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THE PRESIDENT'S PROPOSAL AND ALTERNATIVE APPROACHES FOR THE DISTRICT OF COLUMBIA

HEARING

BEFORE THE

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

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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THE PRESIDENT'S PROPOSAL AND ALTERNATIVE APPROACHES FOR THE DISTRICT OF COLUMBIA

TUESDAY, MAY 13, 1997

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF
COLUMBIA, OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 1:45 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Sam Brownback, Chairman of the Subcommittee, presiding.

Present: Senator Brownback.

Staff Present: Ron Utt, Staff Director; Esmeralda Amos, Chief Clerk; and Joyce Yamat, Professional Staff Member.

OPENING STATEMENT OF CHAIRMAN BROWNBACK

Senator BROWNBACK. Welcome to the fifth hearing on the District of Columbia that this Subcommittee has held and what we in Congress should be doing about this issue of the District of Columbia and its future.

Previously, we've covered topics on Federal tax relief, education and crime, and today we'll focus on the administration's plan and the city's reaction to it. Our witnesses today will include Edward DeSeve, Controller of the Office of Federal Financial Management of the Office of Management and Budget; Mayor Marion Barry; and Mrs. Linda Cropp, the Acting Chair of the District's City Council.

I suppose this hearing could not be better timed given the agreement reached last week and thereby setting the stage for the Senate's review of the proposals, as well as alternatives that may be generated here and in the House.

I should state at the beginning that I'm certainly partial to Delegate Norton's Federal tax relief plan with some adjustments and some amendments to that. On Thursday night of this week, I'll be introducing the Senate version of it at a town hall meeting in the Hart Building, and joining me will be Delegate Norton, Senators Lieberman, Mack, and Trent Lott, the Majority Leader.

I also want to say that I think this is an important hearing from the standpoint of hearing from the administration and from the City Council on the agreement reached last week, the earlier vote where the Council had said, "No, we don't agree with what the administration has put forward," and my own deep desire that we get at a real solution to what's been going on in the District of Columbia and the problems that we've heard in the last four hearings.

We've got a lot of difficult problems that I don't think I have to tell anybody in this room about, whether it has to do with crime or education or welfare or other proposals or costs that the city has struggled under. You look at the overall picture and it's just not a pretty picture.

It's been a very difficult situation and it's a very trying one. I've sat here at hearings where we've talked about the three police officers that have been murdered this past year in the District of Columbia, the same place I've sat here where we've talked in the hearings of 9-year-olds in the school system, at school involved in sexual activity.

General Becton is trying and working very hard doing the best that he can in the school situation. I want to say as an aside on this as well, I went out last week and toured one of the public schools near Capitol Hill and they're doing a great job. I want to give them a pat where a pat is due on it because I went and toured a fine school where the students were doing an excellent job.

Still, you look at the overall objective numbers and it's not a good picture. It's not a good picture on crime. I've had three of my own staff members who have been burglarized over the past year-and-a-half in Washington, D.C.

And so, I say that to the administration, I say that to everybody present from the standpoint that I am not interested in any plan that is just a bandaid or a continuation of life as it is today because life as it is today is not tolerable in the District of Columbia and we shouldn't tolerate it. This is the Nation's capital, this is the Nation's city and it should be a shining light and it is not today.

Eleanor Holmes Norton probably put it the best, that this isn't the District of Columbia she grew up in. This isn't Washington, D.C. as she knows it, nor as it can be. I'm not interested in any plan that just continues that or puts a little bit more money at it or says we're going to take a few of these away to the Federal Government but we're going to run basically the same. I'm just not interested.

Now, Mr. DeSeve, you've got the responsibility here today to correct me that this is something different than just continuation of the problem as it is, because it is intolerable and it cannot be allowed to continue. I won't support it being that way.

So I'm looking forward to your presentation and how you believe that the administration's proposal is going to address these crying and chronic problems in our Nation's city. I want to also, before we get started, introduce several other D.C. Council members that are here, along with the Mayor who will be testifying later, and Linda Cropp who I've mentioned.

We have Carol Schwartz, Harry Thomas, and Charlene Drew Jarvis who are also D.C. Council members who are here and I appreciate very much your attendance and interest, obvious interest from being on the City Council and everything you're committed to do.

I hope we'll be joined by Senator Lieberman later on. But, Mr. DeSeve, as Controller and the person in charge of this, I look forward to your presentation. If you'd like to summarize, you can, and I look forward to a good dialogue. The microphone is yours.

TESTIMONY OF HON. G. EDWARD DESEVE,[1] CONTROLLER, OFFICE OF FINANCIAL MANAGEMENT, U.S. OFFICE OF MANAGEMENT AND BUDGET

Mr. DESEVE. Thank you, Mr. Chairman. I appreciate your having these hearings and applaud the Subcommittee for the interest it's shown over the last several months and before that certainly. I'd like to begin by briefly summarizing the President's National Capital Revitalization and Self-Government Improvement Plan. After I conclude my remarks, I'd be happy to take any questions that you have.

As Franklin D. Raines, the Director of the Office of Management and Budget has stated, the current relationship between the District and Federal Governments is broken. Our Nation's capital faces not only structural financial problems, but serious obstacles to providing the most basic services to its residents.

The President has presented a plan to reorder that relationship, putting our capital city on firmer financial ground, and improving home rule's prospects for success. The plan is not a panacea.

The District Government and the financial responsibility authority will have to continue to do the hard work necessary to create a city where streets are safe, where children enjoy the quality education they deserve, where every resident has the chance to make the most of his or her own life, and where the government spends within its means.

Through the plan, the Federal Government would assume over $4 billion of the District of Columbia's operating costs over the next 5 years. In exchange, the plan would end the $660 million annual Federal Payment, saving the Federal Government about $3.6 billion over the next 5 years.

While net Federal costs come to over $450 million over the 5-year period, the plan would save D.C. nearly $700 million over the same period. Most of this difference results because pension assets, not other Federal budget resources, are used to pay beneficiaries until after 2002.

The Federal Government would also invest well over $1 billion in the District over the next 5 years for economic development, transportation, criminal justice improvements, and tax collection. Congress would continue its oversight responsibility as we're doing here today, but there would no longer be a need for the Congress to appropriate the locally-funded aspects of the District Government.

All Federal assistance would be conditioned on the District taking specific steps to improve its budget and management. The plan would require the District to submit a balanced budget for 1998, 1 year earlier than under the Financial Responsibility Act, and thereafter.

The President's plan would be memorialized in a Memorandum of Understanding between the District Government and the Executive Branch. The purpose of the MOU is to signal a willingness of

[1] The prepared statement of Mr. DeSeve appears in the Appendix on page 29.

the District to implement the plan elements should they become law.

While there is not unanimity on all aspects of the plan, the District has indicated its sufficient acceptance of the President's plan to encourage the administration to submit legislation for its enactment. I have the MOU here with me today. I'd like to read the first paragraph that we've agreed upon because I think it gives you a better flavor for what the MOU was designed to do.

The first sentence states, "The parties respect the Home Rule Charter as the fundamental basis for governance of the District. The purpose of this memorandum is to strengthen home rule and to agree to work toward the revitalization of the District of Columbia. By providing for additional District Government functions to be taken over, the Federal Government will enable the District to focus its resources on the functions that remain.

"In some cases, however, this administration provides for assumption not only of funding for certain government functions, but also for assumption of management of those functions as well.

"While this is appropriate in limited circumstances, the parties generally favor the principle of local management over District Government functions regardless of the source of funding for these programs."

The President's plan would assist the District in four specific ways. First, the plan would relieve the District Government of major financial and managerial responsibilities that are beyond its financial capacity. The Federal Government's share of Medicaid would increase from 50 to 70 percent.

The Federal Government would assume responsibility for the vast majority of the District's existing pension liabilities. The Federal Government would take on responsibility for housing D.C. felons, offender supervision services, prison constructions, and funding of district courts, and the Treasury would help the city resolve its cash shortfall that stems from its accumulated deficit.

Second, the Federal Government would invest in improving the city's transportation infrastructure. It would take on responsibility for the funding and oversight of certain national highway system capital projects, including roads, bridges, and transit, and national highway system operation and maintenance projects in consultation with the District.

The District would continue to be responsible for the selection of NHS projects and the Secretary of Transportation would review the District's selection. To support NHS projects, the national capital infrastructure fund would be established in fiscal year 1998 for road, bridge, and transit capital projects and operation and maintenance.

Third, the plan would draw on Federal technical expertise to make the City Government more effective in areas such as income tax collection, education and training, housing, transportation, and health care delivery.

Fourth, the plan would spur economic development in the Nation's capital for a new economic development corporation by providing about $300 million in grants and tax incentives. The other sections of my testimony spell out in detail how these provisions would work.

I'd like to conclude by saying that the President's plan is the most ambitious that any administration has ever proposed to deal with the problems of the Nation's capital. It would benefit the city, the region, and the Nation. It is a foundation that would benefit District residents by reducing the government's financial burden, improving delivery of services, and investing in criminal justice, economic development, and transportation.

It would benefit the region because the city's economic recovery, the financial support given to the police, fire, teachers, and judge's pension fund, the strengthening of the District's criminal justice system are all key along with regional transportation infrastructure investments.

It would improve the city's transportation system and help to ensure the safety of residents. Under the President's plan, the Nation would benefit because it would ensure a capital city we can all be proud of.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions that you have.

Senator BROWNBACK. Thank you, Mr. DeSeve, and I appreciate your brevity with that and we'll put your complete statement in the record. Now, it looks as if, from what you're telling me, that the biggest thrust of what the President's plan is—and I've been through his plan—is for the Federal Government to take over management of certain functions and for the Federal Government to put more money into the District of Columbia. Is that the basic thrust of the President's proposal?

Mr. DESEVE. Yes, sir.

Senator BROWNBACK. Now, you tell me where these figures are off because I've been looking at the issue of finances first. Let's look at that and then we're going to go through the rest of the proposal. The numbers I have here are that per person, per capita, there's more spending—and this is of total sources—here in Washington, D.C. than in most any other city across the country by a substantial difference.

Now, let me just give you these numbers. I'm sure you've seen these before and I want to hear what your response to them is. Per capita, spending in Washington, D.C. is $7,285 per person compared to—well, let's look at St. Louis. That's $3,268 per person; Boston, $5,060 per person; New York is $6,671 per person. This is from all sources per capita. This is State, Federal, and local in those communities and the same with Washington, D.C. We're already spending more money per person from all sources on individuals in Washington, D.C. Why do we need to put more in on top of that?

Mr. DESEVE. I think the figures that you cite—and I'm not familiar with that set, but I'm familiar with those that are similar to the ones you cite—don't focus on the fact that if you were to look at State spending in a particular jurisdiction as opposed to simply taking the number of residents in the State and dividing through or the number of residents in a city and dividing through, it would be very different.

D.C. has concentrated within its boundaries the majority of the region's welfare population, the majority of the region's aging and poor population. It has concentrated a set of requirements on its

City Government that are very unusual as to State and local functions.

So I think that there is an apple and an orange problem. We've seen a series of analyses done by Carol O'Cleiracain at Brookings and done by others that begin to recognize the great disparity between need and resources in the District and I think what you're seeing is that reflection.

Senator BROWNBACK. Well, I want you to go back and look at those numbers in particular, because what I'm told, these are inclusive of State and county expenditures as well in those large, urban communities.

Mr. DESEVE. I'd be very happy to do that.

Senator BROWNBACK. They're very similar and if they're accurate, they're saying we're spending $4,000 per person more total from all sources on a per capita basis in Washington, D.C. as we're spending in St. Louis. Now, that seems to me to be a pretty fair chunk of change per person, if that's the equivalent basis, and I think we ought to look at that.

Mr. DESEVE. I'll be happy to analyze them and get back to you with a response to that.

Senator BROWNBACK. OK. I mentioned at the outset the set of hearings that we've been going through and this is the fifth hearing that we've had on issues in the District of Columbia, and I really think this needs to be a great city. I really know it can be a great city, but the numbers just aren't there right now of this being that case.

Let me give you some of these specifics, and I'm sure you know these, but I just want to give them again. The census projection is that the District of Columbia will lose almost three times as many residents in the 1990's than in the 1980's. The number of crimes per capita has increased in Washington, D.C. over 50 percent since 1985.

Seventy-eight percent of the D.C. public school fourth graders are lacking basic reading skills. Twenty-five percent of the District's population is financially dependent on public assistance. Those aren't the statements or the facts of a great city.

What in your plan changes fundamentally that view, because I don't want that to be our Nation's capital in 5 or 10 years. I don't want the numbers to be anywhere close to what those numbers are today, and they don't have to be and they don't need to be. What I'm not seeing in your plan is anything that major changes that other than the Federal Government takes over some of these functions and we put a little more money in.

Mr. DESEVE. I think that's a really good question because when you look at our plan, you've got to look at several aspects. First, you have to look at the fundamental constitutional responsibility of Congress, which we do not want to jeopardize, for oversight of the District of Columbia. As the Executive Branch comes forward, we can do the things that we can do; that is, we can make proposals that are within our capacity to try to provide additional resources.

