fund a SAS programmer to enable the Department to revise the APDRG system to correct this empirically flawed system developed by the Commission on Health Care Finance in 1994. What other health provider group in the country has paid for a consultant to help the government perform its job?

DCHA also communicated to you when you put the risk corridor in place that unless you quickly moved to the Medicaid managed care program for the welfare population, you would be forced to take more Draconian measures to generate budget savings. This methodology change is a prime example of having budgetary policy drive payment policy.

The District of Columbia hospitals are corporate residents of the District of Columbia that contribute substantial levels of uncompensated care to the District citizens and actively participate in their communities through numerous community outreach activities. They are major employers as well which encourage their employees to take an active role in their communities.

Many of the District hospitals have experienced negative operating margins in recent years and/or have had major layoffs. With the combination of possible federal cuts in Medicare/Medicaid and the proposed lengthening of the payout period for Medicaid accruals in the District Government's budget, your continued assaults on hospital reimbursement threaten the continued financial viability of many District hospitals. We are not moving to the Virginia and Maryland suburbs like many of our business counterparts, but we do not want to taken for granted by continued attempts to balance the Medicaid budget.

The Medicaid program must stabilize itself for the good of beneficiaries and providers. These frequent methodology changes cannot continue. We strongly urge you to develop a long range plan and commit to stick to it. A focused driven effort to complete the recalibration of DRG weights and the rebasing of hospital specific rates would be a step in the right direction.

Very truly yours,

Robert G. Eaton

Robert G. Eaton
Vice President & General Counsel

cc: DCHA Board of Directors
Joan Lewis, Acting President, DCHA

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November 14, 1996

Mr. Paul Offner
Commissioner
Commission on Health Care Finance
2100 Martin Luther King Avenue, SE
Suite 302
Washington, DC 20020

Dear Commissioner Offner:

During the course of APDRG Medicaid Advisory Panel meetings, DCHA and its member hospitals have raised numerous issues pertaining to reforming the Medicaid program. While we have not always agreed with the Commission on Health Care Finance (CHCF) on policy direction, our hospitals have benefited from the discussions and given our conversations we know that the Commission has benefited from the dialogue as well. DCHA has substantial expertise it would like to share with CHCF to avoid the chaos that has been generated through five reimbursement methodology changes in five years. By establishing the task force we have previously discussed, we can aid CHCF in establishing payment predictability and lead to a more efficient operating system.

On the attached page, we have outlined some goals and issues that need to be addressed in any effort to reform Medicaid. We also recognize that to simultaneously attack problems with both inpatient and outpatient payments, CHCF will need temporary personnel with specific expertise. DCHA would like to know what personnel resources CHCF would need in addition to the SAS programmer you have already requested. One idea may be to hire a consultant who will assist in payment methodology development and hospital specific financial impact analysis. We would also like to know for how long you would need the personnel. DCHA would like a reply as soon as possible since we will need DCHA Board approval for this type of expenditure. We would also request that First Health be included in the task force as we will need operational input throughout the process.

DCHA and CHCF have had a successful working relationship in the past during the APDRG system implementation. A joint effort among DCHA, CHCF and First Health would enable us to resolve the system problems we all currently face as well as build a bridge to continued cooperation in the future.

Sincerely yours,

Robert G. Eaton

Robert G. Eaton
Vice President & General Counsel

cc: Linda Cropp, Chairperson, Committee on Human Services
John Hill, D.C. Financial Responsibility & Management Assistance Authority
Michael C. Rogers, City Administrator
Doug Keel, Interim Director, First Health
Thomas L. Johnson, DCHA President & CEO
Joan Lewis, DCHA Senior Vice President

GOALS & TASKS OF MEDICAID REFORM TASK FORCE

Goals

1). To establish payment predictability and certainty as opposed to the chaos created through five payment system adjustments imposed by the CHCF during the last five years.