But we also choose to respect local home rule, the people who are with us today on the City Council, the people who are elected officials in the City Government will have to face the challenges that you talk about. What we're trying to do is give them a level playing field, whether it was in pensions or whether it was in prisons or in other areas.

The Federal Government didn't cut a good deal in 1979 with the District of Columbia when home rule was put in place. What we're trying to do is give home rule a chance to work and we believe that together with Congress, with more resources, with less to do, when you don't have to worry about a prison, when you don't have to worry about maintaining certain highways, when you don't have to worry about the Sword of Damocles, the pensions hanging over your head, it will be easier for District officials to manage.

But we fully expect that Congress will step in, as they should constitutionally, and set standards, standards that they expect the District of Columbia Government to meet, that this Subcommittee thinks are appropriate for the District of Columbia Government.

We're happy to work with you to do that. We don't believe that that is the role of the Executive Branch under the Constitution.

Senator BROWNBACK. So yours is just let's give them a little more money and free them up from some of these responsibilities and they'll figure out how to make this a great city?

Mr. DESEVE. No, sir, that's not what I said. What I said was, we want to provide a foundation so that Congress, the District, and the Executive Branch can cooperate together to solve the problems that you're talking about.

We're willing to do it by providing vast amounts of technical assistance from Executive Branch agencies, whether it's the General Services Administration helping buy things for the police department, whether it's Department of Health and Human Services helping to make payments for AIDs victims, whether it's GSA again doing the capital space line survey for spending needs in the schools.

We'll be happy to make that resource available, but we want to do so in the context of an overall plan working with the Congress.

Senator BROWNBACK. OK. Let's go at one narrow area then on this instead of the over-arching. Let's look at creating jobs and opportunities in Washington, D.C. The administration is putting forward a bill or proposal for an economic development corporation, most of the appointees out of the White House to target in on enterprise zones and creating zones of opportunity. Is that correct?

Mr. DESEVE. I'm going to answer the question directly. What you find in almost every city throughout America, whether it's in Atlanta or New York or Philadelphia, is a public/private partnership economic development structure that's been in place for 20, 30, or 40 years where both groups can work together with adequate resources to build the necessary fundamental infrastructure for the creation of jobs, whether it's the use of tax-exempt bonds or whether it's the use of direct subsidies.

So what we're trying to do again is give the District of Columbia a tool to use in trying to deal with economic stimulus and economic development.

Senator BROWNBACK. But now, how are the members of this board appointed? How many are appointed by the President and how many are appointed by the D.C. Council?

Mr. DESEVE. The President has the majority of the appointees from public—they're mostly private sector citizens either from the business community or the private non-profit community. They'll not be Executive Branch appointees, if you will. Again, constitutionally, we have the appointment power set with the President. If we could share it with the Congress constitutionally, we'd certainly be happy to do that, but we can't do that.

Senator BROWNBACK. I understand that, but a majority. I believe that seven of nine of these members are appointed by the President for this economic development corporation. Is that correct.

Mr. DESEVE. But again, if you look at State and local government, it's not unusual for a State to have that kind of appointment responsibility, vis-a-vis, economic development entities.

Senator BROWNBACK. But if I'm looking at the issue of home rule where you're talking about, let's kind of back away from the city, it looks like this one is run out of the White House.

Mr. DESEVE. We think it's going to be run out of the private sector.

Senator BROWNBACK. But seven of the nine are appointed by the President.

Mr. DESEVE. From private sector individuals. They will not be Executive Branch employees.

Senator BROWNBACK. All right. But seven of the nine are appointed by the White House. Is that correct?

Mr. DESEVE. Honestly, I'd have to look at the final piece of legislation. I think it will be slightly fewer. I think it may be 6 rather than seven.

Senator BROWNBACK. Six of the nine?

Mr. DESEVE. Six.

Senator BROWNBACK. All right.

Mr. DESEVE. Again, that's what's in the MOU and that's the legislation we'll be sending forward.

Senator BROWNBACK. All right. Then we will agree that six of the nine are appointed by the White House to this economic development corporation.

Mr. DESEVE. Right.

Senator BROWNBACK. Now, don't you, Mr. DeSeve, really think that if we would lower or zero capital gains on real property in the District versus an economic development corporation, you attract far more growth and economic opportunity in the District of Columbia?

Mr. DESEVE. Mr. Brownback, I'm a resident of the District of Columbia and own a home. I dearly hope to have a capital gain on it some day. At the moment, I'm not sure whether I do or don't because it's not the market. The Treasury Department doesn't let the people at OMB do tax policy. They draw a line around us, a little circle around us and say, "You can do spending, you can do other fiscal policy, but you're not allowed to do tax policy."

So I wish I could comment and will be happy to take the question back to the Treasury, but I don't know whether a capital gains change would spur development in the District in the same way you're talking about it given the cost of that change.

Senator BROWNBACK. So you cannot appraise for me whether or not a zero capital gains on real property would do more for economic activity or the President's economic development corporation?

Mr. DESEVE. I can't do that, again, within the cost of that zero capital gain because I haven't done the analysis and it's beyond the scope of my ability to do that.

Senator BROWNBACK. Well, I've got a real suspicion which way it would go.

Mr. DESEVE. I've got a suspicion, too, but unfortunately, they don't let me have suspicions. I'm not allowed to do that.

Senator BROWNBACK. Well, neither here, but we have a lot of support for that and away from the President's plan because the President's plan is a corporation where the board of directors is appointed out of the White House for it and it's supposed to target particular areas, and again, this is running it out of the White House rather than giving people the opportunity.

Mr. DESEVE. And we'd love to consider your proposals. We don't say that this is the end of the day. What we say is it's the beginning of the day. Our proposals are going forward as a plan. We fully expect to deal with Congress and consider other proposals as they're put on the table.

Senator BROWNBACK. OK. What does your proposal do about the issue of crime? It removes the operation of the prisons from the city. Now, do I understand in the Memorandum of Understanding you're backing away from the Federal Sentencing Guidelines being put forward to the city?

Mr. DESEVE. What we want to assure is that there will be comparable sentencing among prisoners. The thing that we've always been concerned about is that if the Bureau of Prisons is going to absorb 3,000 or 4,000 or 5,000 inmates into the Bureau of Prisons' system or 7,000 inmates in some circumstances into the system, that there would be comparable sentences developed.

Sentencing guidelines available to State and local governments are designed to assure a consistency of sentencing and designed to ensure truth of sentencing. That's what we did in the MOU. Federal sentencing standards are different than what are applied at the State and local level.

When we ask a State, in return for giving that State capital grant monies to have determinative sentencing, that State chooses a set of guidelines that are essentially in conformity with Federal standards, but they are not identical and will not be identical. They could be identical, but they do not need to be identical.

So what we're looking for are guidelines that provide determinative sentencing that is essentially comparable to the Federal Government standards. That's what's in the MOU.

Senator BROWNBACK. But now, you backed away from your earlier proposal, which were Federal guidelines.

Mr. DESEVE. Sir, I believe Federal standards is the term of art. I don't believe we ever asserted Federal standards for the District of Columbia. That was not our proposal. People may have interpreted that as our proposal. That was not our proposal.

Senator BROWNBACK. OK. What do you do about education in your proposal for the District of Columbia?

Mr. DESEVE. Again, I have to go back to my earlier mantra. Earlier this year, we gave $18 million of proceeds from the Connie Lee stock sale to educational construction. We've spent the last 2 years, the Education Department has and GSA have, trying to assist the Department to improve its capacity to deal with issues.

By overall providing additional fiscal relief to the District, this council will have the ability to decide should the money go into education or is there a more fundamental reform needed in education. We don't intend to run the school district of the District of Columbia. The financial responsibility authority was set up by the Congress.

The new trustees were set up by the financial responsibility authority within the congressional umbrella to deal with those specifics. We stand ready to help as much as we can with technical assistance for that purpose.

Senator BROWNBACK. But then the City Council or the school board, the District of Columbia school board would make any decision if there's fundamental restructuring, if they need more charter schools——

Mr. DESEVE. Correct.

Senator BROWNBACK [continuing]. For scholarship or voucher program? It would all be left up at that level, so you would have no opinion——

Mr. DESEVE. Under the supervision of Congress. As proposals come up, we'll voice opinions on those proposals as they are presented.

Senator BROWNBACK. But today you would have no opinion about should they go to a voucher program?

Mr. DESEVE. I believe we've stated on the record, in response to legislation last year, our opposition to voucher programs. I would stand corrected on that, but I believe there is a specific statement of the administration policy. I'd have to check that, though. I don't want to be outside my own boundaries again.

Senator BROWNBACK. On the basis or you don't recall any basis as the opposition?

Mr. DESEVE. I'd like to get the statement of the administration policy out and look at it. I just don't remember it. We don't have that in the President's plan.

Senator BROWNBACK. OK. What about the census projection the District of Columbia is going to continue to lose residents rapidly? What does your proposal do to address that issue of flight?

Mr. DESEVE. The flight is a very difficult issue. The flight occurs in two different ways. One, it occurs as families get smaller. Over the last 40 years in metropolitan jurisdictions—St. Louis is a classic example. As families have gotten smaller, there have been fewer residents in a jurisdiction.

But we're also losing families in the District of Columbia and we're losing middle class families and the fundamental reasons for losing the middle class families are poor education, high crime, and an increasing tax burden. You can go someplace else and have lower taxes, less crime, and better schools.

So I think the only thing we can do together with the Congress is work to decrease crime, work to improve the school population, and work to have fiscal stability within the District so taxes can be kept as low as possible.

Senator BROWNBACK. And in your proposal, most of those decisions would be left up to the D.C. City Council to make those decisions as to what they should do to slow the flight down from occurring?

Mr. DESEVE. Within the authorizing frame work imposed on the Congress under the Constitution, right.

Senator BROWNBACK. One other area I want to probe with you a little bit about is on the prison issue and the prison privatization. What is the administration's proposal as it is today on the prison issue?

Mr. DESEVE. Our proposal now is to make the prison population of D.C.—the sentenced felons, not the youth offenders and others, but the sentenced felons—prisoners subject to the Bureau of Prisons' regulations after a transition period.

There would be a trustee put in place for a transition period until new Federal facilities were constructed to take the prisoners over. The trustee would be responsible for running the current prison complex at Lorton and also diverting prisoners into the Bureau of Prisons' system in other places.

The entire financial responsibility would be on the Federal Government. We would pay for it, we would have a trustee administer it for a transition period. We will work to rehabilitate or construct new facilities, and we would have those facilities staffed over time by Bureau of Prisons' employees after the transition period.

Senator BROWNBACK. And what about privatizing the prison facilities?

Mr. DESEVE. The Justice Department has a privatization program which I'd be happy to provide you the information on. They believe that maximum security facilities are very difficult to privatize; that certain facilities, minimum security, women offender facilities are more open to privatization.

To the extent that D.C. is within the context of BOP, we'd be happy to talk with the Congress about how to use privatization as one of the tools, but we still believe that new construction of Federal facilities, especially for maximum security prisoners, and using existing Federal facilities for some of the prisoners, will be necessary in addition to whatever privatization would occur.

Senator BROWNBACK. It's been drawn to my attention some studies of different maximum security facilities that have been successful in a privatized effort towards prisons, so that would certainly be something that I think we ought to be looking at.

Mr. DeSeve, I appreciate your time and your willingness to come here and to explain this. I'm not persuaded that you've put forward a plan that addresses how we make Washington, D.C. a shining city, but now you have deferred a number of these questions to our next panel, which is the City Council and the Mayor and how they will address these issues of how do we bring people back to Washington, D.C.

How do we reduce this crime rate, cut it in half? How do we get it to where our fourth graders, 78 percent of them having difficultly with basic reading skills now, to get that down to 20 percent or lower where it should be? What do we do in getting this 25 percent of the District's population off of welfare?

I just fundamentally believe that we have a chance now to really make this a different city, the city that Eleanor Holmes Norton grew up in that she cites, or the city that my predecessor, Frank

Carlson before Senator Dole, lived in. I think we can do that now and I'm not persuaded that you're putting forward a plan that fundamentally addresses these crying problems in the city.

Mr. DESEVE. And we agree that it can be done, sir, but the only way we believe it can be done is by Congress, the administration, and those local elected officials who are responsible working together and that's why this hearing is so important.

Your skepticism is a healthy skepticism and it's one that we'd like to find ideas that you have that together with the elements of the President's plan create an entire whole. We said the plan was not a panacea; it is a foundation. We'd like to work with you to build the rest of the rooms and even a garage.

Senator BROWNBACK. Well, you put it very nicely and I'll look forward to engaging in that. Thank you very much.

Mr. DESEVE. Thank you, Mr. Chairman.

Senator BROWNBACK. We'd like to get some written response on a couple of these items, as we've discussed.

Mr. DESEVE. I'll look at the testimony, but I'd be happy to take whatever questions as well.

Senator BROWNBACK. Thanks.

Mr. DESEVE. Thank you.

Senator BROWNBACK. The next panel up, the Hon. Marion Barry, Mayor of the District of Columbia, and the Hon. Linda W. Cropp, the Acting Chair of the District of Columbia City Council. I don't believe our two panelists need much introduction to this Subcommittee, although I would point something out that may not be well-known about Mayor Barry.

He and I went to the same college at one point in time, the University of Kansas. During basketball season, we share a few comments about the University of Kansas and how well we're playing. We're going to win the Final Four this next time around, Mayor Barry.

But with that, you've heard the testimony, you've heard the questions. What I'm after is, what are we going to do to make this the shining city? These numbers I've cited are intolerable, they cannot continue. We cannot allow these things to continue this way. I'm skeptical about whether just more money does it.

You're going to have to convince me that more money is the issue with this, but I would appreciate a summary, if you could, of your testimony. We'll put all the written statement in the record, and then I'd like to have a good dialogue about how we're going to answer these questions because most of them got thrown to you about what we're going to do to make this the shining city.

So, Mayor Barry, thanks again for coming here and I look forward to your testimony.

TESTIMONY OF THE HON. MARION BARRY, JR.,[1] MAYOR, DISTRICT OF COLUMBIA

Mayor BARRY. Thank you very much, Mr. Chairman. Let me ask that my statement in its entirety be entered into the record.

Senator BROWNBACK. Without objection.

[1] The prepared statement of Mayor Barry appears in the Appendix on page 43.

Mayor BARRY. Let me start with some of the questions that you raised. When you started out, you cited a number of statistics which would suggest that per capita expenditures of public monies for D.C. residents are way higher than that of St. Louis or Baltimore or Boston or a number of other cities. Let me put that in perspective.

What you're getting at is that we're spending all this money and we're not seeing any major results and we're spending much more than anybody else. If you take the City of St. Louis or Baltimore and you take all of the city functions that you spend city money on and then you take the county functions that the county that surrounds St. Louis or Baltimore County surrounding Baltimore or Kansas City or any other city, and take the number of people who are served by the county who live in St. Louis but not paid for by city funds, and then you take all of the State functions, mental institutions, prisons, motor vehicles, Medicaid, and I have a list here of all the State functions, which I'll share with you, and add that to what is being spent for the residents of St. Louis and Baltimore, that's one approach.

Then you take the percentages. What is the percentage of people in St. Louis or any other city that's elderly that requires a subsidy of money? Is it 10 percent or 5 percent? You cannot just say elderly programs. What's the percentage of those who are mentally ill that the State is paying for? Go right down the line and I think when you do that—and someone did a study about 9 or 10 years ago.

I don't know where it is at this point, I've seen it, it would suggest that you will end up with some cities per capita expenditures would be far greater than the District of Columbia. That's one thing we ought to do because where you're comparing it, unfortunately, it doesn't do that. It doesn't take all the State spending in consideration.

Senator BROWNBACK. Mayor, I've got to break in here and say I've asked them for that, to set that comparison because I agree with you. I don't think that's a fair way to look at it. If you just say, OK, we're going to take the District of Columbia and everything it provides and St. Louis and everything it provides, when you're providing a whole bunch more, that isn't a fair way to look at it. I've asked for this and they've added in the State and the Federal functions that are here in these other cities and I'm saying, "Now, wait a minute. This is apples and apples."

Mayor BARRY. Senator, I'd like to see——

Senator BROWNBACK. We'll show you the basis of those numbers and you can go at those.

Mayor BARRY. Yes, I'd like to see the specific numbers——

Senator BROWNBACK. Happy to do it.

Mayor BARRY [continuing]. Taking a specific city, and I again maintain that when you do that and then do the proportionality, you must admit, too, that if St. Louis has one-half the number of people who need mental health services, obviously the State will pay less per capita.

But the big issue in terms of Washington, to get at the heart of your question, is that the President's plan, absent the Federal Payment, is only $60 million above what the Federal Government is doing now. I'm sure you know that, don't you? That we're talking about $60 million and we will take the borrowing, you're talking about $44 million or a net gain to the District without the Federal Payment, which many of us don't support not giving up, and so when you say that all of this money is being given, more money, that's not accurate.

It's $44 million over what is being given now absent the Federal Payment. Now, many of us in Washington, including the Board of Trade and the City Council and the Financial Authority and the City Council, many of us don't believe that the Federal Payment should be eliminated. The Federal Payment must be an integral part of any revitalization plan.

Mr. Chairman, when you look at the approach that I've tried to take, and the Council also, when we had this financial crisis, when I came in in January, the worst in the history of this city, I proposed a three-prong approach, that the City Government restructure itself, fine-tune itself, right-tune itself, eliminate programs, cut the cost of government.

And in the first year between 1995 expenditures and 1996 expenditures, because of that approach, the D.C. Government cut spending $151 million below the previous year, unprecedented, where you spend less the year after than the year before. We have done that.

We have laid off and easy outed and early outed over 7,500 people. Our employees have taken major wage reductions. We have privatized a number of entities to save money. So we have reduced the cost of government. We have made the government much more efficient, much more dependable.

The second leg of that is to have cost of governance. Since we have all these State functions without the authority to tax revenue at its source, it means then that the suburbs are subsidizing the District of Columbia Government by at least $700—I'm sorry. The District is subsidizing the suburbs—thank you—the District citizens and our taxpayers are subsidizing Maryland and Virginia by almost $700 million because we can't tax the income at its source.

So you have the State functions, which are about $2.4 billion out of this $5 billion, which I'd like to enter into the record if you look at this chart here.[1] It shows that 46 percent of our money goes to State functions, $2.4 billion. But then you add to it, Mr. Chairman, the fact that St. Louis or Baltimore or no other city has to spend over $250 to $270 million for a pension plan because it was unfunded by the Federal Government.

So you add all the numbers up and you get that kind of dynamic. So cost of governance ought to be a factor in bringing financial stability to the District Government. It happened in New York. When New York got in trouble, the State of New York took over the entire Medicaid program, took over the State education system, the City College of New York, and took over some of the State costs.

When Baltimore was having some problems, the State of Maryland took over a significant number of its criminal justice system in terms of paying for it. So all over America where you had these problems, it's not unusual for the State, in our instance the Federal Government, to take over some of those costs.

[1] The charts referred to by Mayor Barry appears in the Appendix on page 65.

The third part of this was revenue enhancement/economic growth. I think the city has not focused enough on economic growth. I mean, what is it that we need to do as a city to create economic growth? We're landlocked, we're uncompetitive in terms of Maryland and Virginia because of these pressures that are financially on us. Our commercial taxes are higher than Maryland and Virginia. Unemployment taxes are higher, disability comp is higher. All those make us non-competitive.

But the area which we could immediately jump-start this economy would be in the area of jobs. McKinsey and Company just did a report which shows that for each 100 D.C. residents that are employed in present jobs—when people leave them, put people in them that are qualified—we would get about $352,000 in taxes.

Suppose there are 617,000 jobs in the District, 189,000 are Federal jobs. Suppose that you could put 10,000 qualified D.C. residents to work in jobs as they become vacant in the staff of the Congress, in the Federal Government, in the private sector. You're talking immediately about $35 to $40 million of income that would be revenue that the District could use to reduce taxes in the areas we're talking about.

If you took capital gains, I happen to agree with you. We ought to have zero capital gains not only for real estate, but for corporations that are doing business in the District of Columbia, zero. It would stimulate business. Then we need an equity infusion process. The Federal tax code could be changed where you allow equity to be attracted to the District without it being taxed the way it is around the country.

Tom McMillan, who was formerly in the Congress, has a proposal to do that. And so, those three approaches have to be taken now. What do we do about schools? That's a question that urban educators in Baltimore, St. Louis, New York, Chicago, and Los Angeles—everywhere in America is asking, how do we get fourth graders reading?

How do we get people graduated from high school who can compete in this world of work with the skills that are necessary? Our school system is undergoing the same kind of challenges. Unfortunately, neither Ms. Cropp or the Council nor myself have direct control over the schools, but I think we have to jump on the school system. We have to cajole it, we have to push it, we have to do all we can to help it to, first of all, become accountable to us, the citizens.

I have a 16-year-old son in public school, so I see it first-hand, and right now there's very little accountability. Take the budget situation. The school system gets the same budget whether 40 percent of the students come every day or 90 percent come every day. We ought to have some kind of formula as it is in Kansas or in Missouri or wherever.

The State contributes to the school system based on an average daily attendance. Our school system only takes roll once a day. Most school systems take roll twice a day. These kids come at 9 o'clock; they leave at 10 and nobody knows that. And so, we need more accountability.

We need to drastically change the way the school system operates. I'll give you an example of how I would advocate that we do that in the schools. We brought in Booz-Allen to the police department, Mr. Chairman, and examined the police department top to bottom and made analysis of what was wrong, what wasn't working, how many officers were on the streets, and you're beginning now to see a turn-around in how police are policing.

Only 16 percent of the officers were on patrol, out of all these officers. We now have put over 400 officers out there. An additional 500 is on the way. And how do you solve crime? By getting the community involved, by having community policing, by more officers in uniform, by getting ministers and others involved, and in terms of D.C., it's beginning to work.

In the month of March, there was a 30 percent reduction in Part 1 crimes in the District. Twenty-six murders in March of 1996; 15 in March of 1997, a 43 percent reduction. Mr. Chairman, we're going to be vigilant. We're going to continue to drive this crime down. We're going to have more and more officers on the streets, more and more citizens involved with it.

The school system needs the same kind of analysis. It needs somebody to come in and say, "Look, all these paradigms that you all are talking about don't work. All these curriculum things that are in somebody's desk are not working." And demand accountability, demand drastic action, demand that they tell us on a monthly basis what the success of these students are, and make our school system student-centered.

The school system now, Mr. Chairman, unfortunately—and Linda and I were on the school board—at this point is not student-centered. It's administration-centered. The budget is built around the administration. So what this Congress can do as it examines the budget for the school system, as the Council does it, is to make the budget, first of all, student-centered.

If you make it student-centered, at least you've got a chance of demanding that the test scores increase, demanding that the graduation rate increase, demanding that the skill level increase, demanding that the SAT's go up. Mr. Chairman, it is happening in some of our schools already.

Take Banneker, one of our academic high schools. Ninety-nine percent of those students who started together in ninth grade graduated last year together. Lost one and that was to a murder in the streets by some domestic dispute. Ninety-five percent of those students are going to college or the military or have a job. Why can't that be duplicated throughout the District of Columbia?

It will not happen unless you and the citizens and the Council and the parents demand it of the school system. Take Duke Ellington High School, a great high school, young people going into the arts and the culture, and 99 percent of them go somewhere when they leave Duke Ellington, that's in the area of whether singing or dance or art and culture. Why can't we have five Duke Ellington's in the District of Columbia?

There are other schools that are doing that, so I guess I understand your question about it. It's not up to the Federal Government to do that. It's not up to the Congress to do that. It's up to those of us who live in this city and those of us who manage and govern this city to demand that accountability and those who can't bring it about ought not to be in that particular job in terms of education.

Take the environment. We need to clean the city and it's beginning to get cleaned up. It's got potholes everywhere. It's up to us and the Council and the Mayor to figure out how we put the money into those areas.

So what I'm saying is that if we're relieved of these pressures over here, the cost of governance, we can then focus our time and attention on the real thing, how do you make Washington the crown jewel we want it to be. We can't do it, though, when we're cutting the budget every year, cutting our vital services, when we're cutting out burial assistance, when we're cutting out things that are vital to our people.

And so, as you look at this plan, look at this as cost of governance, not putting a lot of money from the Federal Government into the system. Also look at it in terms of a first step as we go forward. That's just sort of an overview of what we have to do. This plan is not perfect, but it ought to be looked at as a cost of governance. It's not giving us anything, it's not a gift.

Look at it in terms of relieving the financial pressures on us so that we can focus our full time and attention on these programs. I spend 40 or 50 percent of my time on budget stuff every day trying to get the money here, trying to balance the budget here, trying to do that.

If we had this plan in place, it would relieve some of that pressure on us and allow us to then do what you want us to do, what I want to do, is make the government work more efficiently, and reduce crime in our streets, drastically improve the education system for our students, make it student-centered, get the environment, get our streets cleaner, get our potholes done, and I call upon you and the Congress to immediately look at the idea of hiring D.C. residents when vacancies occur.

That's something you can do, that's something the private sector can do, that's something the Federal Government can do that would jump-start this economy immediately. Let me stop at this point and Mrs. Cropp can go on and then we'll have some dialogue back and forth.

But finally, I urge you to look at my statement to see all the sacrifices and all the tough decisions that I've made to reduce the size of this government. Many of these decisions were very unpopular, very difficult. When you cut out a lot of services as we have done and reduce spending in areas that people like for you to spend it in, it's very unpopular, but it's there, this is real, and this is my commitment.