2). To simultaneously address reimbursement methodology refinement for both inpatient and outpatient payments.

3). To move as quickly as possible from under the risk corridor which does not provide economic incentives for hospital efficiency.

4). To ensure that payment policies be closely tied to Medicare policies to ease the operational burden on CHCF.

Inpatient Payments

1). Revise the service intensity weights for the APDRG grouper inclusive of the AFDC and ABD populations.

2). If necessary, develop a revised APDRG system to serve the ABD population once the AFDC population has been moved to managed care.

3). Create an update factor based on the Medicare update factor.

4). Fully fund DSH payments with the understanding that there is no state allotment cap on DSH payments ~~due to~~ DC DSH payments being computed under the Medicare DSH formula.

Outpatient Payments

1). In the short term, implement an outpatient payment increase of at least 100 percent to address the chronic underpayment problem.

2). In the long term, adopt outpatient payment policies that are consistent with the direction of federal outpatient policy.

3). Create an update factor to ensure equitable payment.

Robert G. Eaton
Vice President and General Counsel
District of Columbia Hospital Association

Good evening, Councilmember Jarvis, members of the Committee and staff. For the record, my name is Robert G. Eaton, Vice President & General Counsel of the District of Columbia Hospital Association. DCHA is a trade association representing 18 hospitals who employ approximately 25,000 employees to provide health care services to residents of the Greater Washington region. I am delighted to be here this evening to address the President's National Capital Revitalization and Self-Government Improvement Plan as it pertains to the Medicaid program.

The President's plan calls for an increase in the federal match for the Medicaid program from fifty percent to seventy percent. The increase in the federal match for the District of Columbia is a position long held by DCHA and which we most recently advocated in testimony before the Committee on Human Services at the Medicaid Oversight Hearing on October 3, 1996. The federal match establishes the federal reimbursement rate for each state's medical costs incurred under the Medicaid Program. The District's rate is the lowest, while many states currently receive seventy percent or more. Several health policy analysts and the General Accounting Office have called for changes in the federal match to account for the District's total taxable resources and residents in poverty. Until the formula is changed, the District's Medicaid Program will continue to be treated in an inequitable manner compared to counterparts in similarly populated states. The savings generated from the increase in the federal match, however, should be plowed back into the program to address the underpayment of outpatient payments as well as funding the planned 1115 waiver to provide a comprehensive plan for covering the uninsured population in the District.

In addition to the increase in the federal match, the President's plan would call for more intensive technical assistance to be provided by the U.S. Department of Health and Human Services to help the District improve the management of its Medicaid program and assure that Federal funds are not mismanaged. DCHA has testified on many occasions on the need for the Medicaid program to improve its performance in gaining approval of federal waivers and state plan amendments. An 1115 waiver has been on the drawing board for a year while the 1915 (b) waiver that initially authorized the transfer of a portion of the welfare population to managed care in 1994 still has not been approved by the Health Care Financing Administration (HCFA). Clearly, federal technical assistance in this area would be welcomed by the provider community.

DCHA has also commented in previous hearings on the lack of resources, staff and inadequate technical training that have been the hallmark of the

Medicaid program since its creation. The increase in federal funding along with technical assistance would alleviate many of the pressures the program is currently experiencing and possibly provide some much needed stability that would benefit providers, beneficiaries and the Government as well in a program that is structurally a state program being run by a city.

DCHA also advocates that the President's task force study the issue of transferring management of the mental health hospital. The consideration is prudent given the federal government's historical role of managing St. Elizabeths Hospital and the track record of the District Government since control was transferred to local authorities in the 1980s.

Finally, while we support speedy enactment by the appropriate governmental bodies, DCHA would request that our hospitals be consulted in the development of any legislation and/or new program initiatives. The Medicaid program is one which substantially impacts our institutions but is also one which our institutions have considerable expertise. In conclusion, DCHA enthusiastically endorses this aspect of the President's plan. I would be happy to answer any questions.

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