But the Congress has to accept its part of it in terms of cost of governance and certainly needs to focus on economic growth.

Senator BROWNBACK. Thank you very much, Mayor Barry. I appreciate your testimony.

Mrs. Cropp, I look forward to your presentation. You can summarize and, if you'd like to, put your written testimony into the record. Thanks for being here and the microphone is yours.

TESTIMONY OF LINDA W. CROPP,[1] ACTING CHAIR, DISTRICT OF COLUMBIA CITY COUNCIL

Mrs. CROPP. Thank you very much, Chairman Brownback, and it certainly is a pleasure to be here on behalf of the Council of the District of Columbia. I'm pleased to say that I'm accompanied by Council Members Jarvis, Schwartz, Thomas, and Mason.

Senator BROWNBACK. Excuse me. I didn't recognize Hilda Mason earlier; the other group I did earlier. Hilda, thank you very much for joining us.

Mrs. CROPP. The President's proposal provides a historic opportunity to address the city's financial crisis in a way that begins to address the fundamental inequities which have long existed in relationship between the District of Columbia and the Federal Government. We, who represent the residents of the District, embrace this effort to address the expenditure side of the District's structural financial problems.

We believe that slow but steady progress is being made to increase the accountability of the District Government for improved management of our finances, and much work needs to be done in this area. However, we also look forward to the day when the revenue side of the structural problem is addressed because if we do not find a way to revitalize the local economy and expand our revenue base, the District of Columbia will never get out from under its ongoing fiscal crisis.

Although the District, under the 1973 Home Rule Charter, has attempted to perform State functions and to provide State-like services, we have done so without the revenue base of a State. Our revenue base, as you know, has been constrained severely and primarily by the Federal presence and Congressionally-imposed restrictions, most notably by the inability to have a reciprocal tax on income at its source, which in effect, provides a subsidy from the District to our neighboring States of Maryland and Virginia.

When you consider that over two-thirds of the personal income in the city is earned by non-residents and that over 50 percent of the District Government's own employees live outside the city, you begin to get an idea of the effect of this restriction.

Recognizing the unique status of the District as the national capital and the financial constraints uniquely applicable to the District, the President has proposed that the Federal Government increase its budgetary responsibility for several very costly District operations such as the Medicaid program and the incarceration of felons, which are State-like functions that virtually no other city in the Nation performs.

The President has also proposed relief from burdens which the Federal Government itself created when it transferred to the District Government as part of our home rule deal, particularly the $5 billion unfunded pension liability. The Council strongly favors increased Federal budgetary support for these governmental functions without which the District Government cannot survive financially.

The President's plan includes a requirement that the District approve a balanced budget for fiscal year 1998, 1 year earlier than

[1] The prepared statement of Mrs. Cropp appears in the Appendix on page 76.

required by the congressionally-approved financial plan for the District. As you may know, the Council, during this most recent budget cycle, assumed a leadership role in the successful effort to balance the budget in fiscal year 1998 and we will continue to make the painful but necessary cuts to right-size our government and redirect our resources to the priorities of public safety, public schools, and public works.

The President's plan includes other provisions strongly opposed by the Council, particularly the elimination of the Federal Payment and the requirement that certain criminal code changes must be enacted in the District, including determinate sentencing and the abolishment of parole in order for the Federal Government to provide the Federal budgetary support for the criminal justice system.

The proposed elimination of the Federal Payment is wrong because the Federal Payment is compensation to the District both for the cost of services rendered by the District to the Federal Government, and for revenues foregone due to the Federal presence and the congressionally-imposed restrictions in our ability to raise revenue.

The Federal Payment has been $660 million for several years, an amount which two independent studies have concluded is only about one-half of what the Federal Payment should be, based on a formula that calculates (1) a payment in lieu of taxes not paid by federally-related properties and sales; (2) Federal aid in an amount that other cities receive from their States; and (3) compensation for those types of State-type services for which the District has budgetary responsibility.

Without objection, Mr. Chairman, I would like to enter into the record of this public hearing two reports that independently conclude that a fair formula-based Federal Payment to the District would be calculated at approximately $1.2 billion, the Brookings policy. It was a brief published in January of this year by Carol O'Cleiracain, which is entitled, "The Orphaned Capital," and second, the D.C. Appleseed Center's report dated November 2, 1995 which is entitled, "The Case for More Fair and Predictable Federal Payment."[1]

Despite our concerns with certain aspects of the President's plan, the Council last week endorsed a Memorandum of Understanding on the plan accompanied by a Council resolution stating our concerns, both of which I would like to submit for the record.[2]

Senator BROWNBACK. Without objection.

Mrs. CROPP. Thank you, Mr. Chairman.

In conclusion, I'm going to summarize some of it so we can get to the questions, the Council believes that the key to economic recovery in the District depends on three systemic changes, each of which is vital, local management reforms and substantially improved delivery of essential and basic public services, whether we're talking about personnel, procurement, public safety, education, and the Council has introduced legislation in many of these particular areas.

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[1] The two reports appears in the Appendix on page 119 and 131 respectively.

[2] A D.C. Council resolution, 12–116, appears in the Appendix on page 83.

The enhanced enforcement effort with the Memorandum of Understanding for the police department in 2 months of its existence has already shown great success. Second, we need Federal budgetary support for State-like expenditures of the District Government along with the continued Federal Payment.

And third, tax reform for both District residents and businesses, both Federal and local, to reverse the flight of residents and businesses and to restore a competitive revenue base.

Mr. Chairman, in your earlier question, you gave some specifics with regard to cities like St. Louis and how the District is still spending much more. Let me suggest, just on the health-related issues. The District of Columbia has a population that is older, sicker, and poorer. It's not unlike any other city in this country. The difference, however, is that in other cities, with that older, sicker, and poorer population, they share the cost with the suburban areas of their States.

Baltimore's, for example, age population is very similar, but they don't pay any Medicaid costs. The District of Columbia pays a substantial cost. Not only that, we have 110,000 residents who are under-insured or uninsured and we have to pay the cost for them when necessary, and these individuals work. They are not people who live on the government.

When you look at our pension, which is a problem that was not created by the District of Columbia, we pay $300 million annually into our pension fund due to a problem that wasn't created by us. A comparable city such as Baltimore only pays about $60 million in. That's a big difference when you look at that.

When you look at the debt that we have, quite a bit of it was due to construction of Metro; whereas, the City of Washington paid for its Metro costs by itself, you have Virginia and Maryland with the whole State to help pay for their costs. Therefore, our debt is greatly out of line with some of the other cities.

When you look at the cost of doing business in the District of Columbia, for the city just to run itself, once again, I would like to direct your attention to the O'Cleiracain report, "The Orphaned Capital," and also Phillip M. Dearborn and Carol S. Myers did a report which was not attached to my testimony, but I would like to submit it to you.[1]

You're absolutely right, Mr. Chairman, that we have to look at some of the basic issues in order to prevent flight from this city. We are currently addressing that public safety issue. We are looking at a totally different plan to deal with our police force. We have increased the budget, we increased the number of officers that would be out on the streets to protect our citizens in their neighborhoods.

We're looking at the equipment to make sure that they have up-to-date equipment. That will play a big role in helping the flight. Currently there is an awful lot going on with addressing our school system. We look at the needs in capital improvement for our educational system.

Quite frankly, usually capital improvement for schools is a State function almost 100 percent, and if it is not 100 percent State func-

[1] The report by Mr. Dearborn and Ms. Myers appears on page 174 in the Appendix.

tion, you find the State taking on a Herculean share of capital improvements for schools in other cities throughout this country.

We understand that we must stem this hemorrhage of the flight of our citizens, but we truly believe that Washington, D.C. is one of the most beautiful places in this country. We have an awful lot of work to do, but we're moving towards a solution to the problem in that we have identified the problem and we have started very slowly, but definitely and vigorously addressing some of those concerns.

We sit before you now with our hands extended so that we can join in partnership so that we can address the problems that currently face the District of Columbia together. Not only is it a city where many of us live and raise our families, but it is also the capital of this country and, I would say, probably the best city in the whole world.

If we join hands in partnership, recognize the structural problems that have been created not because of the District of Columbia, but because of many other factors, I think together we can find solutions to many of the problems that face us now. Thank you very much and I would like my entire testimony to be entered into the record.

Senator BROWNBACK. And it will be placed there and thank you for that statement and for your spirit, both of you.

It strikes me, we're sitting here and we're going to wrestle back and forth about dollars, and I guess that's what budget negotiations and talks are about.

But really, whenever we've turned things around in this country, it's always been the spirit that precedes the actions. I went down to the FDR exhibit not this past weekend, but the weekend before with my 11-year-old daughter and it was really striking that as you enter into that, it was him telling the Nation, "We can, we can, we can," at the outset.

I think he created some programs that later on grew so big that we had some difficulties, but he was out there first saying, "We can," and that's really how you turn something around, is convincing people in just the spirit of it that we can do this, we can make this difference, and that's what I'm after here.

I've been coming back and forth to this city since 1974 and I think it's a glorious city, beautiful city, and then you want to look at these numbers and we've had all these hearings and I'm saying, "What's gone wrong that we have these types of problems here?"

I don't need to repeat them again for you. You know what these problems are and they're systemic and they're endemic and they're here and we've got to change it and it's the sort of thing—you don't solve these problems by just putting more money at it.

Let's say if we gave you all the money that you wanted, you still don't solve these problems with more money. You've got to radically reform things to solve the sorts of problems that we've cited here of flight, of crime, of public school issues, of people on public assistance. That's not a minor surgery issue. We're talking radical surgery to be able to get that changed to make this shining example that I truly believe that it can be.

I appreciate what you've put forward in some of your concepts here and I want to go down through some of these specific ones here so we can talk about what it is that we can do together on some of these areas, and I appreciate your spirit in coming forward with this because that's first.

On creating jobs in the District, the President's put forward a plan of an economic development corporation. I don't think that's the way to go, but I think you ought to create a much more encouraging capital formation atmosphere in Washington, D.C. Now, if you're given a choice between those two, because each of them cost resources, which do you go with that will produce in Washington, D.C.?

Mayor BARRY. Mr. Chairman, I think we all recognize—let me just say, Mr. Chairman, in terms of the spirit, you're right, we have to have it, but there's also something that says faith without works is nil and work without faith is nil, and if the D.C. Government every day or every week is doing very little except having to, because of the financial reality, cut budgets, cut programs, cut, cut, cut, cut, it tends to break the spirit of not only those who have to do the cutting, but of those who are the recipients of this cutting.

If you have to cut out home care aides for seniors who need them because the money is not there and you can't get them any other place, to me that breaks the spirit. So I think the cost of governance part of this allows the spirit to flow even better now.

In terms of the specifics, I happen to think that the President's plan, in terms of economic development, is a small step, but it doesn't produce any jobs in 1998, additional jobs, maybe a few in 1999. I think the capital formation approach, capital formation, capital and credit, those kind of techniques will produce, in my view, a faster flow of jobs than the traditional tax credits, which are OK.

In addition, the taking of land and putting structures on it, is OK, but it's capital, I think, that's built this country strong and it will build Washington, also. Let me say, Mr. Chairman, that unfortunately, Washington in terms of its flight is no different than St. Louis or Baltimore. They're having people leaving inner cities every day going to the suburbs.

But on the other hand, the good news is, the latest numbers I've seen from the Census Bureau is that we're beginning to turn that around. That is, the flight is slowing, the percentage of flight is slowing down, and the number of people moving into the District is increasing.

The only problem with that, most of those who are coming into the District don't have many children, maybe one or two, at the most, or they're single households; whereas, those who are leaving leave with two or three children. But that flight is being slowed down. But capital formation, to me, is a much more powerful engine to drive the economy than just an economic development corporation.

Senator BROWNBACK. Mrs. Cropp.

Mrs. CROPP. Yes. Mr. Chairman, let me say that the spirit of the Council of the District of Columbia is stronger than ever. Over the past few years, we have seen some very tough budget cuts, but our resolve to make this city function is stronger.

The Council of the District of Columbia, in concert with other leaders, the Mayor of this city, we are prepared to roll up our sleeves and do the hard work necessary to bring this city back to its true strength and vitality. We have made some serious budget cuts, but we have also made some very hard decisions and introduced new legislation so that a new day will dawn, so that we will be able to do business a bit differently than we have in the past.

We understand very clearly that just by having money, it will not be the solution to the total problem. We understand that we need to change how we have managed, how we have done business, and we are prepared to, in fact, do that.

Recent legislation that has been introduced is testament to the direction that we plan on taking. We have swallowed some very bitter pills. If you ask what is the best solution and the best approach to solve our economic problem, I think it's a two-prong approach. We must look at the immediate and we must also look at long-range goals.

The President's plan deals with an immediate solution, where it will give an immediate infusion of dollars, and hopefully spur the economic growth of this city. I think what you along with Congresswoman Norton introduced with regards to the taxes for the District of Columbia gives us a long-range solution to our problems.

As we deal with both, it's a way in which we can help to bring businesses back into this city. We need to reduce some of the taxes for the businesses. Carol O'Cleiracain in her report, "The Orphaned Capital," talked about the need to reduce, for example, four different business taxes. We need to look at ways in which we can bring small businesses into this city.

For even though we'd all like to have big, major businesses here, we understand clearly on the Council that it is the small business, not only here but across the Nation, that does an awful lot and we want to do the things that will strengthen that and both of those will do it.

Senator BROWNBACK. Mrs. Cropp, you're saying that both of those will do that. Which is higher priority for you? Would it be zero in the capital gains or the economic development corporation? We're going to have to make budgetary choices and each costs Federal revenues.

Mrs. CROPP. I think a tax program for the District probably would be on higher priority, but we need a two-prong approach.

Senator BROWNBACK. I know if you offered to the people in Kansas, OK, we're going to give you this economic development corporation or you can zero capital gains on real property, I think I have a pretty good idea how the vote would go on this. They'd say, "Give me the zero capital gains. I'll figure it out on my own."

Mrs. CROPP. The tax plan, I think, would be a higher priority, but a two-prong approach is a stronger one.

Senator BROWNBACK. Let me go to schools, and both of you have stated this kind of—well, I guess, particularly, Mayor, you've stated this is a bit out of our hands. I've been disappointed, very disappointed with the hearings and the information, although as I wanted to mention, I was at Stuart-Hobson magnet school the other day, an excellent school.

There you could see the problem. The principal told me they are full or up to capacity and I think she has 200 students waiting to get into it. And so, she's got a great school and it's full. What about the others, the kids that can't get in then in that school system?

You know the debate that a lot of people put forward. We've heard in this Subcommittee about charter schools and they passed legislation for charter schools in the District of Columbia. The statements that we heard in testimony was, "Yes, the legislation is there and there's some big resistance in the system to creating them because they're not happening."

And you know the argument about a vouchers program. That's a more radical approach. It strikes me that there's some validity in doing that, particularly for students that can't get into one of the better schools, that you provide them a broader option.

Now, I'd like for each of you to narrow in on that issue and tell me your thoughts, even though I recognize what you're saying, that these are, to a great degree, outside of our control.

Mayor BARRY. Mr. Chairman, if you support charter schools, as I do, that's one approach. Then there's vouchers, a lot of controversy about that. But I'm not convinced that the argument is that if you have vouchers you give people an opportunity to choose and put pressure on the school system. I don't think it does.

I think we have to put pressure on the school system of accountability, raising public issues. I was at Stuart-Hobson myself about 2 weeks ago. Ms. Lewis is the principal over there and these young people are just excited. The question is, why can't we demand, as people are demanding of me that we reduce crime, that we restructure the police department, which we've done, that we do something about human services.

Why can't we put a greater demand on the system to replicate the Stuart-Hobson's of the world and keep that pressure on and if General Becton and his administrators can't do it, let's keep trying somebody else who can do it.

Senator BROWNBACK. Let me narrow you in on a real narrow question. Let's say that a student wants to get into a different magnet school and it's filled and he's trapped in a school that they don't feel like is up to snuff of what they want to do, or by some objective factor is not. What about creating for them a scholarship to go where they want to outside, private or public school? Mrs. Cropp.

Mrs. CROPP. Let me say, the Council is on record in support of charter schools. Mr. Chairman, may I put another suggestion to you? By giving the voucher to one student, we have helped that one. There are 99 other students that I firmly believe that we must also help.

Perhaps the approach that we have taken with regard to education is one that needs to be changed and looked at. I truly believe we need to take an integrated approach to dealing with the school system. We tend to say the school system needs to this and this is their responsibility. Quite frankly, the schools are a reflection of society as a whole and their near community.

It means that if we want to see a difference and if we want to see a duplication of other Hobson's and other Banneker's across the city, then those of us who are not just intrinsically involved with the schools must become involved with the education of our students outside of the school.

The students at Hobson, and I'm familiar with that school very well, they have an environment such when that child goes to school at a young age—they already know their alphabet, they can count from 1 to 10, they know their colors. Many other students don't know that.

Data strongly suggests that if a child goes to school, if they can't count to 10, if they can't tell you their parent's name, if they can't tell you their address, their phone number or the colors, they are already 3 years behind and unless they have an infusion of support, they will never catch up.

I suggest to you then what we need to do is deal with early childhood education. We need to look at the education of our young people outside of that schoolhouse so that we can have an impact on the 99 others who may not get a voucher. I think if all of us start looking at education as not only the 6 hours that the children are in school, because young people learn from their total environment, and if they're only in school for 6 hours, we're already behind because there are more hours in the day outside of school that they're learning.

What they're learning is what we can have an impact on. I would like our approach to the education system to be for us to do things more outside of the school. Let the educators do the basics of reading and writing, for us to do some other things outside of it and integrate it.

Human services in the school system shouldn't be separated. Public safety in the school system should be united, the courts, all of it, and in doing that, I think we will have an improved system and then we won't have to worry about the voucher for one or two students, but we will be able to help, hopefully, the vast majority of students.

Senator BROWNBACK. Let me summarize because we're at the end of the time for this hearing and I want to be cognizant of people's time. I've got some other areas I'd like to go down with you, but I'm concerned that you enter into the Memorandum of Understanding with the administration. Now, are you bound that you have to support the administration proposal? Is that the quid pro quo on this MOU or are you going to be open for further discussion on some of these other items?

Mrs. CROPP. Mr. Chairman, we're very open. In fact, the Council has a resolution that is attached to the Memorandum of Understanding and we would offer ourselves to come up and meet with you and other Members of Congress to talk about the best approach that we can take for bringing the District to financial solvency.

The Federal Payment is a very crucial point for the District and we have stated in the Memorandum of Understanding that we think that it ought to continue. The Memorandum of Understanding is a starting point for us and we would like to be at the table with you and with your colleagues as we work and massage and develop the final product.

Senator BROWNBACK. I guess here's what I'm worried about. Last week, you voted it down, the administration proposal.

Mrs. CROPP. We did not take a vote on it.

Senator BROWNBACK. Well now, Wednesday of last week, there was a vote taken on the administration's proposal.

Mrs. CROPP. No, Mr. Chairman. We discussed it at a Council meeting. We only had one vote on Friday. It was discussed, but there was no formal vote taken.

Senator BROWNBACK. OK. Here's the headline for the *Washington Post* of May 7, Wednesday of last week.

Mrs. CROPP. I would suggest, Mr. Chairman, that you look at the actions of the Council.

Senator BROWNBACK. All right. Are you telling me the *Washington Post* is not accurate?

Mrs. CROPP. Can you believe that can happen sometimes? We did not take a formal vote. There was discussion. It was withdrawn.

Senator BROWNBACK. OK. What happened between Wednesday, when the Council refused to endorse a White House rescue plan—that's what the lead of the article is—and Saturday when there's a "D.C. Council Approves U.S. Aid Plan?" What else was added to the deal to get the Council to——

Mrs. CROPP. Mr. Chairman, there were a couple of things that happened. I believe there was some initial unreadiness on Wednesday when we first started the debate. One of the issues that the Council had great concern was with regard to the Federal Payment that I've tried to articulate and, I hope, forcefully here, that there be some reference to the Federal Payment within the Memorandum of Understanding, that the Council did not agree that that be removed.

Senator BROWNBACK. Did the administration promise you to continue that payment then?

Mrs. CROPP. No, the administration did not; however, there is reference to it in the Memorandum of Understanding to make it clear that the Council is not in support of the Federal Payment being deleted. The administration did not promise to continue it.

Senator BROWNBACK. What did they promise you then?

Mrs. CROPP. It was a change, one, with regard to a reference to it in the Memorandum of Understanding, and second, I think, it helped with some Council members to get some additional information that they needed in some other areas of the plan, some clarity or some information that they did not have on Wednesday, and after doing further research and getting that information, they were then prepared on Friday to do a vote that they were not prepared to vote for on Wednesday.

Senator BROWNBACK. So, you're telling me there's nothing else orally that's been promised to the D.C. Council that the administration would try to pursue in order to get the Council's support other than what's in the written plan?

Mrs. CROPP. I think the only thing I could say, Mr. Chairman, is that the administration said they would come to the Hill and work with us in trying to get support for the District as laid out in the Memorandum of Understanding. We had no endorsement of them at all, unfortunately, for the Federal Payment. I would have loved to have had that.

Senator BROWNBACK. So that they will work with you to get more things that you want, but they didn't add to their particular package?

Mrs. CROPP. The only thing was the insertion of the language with regard to the Memorandum of Understanding. I believe that's in Section 1 under the purpose. It's the last sentence in the first paragraph, I believe.

Senator BROWNBACK. But they'll go with you to the Hill to get more things in addition to the plan, or they won't oppose you at the Hill in getting these additional things?

Mrs. CROPP. We agreed to disagree on the need for the Federal Payment.

Senator BROWNBACK. OK. I'm reading these things and I'm saying, "OK. Now, what else was agreed to here where their Council is reluctant to endorse and then does the same plan," when I think we need to be looking at a much broader set of reforms that haven't been included thus far in this discussion.

We've had a lot of hearings and I want to bring those proposals on forward and I'm trying to determine, has the Council already rejected and said, "We're going with the administration's proposal," which I think there has some flaws. I think you're going from maybe some difficulties in managing this from the District of Columbia to we're going to manage it at the Federal Government, which I think is flawed, on a number of these functions.

So I want you to keep an open mind on a broader set of reforms to look at these areas, and I'm trying to get from you that yes, you are going to be looking at those carefully and critically and, hopefully, supportively.

Mrs. CROPP. Mr. Chairman, let me assure you that that is the direction that the Council of the District of Columbia is taking. We would like to have continued dialogue with you. For example, I'm quite aware, as the Council is, of our plan with regard to taxes in the District of Columbia. It's something that we support. We would love to continue dialogue with that, and we're open.

We would like what is best for the District of Columbia, so let me assure you that we are open.

Senator BROWNBACK. And that's what we're all after. I thank you both very much.

Mayor BARRY. Mr. Chairman, let me say, for the record, that one of the big differences, when this Memorandum of Understanding idea started, it was the idea of trying to make sure we knew what was on the table. There was a section which bound both parties to vigorously support the items in the Memorandum of Understanding. That was deleted, which gave certainly myself and the Council an opportunity to support that part of the program that we could vigorously support and try to find alternatives to those that we did not support.

For instance, the criminal justice system, to me, has a number of philosophical and program problems, from my perspective. The same is true of the Federal Payment and there's some problem with the economic development corporation in terms of eminent domain and whether or not you're going to really get what you get with it.

So we're willing, and I'm sure the Council, as Mrs. Cropp has stated, I'm certainly willing to work with you and your colleagues and others in the House to round out this in different ways to look at it. As long as we can get some cost of governance relief, as long as we can get some economic growth generators in this plan, as long as we commit ourselves to making the D.C. Government much more efficient, much more dependable, then that's the kind of deal we want to get.

Senator BROWNBACK. Good. Well, I appreciate it very much, and appreciate this panel. There's been several places noted that this plan is not a panacea. Well, I'm looking for a panacea to address some of these problems, and I think we can find some things that will truly address it in a major league way because we all want to make this place better. Thank you all for your work. I'd also recognize Harold Brazil as a Council member that's here as well. Appreciate you coming.

Thank you all for this hearing and you'll be hearing more from us. Meeting adjourned.

[Whereupon, at 3:15 p.m., the Subcommittee was adjourned.]

TESTIMONY OF G. EDWARD DESEVE

CONTROLLER

OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS

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

ON

THE PRESIDENT'S PROPOSALS FOR THE DISTRICT OF COLUMBIA

May 13, 1997

TESTIMONY OF G. EDWARD DESEVE
ON THE PRESIDENT'S PROPOSALS
FOR THE DISTRICT OF COLUMBIA

May 13, 1997

Mr. Chairman, Members of the Committee, thank you for the invitation to discuss the President's Proposals for the District of Columbia.

I would like to begin by briefly summarizing the President's *National Capital Revitalization and Self-Government Improvement Plan.* After I conclude my remarks, I would be happy to take any questions that you have.

OVERVIEW

As Franklin D. Raines, the Director of the Office of Management and Budget, has stated, the current relationship between the District and Federal governments is broken. Our Nation's Capital faces not only structural financial problems, but serious obstacles to providing the most basic services to its residents. The President has presented a Plan to re-order that relationship, putting our Capital city on firmer financial ground and improving Home Rule's prospects for success.

The Plan is not a panacea. The District's government and the Financial Responsibility Authority would have to continue to do the hard work necessary to create a city where streets are safe, where children enjoy the quality education they deserve, where every resident has the chance to make the most of his or her own life -- and where the City's government spends within its means.

Through the Plan, the Federal government would assume over $4 billion of D.C.'s operating costs over the next five years. In exchange, the Plan would end the annual $660 million Federal Payment, saving the Federal government about $3.6 billion over five years. While net Federal costs come to over $450 million over five years, the Plan would save D.C. nearly $750 million over the same period. Most of this difference results because pension assets -- not other Federal budget resources -- would be used to pay beneficiaries until after 2002. The Federal government would also invest well over $1 billion in the District over the next five years for economic development, transportation, criminal justice improvements, and tax collection.

Congress would continue its constitutional oversight responsibility for the District. But there would no longer be a need for Congress to appropriate the locally funded aspects of the District's budget.

All Federal assistance would be conditioned on the District taking specific steps to improve its budget and management. The Plan would require the District to submit a balanced budget for 1998 and thereafter.

ELEMENTS OF THE PRESIDENT'S PLAN

The President's plan would be memorialized in a "Memorandum of Understanding" (MOU) between the District Government and the Executive Branch. The purpose of this MOU is to signal a willingness of the District to implement the plan elements should they become law. While there is not unanimity on all aspects of the Plan, the District has indicated sufficient acceptance of the President's Plan to encourage the Administration to submit legislation for its enactment.

The President's Plan would assist the District in four specific ways.

First, the Plan would relieve the District government of major financial and managerial responsibilities that are beyond its financial capacity. The Federal share of the District's Medicaid costs would increase from 50 to 70 percent. The Federal government would assume responsibility for the vast majority of the District's existing pension liabilities. The Federal government would take on responsibility for housing D.C. felons; offender supervision and services; prison construction; and funding District courts. And the U.S. Treasury would help the city resolve its cash shortfall that stems from its accumulated deficit.

Second, the Federal government would invest in improving the City's transportation infrastructure. It would take responsibility for the funding and oversight of certain National Highway Systems (NHS) capital projects -- including roads, bridges, and transit -- and NHS operations and maintenance projects in consultation with the District. The District would continue to be responsible for the selection of NHS projects and the Secretary of Transportation would review the District's selections. To support NHS projects, the National Capital Infrastructure Fund (NCIF) would be established in FY 1998 for road, bridge, and transit capital projects and operations and maintenance.

Third, the Plan would draw on Federal technical expertise to help make the city government more effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.

Fourth, the Plan would spur economic development in the Nation's Capital through a new Economic Development Corporation -- or EDC -- by providing about $300 million in grants and tax incentives to make development happen.

DETAILS ON ELEMENTS OF THE PRESIDENT'S PLAN

- **Medicaid.** The Federal government would increase its share of the District's Medicaid payments to 70 percent, thereby reducing the District's share to 30 percent. An MOU between the Federal government and the District would ensure that the District improves the management of its Medicaid program. The Department of Health and Human Services would continue to provide more intensive technical assistance to help the District improve the management of its Medicaid program.

- **<u>Pensions.</u>** The Federal government would take financial and administrative responsibility for virtually all pension benefits accrued under the plans for all active and retired police and firefighters, and teachers, and would take full responsibility for the pension of judges. The bulk of the assets of the retirement plans would be transferred to the Federal government and placed with a third party Trustee. The Trustee would invest funds, manage the existing plans, and make payments on behalf of beneficiaries. The Federal government would pledge its full faith and credit to meet its responsibilities to pay these benefits.

  Current retirees would have all their benefits paid by the Federal government. Retirement, death, and some disability benefits payable by the Federal government to current employees would be based on service earned as of the date upon which the benefits would be "frozen." While the Federal government would not be responsible for benefits earned during future years of service by members of the current retirement programs (other than judges), these members would get the benefit of pay increases on the frozen benefits. Frozen benefits would continue to be subject to cost-of-living adjustments under the terms of the existing programs. All future employee contributions (except for judges) would be paid into the new plans.

- **Criminal Justice.** The Federal and District governments would develop and implement a transition plan which transfers financial responsibility over a 3-5 year period for supervising and incarcerating felons. The Federal Bureau of Prisons (BOP) would house adult felons convicted of D.C. Code violations and designated in the same manner as Federal inmates in correctional institutions operated or contracted by the BOP. This would occur after BOP's capacity has been increased through new prison construction at locations selected by BOP. After October 1, 2001, the BOP would also designate to Federal correctional institutions all sentenced D.C. felons in the custody of the D.C. Department of Corrections, in accordance with available capacity.

  The Attorney General would select, after consulting with the city and Financial Authority, a Trustee to oversee D.C. Department of Corrections operations until the BOP becomes responsible for all incarcerated District felons.

The Federal and District government would develop and implement a framework for changes to the D.C. sentencing system, which are a prerequisite for the Federal government's incarceration and supervision of felons convicted of D.C. Code violations. The Federal and D.C. governments would also develop and implement a transition plan transferring responsibility for D.C. Code violation offender pretrial, public defender, parole, probation, and post-adjudication/post-conviction adult offender supervision from the District government to the Federal government over a 1-5 year period. The U.S. Parole Commission would maintain responsibility for all D.C. felons housed in Federal Correctional Institutions with sentences subject to parole, and would adjudicate all cases of parole-eligible D.C. Code offenders following abolition of the D.C. Board of Parole.

The Federal government would take direct responsibility for funding the D.C. Court system and related services and establishing an independent budgetary, financial oversight, and administrative support system for the D.C. Court system. The Court system would remain self-managed.

- **Treasury Borrowing.** The U.S. Treasury would 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 could not exceed $500 million. The Treasury loans would 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 could also provide loans for the purposes of seasonal cash-flow management.

- **Highways.** The Department of Transportation would assume responsibility for the funding and oversight of certain National Highway System (NHS) capital projects -- including roads, bridges, and transit -- and NHS operations and maintenance projects in consultation with the District. The District would select the NHS projects to be funded and the Secretary of Transportation would review the District's project selections. Contract administration on highway-related projects would be performed by the Federal Highway Administration. To support NHS projects, the National Capital Infrastructure Fund (NCIF) would be established in FY 1998 with $108 million for road, bridge, and transit capital projects. An additional

$17 million would be provided in FY 1998-03 for NHS operations and maintenance. Federal-aid funds for the District's NHS, Interstate Maintenance, and Bridge programs would be transferred to the NCIF in FY 1998-03.

- **Personal Income Tax Collection.** At the request of the District, the Internal Revenue Service would assume responsibility from the District of Columbia for administering and/or enforcing D.C. individual income and payroll taxes. This potentially could include the processing of those taxes paid by individuals, as well as the payment of related employment and payroll taxes. The District government would maintain processing and collection responsibility for all other taxes.

- **Economic Development Corporation.** The EDC would be a non-Federal, private-public corporation that would provide the District with a focal point for its economic development activities; an entity whose sole purpose is to development the economy of the Nation's Capital. It would be governed by a nine member Board of Directors, seven of whom would be appointed by the President, one by the Mayor, and one by the City Council. A majority of the board would be drawn from the District's private sector business and community leaders. Prudently invested, the EDC's initial $50 million capitalization and $95 million of allocable tax incentives could leverage over $1.5 billion in private capital investments.

- Strategic Planning & Project Development. Building on work done by a number of District groups, the EDC would develop an economic development strategic plan to guide its activities and assist in the implementation of selected large-scale development projects, support efforts to create jobs and business opportunities for distressed neighborhoods and low-income District residents, and connect District development efforts to regional growth.

- Federal Capitalization. The Federal government would capitalize the EDC with a one-time investment of $50 million. The EDC would use these funds for planning, project development, and operating costs. Of this amount, $20 million would be available to non-profit entities in the District, to be used in a manner similar to the D.C. Jobs Tax Credit for profit-making entities.

- Tax Credits and Revenue Bonds. The EDC would be given the authority to spur development with Federal tax credits for loans and investments -- the D.C. Capital Credit -- and would have the authority to finance projects in the market by issuing project revenue bonds, including tax-exempt private activity bonds.

- Expedited Processing. The EDC would also have a number of other important powers, including eminent domain -- the ability to seek expedited review by the District government of its requests for land transfers for the EDC's projects and activities.

CONCLUSION

The President's Plan is the most ambitious plan that any Administration has ever proposed to deal with the problems of the Nation's Capital. It would benefit the City, the region, and the Nation.

- It would benefit District residents by reducing their government's financial burdens, improving the delivery of City services, and investing in the criminal justice system, economic development, and transportation.

- It would benefit the region because of the City's economic recovery; the financial support given to the police, fire, teachers, and judges pension funds; the strengthening of the District's criminal justice systems; and the improvement of a key component of the regional transportation infrastructure.

- It would improve the city's transportation system, and help ensure the safety of residents and visitors.

- And, the President's Plan would benefit the Nation because it would ensure a capital city that we can all be proud of.

Mr. Chairman, that concludes my testimony. I would be pleased to answer any questions you may have.

TESTIMONY BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia

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Honorable Marion Barry, Jr.
Mayor
Washington, DC

Tuesday May 13, 1997

342 Dirksen Senate Office Building
Washington, DC

GOOD AFTERNOON, SENATOR BROWNBACK AND MEMBERS OF THE SUBCOMMITTEE. I AM PLEASED TO APPEAR BEFORE YOU TODAY AT THIS HEARING ON PRESIDENT CLINTON'S *NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN* FOR THE DISTRICT OF COLUMBIA. I APPRECIATE THE OPPORTUNITY TO TALK WITH YOU ABOUT PROPOSED STRATEGIES TO IMPROVE THE DISTRICT OF COLUMBIA AND MY VIEWS ON PRIVATIZATION, ENTERPRISE ZONES AND TAX INCENTIVES IN THE NATION'S CAPITAL.

MANY OF THE DECISIONS MADE BY CONGRESS IN THE EARLY 1970'S LEADING TO THE DISTRICT'S HOME RULE CHARTER LAID THE FOUNDATION FOR THE DISTRICT'S UNWORKABLE, INEQUITABLE RELATIONSHIP WITH THE FEDERAL GOVERNMENT. WHEN THE DISTRICT'S FINANCIAL RECORDS WERE TURNED OVER TO AN ELECTED GOVERNMENT, THE

45

GOVERNMENT INHERITED A $279 MILLION DEFICIT FROM THE FEDERAL GOVERNMENT, AN UNFUNDED PENSION LIABILITY OF $2.7 BILLION, STATE RESPONSIBILITIES WITHOUT STATE REVENUE RAISING AUTHORITY, AND A SERIES OF OTHER RESTRICTIONS THAT WOULD ULTIMATELY BRING ABOUT THE FISCAL CRISIS WE FIND OURSELVES IN TODAY. THESE INCLUDED:

- HEIGHT LIMITATIONS, WHICH, COMBINED WITH THE FACT WE ARE LANDLOCKED, AND HAVE A SMALL GEOGRAPHICAL SIZE, CREATE SEVERE RESTRICTIONS ON INFRASTRUCTURE AND ECONOMIC DEVELOPMENT. WE CAN'T GO "UP" AND WE CAN'T GO "OUT";

- INABILITY TO TAX 53% OF THE LAND, THUS DEPRIVING THE DISTRICT OF APPROXIMATELY $2 BILLION IN

REVENUES; AND

- INABILITY TO TAX THE INCOME OF NON-RESIDENTS WHO WORK IN THE DISTRICT, DEPRIVING US OF OVER $750 MILLION ANNUALLY IN REVENUE.

IN SUMMARY, IT IS CLEAR THAT OUR REVENUE POSSIBILITIES WERE GREATLY RESTRAINED AND RESTRICTED. AT THE SAME TIME, OUR STATE FUNCTIONS AND COSTS WERE INCREASING, FOR PROGRAMS SUCH AS CORRECTIONS, MENTAL HEALTH, PENSIONS, AND MEDICAID. TWO DECADES LATER, WE ARE WORKING TOGETHER TO RESOLVE THESE ISSUES, TO PROVIDE THE DISTRICT OF COLUMBIA RELIEF FROM THE PAST SO THAT WE CAN PROSPER IN THE FUTURE.

WHEN I TOOK OFFICE IN JANUARY 1995, MY ADMINISTRATION

INHERITED THE LARGEST DEFICIT IN THE HISTORY OF OUR CITY, SOME $335 MILLION. IF LEFT UNCHECKED, WE FACED ANOTHER $400 MILLION, FOR A TOTAL DEFICIT OF $722 MILLION. I TOOK THE INITIATIVE TO FIND OUT THE EXTENT OF THE PROBLEM AND EXPOSE IT. I BEGAN TO CARRY OUT A SERIES OF UNPOPULAR AND PAINFUL DECISIONS TO REDUCE SPENDING, SERVICE DELIVERY, DISTRICT GOVERNMENT JOBS AND BENEFITS. MY THREE-PRONG APPROACH WAS TO:

- DRASTICALLY CUT THE SIZE AND EXPENDITURES OF GOVERNMENT;

- COST AVOIDANCE THROUGH FEDERAL FUNDING OF STATE FUNCTIONS AND/OR ADDITIONAL REVENUES FROM THE FEDERAL GOVERNMENT;

- DEVELOP WAYS TO ENHANCE ECONOMIC GROWTH AND VIABILITY.

MANY OF THE STRUCTURAL AND FISCAL PROBLEMS WHICH I HAVE DIRECT CONTROL OVER HAVE BEEN EXECUTED. WE HAVE:

- ENACTED WELFARE REFORM,

- SLASHED PROGRAM SPENDING FOR HUMAN SERVICES, PUBLIC WORKS, SUMMER JOBS, UDC, RECREATION, RECYCLING, AND OTHERS,

- LOWERED AFDC BENEFITS TO REFLECT BENEFIT LEVELS OF NEIGHBORING JURISDICTIONS. WORKER'S COMPENSATION COSTS WERE REDUCED.

- SEVERE PERSONNEL REDUCTIONS HAVE BEEN MADE, SHRINKING THE SIZE OF THE WORKFORCE FROM 42,000 TO 30,000 IN THREE YEARS,

- WE CREATED A REGIONAL WATER & SEWER UTILITY AND A PUBLIC BENEFITS CORPORATION, AND

- WE CONTINUE TO PRIVATIZE CITY SERVICES.

THERE ARE MANY OTHER FISCAL AND STRUCTURAL ISSUES THAT I ALONE CANNOT CURE. THESE INCLUDE MEDICAID, TAXING INCOME AT ITS SOURCE, OPERATING A PRISON SYSTEM AND MENTAL HEALTH SYSTEM, AND AN UNFUNDED PENSION LIABILITY. IN ALL OF THESE AREAS, BOTH THE PRESIDENT AND CONGRESS HAVE TO STEP UP TO THE PLATE

AND ASSIST THE CITY IN A MEANINGFUL AND LASTING WAY.

I HAVE A VISION--AND A PLAN--FOR MAKING DISTRICT GOVERNMENT SMALLER AND MORE EFFICIENT. THE GOALS OF MY TRANSFORMATION INITIATIVE ARE TO PROVIDE A MORE RESPONSIVE GOVERNMENT THAT IS BUSINESS-FRIENDLY, COMPETITIVE, TECHNOLOGY-DRIVEN, AND ECONOMICALLY PROSPEROUS.

THIS IS AN AMBITIOUS PROCESS. WE STARTED OUT WITH A VERY CHALLENGING AGENDA AND HAVE ALREADY MADE STRIDES TOWARD IMPROVING OPERATIONS AND RESTORING THE CITY'S FISCAL HEALTH. WE ARE ENGAGED IN THE DIFFICULT WORK OF REBUILDING THE GOVERNMENT. WE REDUCED THE WORKFORCE BY 10,000 FTE's. I SHARED THIS WITH MAYOR RENDELL OF PHILADELPHIA EARLIER THIS

WEEK AND HE WAS--STUNNED--THAT SUCH DEEP REDUCTIONS IN PERSONNEL HAD BEEN ACCOMPLISHED SO QUICKLY. BY THE END OF THIS FISCAL YEAR, WE WILL HAVE MET OUR TARGET LEVEL OF 24,422 EMPLOYEES.

WE HAVE DRASTICALLY REDUCED THE SIZE OF GOVERNMENT, MADE SACRIFICES, AND CUT SERVICES. THE FEDERAL GOVERNMENT HAS DONE LITTLE TO ASSIST US DURING THE FISCAL CRISIS. ONLY RECENTLY HAS A LONG-AWAITED PLAN BEEN OFFERED TO ADDRESS DISTRICT/STATE NEEDS.

THE CITY HAS ALSO TAKEN AN AGGRESSIVE POSITION ON PRIVATIZATION AND OUTSOURCING. WHILE IT HAS NOT BEEN WELL PUBLICIZED, THE DISTRICT OF COLUMBIA IS NOW AMONG THE LEADING STATE AND LOCAL GOVERNMENTS ON

THESE TYPES OF INITIATIVES. IN THE PAST YEAR ALONE, WE HAVE COMPLETED SEVERAL MAJOR INITIATIVES WHICH RESULTED IN SIGNIFICANT SAVINGS TO THE DISTRICT. OUR PORTFOLIO OF COMPLETED TRANSACTIONS INCLUDES:

- THE SALE/LEASEBACK OF AN 898-BED CORRECTIONAL TREATMENT FACILITY. THE CITY RECEIVED $52 MILLION FOR THE FACILITY AND NEARLY $4 MILLION IN CAPITAL IMPROVEMENTS. PRIVATE OPERATION IMMEDIATELY LOWERED INMATE PER-DIEM COSTS;

- WE CLOSED AN AGED, UNDER-CAPITALIZED 500-BED NURSING HOME ON THE GROUNDS OF "DC VILLAGE" AND TRANSFERRED PATIENTS TO MORE MODERN, BETTER EQUIPPED, PRIVATE NURSING FACILITIES. ANNUAL SAVINGS ARE IN THE $5 MILLION RANGE;

- WE PRIVATIZED THE POLICE AND FIRE CLINIC. OCCUPATIONAL CARE OF DISTRICT POLICE OFFICERS AND FIREFIGHTERS, SECRET SERVICE UNIFORMED DIVISION AND PARK POLICE, HAS BEEN ADMINISTERED BY THE GOVERNMENT SINCE THE CIVIL WAR. THAT CHANGED DRAMATICALLY LAST WEEK, WHEN A NEW, THREE-STORY FACILITY ON THE GROUNDS OF PROVIDENCE HOSPITAL WAS DEDICATED AS THE NEW POLICE & FIRE CLINIC. ANNUAL SAVINGS ARE $1 MILLION;

- WE OUTSOURCED FOOD SERVICE FOR 9,000 INMATES THROUGHOUT THE CORRECTIONAL SYSTEM. THIS PROVIDED $2 MILLION IN COST SAVINGS BUT ALSO IMPROVED THE QUALITY OF FOOD SERVICE DELIVERY;

- THE EDUCATIONAL ACADEMY AT OAK HILL, THE DISTRICT'S YOUTH DETENTION CENTER IN LAUREL IS NOW PRIVATELY MANAGED ; AND

- HOME CARE/SUPPORT SERVICES FOR SENIOR CITIZENS AND DISABLED PERSONS, PROVIDED BY 530 PERSONAL CARE AIDES, SHIFTED TO PRIVATE MANAGEMENT LAST YEAR.

WE ARE NOT RESTING ON OUR LAURELS. WE CONTINUE TO EVALUATE THE BUSINESSES WE ARE IN AND IDENTIFY THE SERVICES WHICH ARE CANDIDATES FOR REENGINEERING OR COMPETITION. THE MOMENTUM BEGUN LAST YEAR CONTINUES AS PART OF THE TRANSFORMATION PROCESS. SEVERAL OTHER INITIATIVES ARE UNDERWAY. THESE

INCLUDE:

- CONSOLIDATION AND OUTSOURCING OF CITYWIDE PRINTING AND COPYING SERVICES,

- PARKING METER REPLACEMENT, COLLECTION AND MANAGEMENT,

- CORRECTIONAL MEDICAL AND MENTAL HEALTH SERVICES, AND

- MAINFRAME DATA CENTERS THROUGHOUT THE CITY.

ONE NOTEWORTHY PROJECT THAT IS UNDERWAY INVOLVES CREATING AN EMPLOYEE STOCK OWNERSHIP PLAN COMPANY (AN "ESOP") FOR CORRECTIONAL MEDICAL SERVICES. IF WE ARE SUCCESSFUL, THIS WILL BE ONLY THE SECOND INSTANCE

OF A PRIVATE ESOP COMPANY BEING "SPUN OFF" FROM THE PUBLIC SECTOR. THE FIRST PUBLICLY-CREATED ESOP WAS FORMED LAST SUMMER, INVOLVING THE EMPLOYEES OF THE FEDERAL OFFICE OF PERSONNEL MANAGEMENT, INVESTIGATIVE SERVICES. A NEW BUSINESS CALLED "USIS" RESULTED, AND IS THE LARGEST BACKGROUND INVESTIGATIONS FIRM IN THE COUNTRY.

SWEEPING CHANGES ARE ALSO BEING MADE TO THE ORGANIZATIONAL LANDSCAPE OF THIS $5 BILLION PUBLIC CORPORATION CALLED THE DISTRICT OF COLUMBIA GOVERNMENT. AS I MENTIONED EARLIER:

- THE WATER AND SEWER UTILITY WAS LIFTED OUT OF THE EXECUTIVE BRANCH OF GOVERNMENT AND TRANSFORMED INTO AN INDEPENDENT, REGIONAL

WATER AND SEWER AUTHORITY.

- WE CREATED A DEPARTMENT OF HEALTH WHICH COMBINES PUBLIC HEALTH, ENVIRONMENTAL HEALTH, HEALTH CARE FINANCE AND REGULATORY OVERSIGHT.

- WE CREATED A "PUBLIC BENEFIT CORPORATION" TO PROVIDE CLINICAL AND HOSPITAL CARE.

MAJOR BUSINESSES OF THE GOVERNMENT--SUCH AS PUBLIC PROTECTION, ECONOMIC DEVELOPMENT AND PUBLIC MANAGEMENT--ARE BEING RESTRUCTURED AS BUSINESSES. THE GOVERNMENT WILL LOOK AND ACT DRAMATICALLY DIFFERENT WHEN THE OVERALL TRANSFORMATION PROCESS IS COMPLETE.

ONE OF THE ESSENTIAL INGREDIENTS OF TRANSFORMATION IS HAVING LEADERS AND MANAGERS TO MAKE IT WORK. I WILL ANNOUNCE VERY SOON A MAJOR INITIATIVE INVOLVING GW UNIVERSITY TO PROFESSIONALIZE THE CITY'S MID- AND-SENIOR-LEVEL MANAGEMENT CORPS. IT IS CALLED THE "CENTER FOR EXCELLENCE IN MUNICIPAL MANAGEMENT", AND IS A LONG TERM, MULTI-YEAR EFFORT DESIGNED TO ENHANCE SKILLS AND COMPETENCIES OF MANAGERS AND EXECUTIVE STAFF.

AS THESE EXAMPLES ILLUSTRATE, WE ARE MEETING THE CHANGE IMPERATIVE, AND DELIVERING SUBSTANTIAL RESULTS. NO OTHER CITY OR STATE HAS WORKED SO HARD TO TRANSFORM ITSELF AND MADE THE NUMBER OF UNPOPULAR DECISIONS AND CHANGES IN SUCH A SHORT PERIOD AS WE HAVE IN WASHINGTON, DC.

AT THE SAME TIME THAT WE ARE IMPROVING OUR BUSINESS FUNCTIONS, WE ARE ALSO FOCUSING ON IMPROVING THE BUSINESS CLIMATE TO RETAIN AND ATTRACT BUSINESSES. ONE APPROACH INVOLVES THE DISTRICT'S THREE DEVELOPMENT ZONES WHICH PROVIDE TAX AND OTHER DEVELOPMENT INCENTIVES TO BUSINESSES AND HOME-BUYERS LOCATING IN THE ALABAMA AVENUE, DC VILLAGE, AND ANACOSTIA ECONOMIC DEVELOPMENT ZONES. I ESTABLISHED THESE ZONES TO ENCOURAGE AND FACILITATE JOBS AND HOUSING DEVELOPMENT EAST OF THE RIVER. THERE ARE ELEVEN INCENTIVES PROVIDED TO BUSINESSES AND HOMEOWNERS COMING INTO THE DEVELOPMENT ZONES. THE DISTRICT'S TAX STRUCTURE INCLUDES TAXES TYPICALLY IMPOSED BY LOCAL GOVERNMENTS AND STATE GOVERNMENTS. THIS UNIQUE STRUCTURE REFLECTS THE PECULIAR AND EXPANSIVE RESPONSIBILITIES OF THE

DISTRICT. THE TOTAL TAX BURDEN IN THE DISTRICT IS AT SUBSTANTIALLY GREATER THAN THAT OF OUR METRO AREA NEIGHBORING JURISDICTIONS. THIS CONTINUES TO ERODE OUR TAX BASE, MAKING IT INCREASINGLY DIFFICULT TO ATTRACT AND RETAIN BUSINESSES AND RESIDENTS.

WE NEED TO INCREASE THE DISTRICT'S REVENUE BASE, ON THAT WE CAN ALL AGREE. TAX RELIEF IS OFFERED ONLY IN THE DEVELOPMENT ZONES. HOWEVER, TODAY'S ENVIRONMENT DICTATES THAT WE USE INCENTIVES THROUGHOUT THE CITY WHICH ARE STRUCTURED TO ACHIEVE SPECIFIC OBJECTIVES, INCLUDING:

- RETAINING OR INCREASING SPECIFIC EMPLOYMENT OPPORTUNITIES,

- MAINTAINING THE VITALITY OF VARIOUS BUSINESS DISTRICTS,

- ATTRACTING INVESTMENT TO ECONOMICALLY DISTRESSED CORRIDORS, AND

- REDUCING THE TAX RATES ON INDIVIDUALS AND FAMILIES.

TO MAXIMIZE THE AVAILABILITY OF EMPLOYMENT OPPORTUNITIES FOR DISTRICT TAXPAYERS, WE NEED TO PROVIDE TAX CREDITS IN CONNECTION WITH THE CREATION OF PERMANENT JOBS, PROVIDE CAPITAL IMPROVEMENT LOANS, AND FINANCIAL INVESTMENTS IN CERTAIN DISTRICT BUSINESSES. WE NEED THE FEDERAL GOVERNMENT AND CONGRESS TO HIRE QUALIFIED DC RESIDENTS TO THE EXTENT

POSSIBLE.

A KEY ELEMENT FOR ECONOMIC RECOVERY IN THE DISTRICT IS TO CREATE JOBS FOR OUR RESIDENTS. THE MCKINSEY REPORT SHOWED A 46% INCREASE IN LOCALLY-GENERATED REVENUE WHEN DC RESIDENTS ARE EMPLOYED VERSUS CREATING NEW JOBS. EMPLOYING 100 DC RESIDENTS GENERATES $352,000 IN LOCAL REVENUE. WHEN THOSE JOBS ARE OCCUPIED BY SUBURBAN COMMUTERS, REVENUE TO THE DISTRICT IS ONLY $191,000. CREATING 20,000 JOBS FOR DC RESIDENTS WOULD BRING IN $70 MILLION IN LOCAL REVENUES.

AS REGARDS THE PRESIDENT'S PLAN, I AM IN FAVOR OF NEIGHBORHOOD REVITALIZATION AND LOCAL OWNERSHIP INITIATIVES. THESE WILL PROVIDE INCENTIVES FOR

BUSINESSES TO INVEST IN DISTRESSED NEIGHBORHOODS BY MAKING AVAILABLE $95 MILLION IN TAX CREDITS, $2 MILLION IN PRIVATE ACTIVITY BONDS, AND $20 MILLION IN ADDITIONAL EXPENSING BENEFITS. THE PRESIDENT'S PLAN WILL ALSO ENCOURAGE BUSINESSES TO HIRE DC RESIDENTS BY PROVIDING $133 MILLION IN JOBS CREDITS. WHILE THE PRESIDENT'S PLAN DOES NOT GO AS FAR AS WE WOULD LIKE, THESE TAX MEASURES CERTAINLY REFLECT A GOOD START. NEVERTHELESS, WE REMAIN CONCERNED THAT THE PRESIDENT'S PLAN DOES NOT ADDRESS THE STRUCTURAL PROBLEMS THAT CONTINUE TO PLAGUE US NOR DOES IT PROVIDE RELIEF FOR THE CITY OR INDIVIDUALS AND FAMILIES. WE NEED TO FINALIZE AND EXECUTE THE ECONOMIC DEVELOPMENT STRATEGY.

IN CLOSING, THE CONGRESS CAN ASSIST THE DISTRICT BY MODIFYING THE PRESIDENT'S PLAN IN SEVERAL AREAS. CONGRESS SHOULD TAKE STEPS TO ENSURE:

- CONTINUATION OF THE FEDERAL PAYMENT;

- MORE LOCAL CONTROL ON THE ECONOMIC DEVELOPMENT BOARD CONTAINED IN THE PRESIDENT'S PLAN. FIVE OF THE NINE SEATS SHOULD BE LOCAL, NOT TWO AS CURRENTLY PROPOSED;

- MENTAL HEALTH COSTS MUST BE INCLUDED; AND

- THE FEDERAL MEDICAID CONTRIBUTION SHOULD BE RAISED TO 75 OR 80%.

I'M PLEASED TO HAVE THE OPPORTUNITY TO TESTIFY TODAY. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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

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

* FY 1997 Recommended Budget

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

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

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

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

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

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

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

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

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

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

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY FTE	CITY AMOUNT	COUNTY FTE	COUNTY AMOUNT	STATE FTE	STATE AMOUNT	TOTAL FTE	TOTAL AMOUNT
ED	DEP MAYOR FOR ECONOMIC DEV								
	%								
ER	WASHINGTON CONVENTION CENTER						2,025	0.0	2,025
	%						100	0.0	100
ES	WASHINGTON CONVENTION CENTER		50,171					0.0	50,171
	%		100					0.0	100
FA	METROPOLITAN POLICE DEPARTMENT	4,577.0	255,223					4,577.0	255,223
	%	100.0	100					100.0	100
FB	FIRE DEPARTMENT	1,790.0	95,653					1,790.0	95,653
	%	100.0	100					100.0	100
FC	DC SUPERIOR COURT			1,149.0	77,969			1,149.0	77,969
	%			100.0	100			100.0	100
FD	POLICE & FIRE RETIREMENT	0.0	226,700					0.0	226,700
	%		100					0.0	100
FE	PUBLIC DEFENDER SERVICE						7,702	0.0	7,702
	%						100	0.0	100
FF	PRETRIAL SERVICES AGENCY			109.0	5,727			109.0	5,727
	%			100.0	100			100.0	100
FG	JUDGES RETIREMENT			0.0	5,500			0.0	5,500
	%				100			0.0	100

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

AGY	AGENCY NAME	CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
		F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
FK	D.C. NATIONAL GUARD					26.0	902	26.0	902
	%					100.0	100	100.0	100
FL	DEPARTMENT OF CORRECTIONS			594.0	33,136	2,814.0	222,053	3,408.0	255,189
	%			17.4	13	82.6	87	100.0	100
FM	DC COURT OF APPEALS					84.0	5,946	84.0	5,946
	%					100.0	100	100.0	100
FN	DC COURTS SYSTEM			103.0	32,843			103.0	32,843
	%			100.0	100			100.0	100
FP	CORRECTIONAL INDUSTRIES					84.0	9,152	84.0	9,152
	%					100.0	100	100.0	100
GA	PUBLIC SCHOOLS	9,192.0	491,085			947.0	53,395	10,139.0	544,480
	%	90.7	90			9.3	10	100.0	100
GF	UNIV OF THE DISTRICT OF COLUMB					1,079.0	76,287	1,079.0	76,287
	%					100.0	100	100.0	100
GK	PUBLIC SCHOOL REPAIRS								
	%								
GX	TEACHERS RETIREMENT FUND						88,900	0.0	88,900
	%						100	0.0	100
HA	DEPT OF RECREATION	515.0	34,677					515.0	34,677
	%	100.0	100					100.0	100

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
HD	HUMAN RESOURCES DEVELOPMENT	0.0	12,257					0.0	12,257
	%		100					0.0	100
HM	DEPT OF HUM RTS & MIN BUS DEV	13.0	854					13.0	854
	%	100.0	100					100.0	100
JA	DEPT OF HUMAN SERVICES	30.0	1,772	2,931.0	340,279	2,926.0	1,167,688	5,887.0	1,509,739
	%	0.5	0	49.8	23	49.7	77	100.0	100
JB	D.C. GENERAL HOSPITAL				66,099			0.0	66,099
	%				100			0.0	100
JC	DC GENERAL HOSPITAL SUBSIDY				56,735			0.0	56,735
	%				100			0.0	100
JF	DC ENERGY OFFICE			13.0	5,326			13.0	5,326
	%			100.0	100			100.0	100
KA	DEPARTMENT OF PUBLIC WORKS	1,308.0	109,176	14.0	1,814	574.0	46,356	1,896.0	157,346
	%	69.0	69	0.7	1	30.3	29	100.0	100
KC	METRO AREA TRANSIT COMMISSION				96			0.0	96
	%				100			0.0	100
KD	SCHOOL TRANSIT SUBSIDY	0.0	3,845					0.0	3,845
	%		100					0.0	100
KE	MASS TRANSIT SUBSIDIES				131,820			0.0	131,820
	%				100			0.0	100

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
LA	DEPARTMENT OF PUBLIC WORKS (UTILITY ADMIN)	0.0	290,394					0.0	290,394
	%		100					0.0	100
LB	WASHINGTON AQUEDUCT	0.0	25,743					0.0	25,743
	%		100					0.0	100
MS	MANAGEMENT INFORMATION SYSTEMS	0.0	(6,317)					0.0	(6,317)
	%		100					0.0	100
PH	PUBLIC AND ASSISTED HOUSING	5.0	8,330					5.0	8,330
	%	100.0	100					100.0	100
RS	REAL ESTATE		(4,488)					0.0	(4,488)
	%		100					0.0	100
SB	INAUGURAL EXPENSES						5,702	0.0	5,702
	%		0				100	0.0	100
SC	D.C. ARMORY BOARD (STARPLEX)	0.0	8,717					0.0	8,717
	%		100					0.0	100
SD	ENERGY		(2,271)					0.0	(2,271)
	%		100					0.0	100
SF	PURCHASING & PROCUREMENT		(12,960)					0.0	(12,960)
	%		100					0.0	100
TC	D.C. TAXI CAB COMMISSION					18.0	1,321	18.0	1,321
	%					100.0	100	100.0	100

FY 1997 RECOMMENDED BUDGET BY AGENCY AND JURISDICTIONAL RESPONSIBILITY

		CITY		COUNTY		STATE		TOTAL	
		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
AGY	AGENCY NAME	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD	F97FTE	F97BUD
TK	OFFICE OF TOURISM AND PROMOTIONS								
	%								
WF	WORKFORCE	(2,432.0)	(26,722)					(2,432.0)	(26,722)
	%	100.0	100					100.0	100
XB	DC Financial Responsibility & Mgmt Assist. Author	0.0	3,150					0.0	3,150
	%		100					0.0	100
ZA	SHORT-TERM BORROWINGS	0.0	37,785					0.0	37,785
	%		100					0.0	100
ZD	REPAYMENT OF GEN FUND DEFICIT	0.0	38,314					0.0	38,314
	%		100					0.0	100
ZH	SETTLEMENTS AND JUDGMENTS	0.0	14,800					0.0	14,800
	%		100					0.0	100
	TOTAL	17,265.0	1,903,286	4,985.0	762,030	10,535.0	2,443,309	32,785.0	5,108,625
	TOTAL PERCENTAGE	52.7	37	15.2	15	32.1	48	100.0	100

Source of Data: Office of the Budget

Prepared by: Office of the City Administrator 04/14/97

TESTIMONY OF COUNCILMEMBER LINDA W. CROPP

ACTING CHAIR OF THE D.C. COUNCIL

BEFORE THE SENATE SUBCOMMITTEE ON OVERSIGHT OF

GOVERNMENT MANAGEMENT, RESTRUCTURING, AND

THE DISTRICT OF COLUMBIA

ON "THE PRESIDENT'S PROPOSAL AND ALTERNATIVE APPROACHES FOR THE

DISTRICT OF COLUMBIA"

May 13, 1997

Good afternoon, Chairman Brownback and Members of the Senate Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia. On behalf of the Council of the District of Columbia, I am very pleased to have the opportunity to testify at this public hearing today on "The President's Proposal and Alternative Approaches for the District of Columbia."

The President's Proposal provides a historic opportunity to address the city's financial crisis in a way that <u>begins</u> to address fundamental inequities which have long existed in the relationship between the District of Columbia and the Federal government. We who represent the residents of the District embrace this effort to address the <u>expenditure</u> side of the District's structural financial problems. We believe that slow but steady progress is being made to increase the accountability of the District government for improved <u>management</u> of our finances, and much work remains to be done in this area. However, we also look forward to the day when the <u>revenue</u> side of the structural problem is addressed, because if we don't find a way to revitalize the local economy and expand our revenue base, the District of Columbia will never get out from under its ongoing fiscal crisis.

Although the District under the 1973 Home Rule Charter has attempted to perform state functions and to provide state-like services, we have done so <u>without the revenue base of a state</u>. Our revenue base, as you know, has been constrained severely and primarily by the Federal presence and by Congressionally imposed restrictions -- most notably, by the inability to have a reciprocal tax on income at its source -- which in effect provides a subsidy from the District to our neighboring states of Maryland and Virginia. When you consider that over two-thirds of the personal income in the city is earned by nonresidents, and that over 50% of the District government's own employees live outside the city, you begin to get an idea of the effect of this

Congressional restriction on the District's foregone revenues.

Recognizing the unique status of the District as the National Capital and the financial constraints uniquely applicable to the District, the President has proposed that the Federal government increase its budgetary responsibility for several very costly District operations, such as the Medicaid program and the incarceration of felons, which are state-like functions that virtually no other city in the nation performs. The President also has proposed relief from burdens which the Federal government itself created and unfairly transferred to the District government as part of the home rule deal, particularly the $5 billion unfunded pension liability. The Council strongly favors increased Federal budgetary support for these governmental functions, without which the District government cannot survive financially.

The President's Plan includes a requirement that the District approve a balanced budget for Fiscal Year 1998, one year earlier than required by the Congressionally approved financial plan for the District. As you may know, the Council, during the most recent budget cycle, assumed a leadership role in the successful effort to balance the budget for FY 98 -- and we will continue to make the painful but necessary cuts to right-size our government and redirect our resources to the priorities of public safety, public schools and public works.

The President's Plan includes other provisions strongly opposed by the Council, particularly the elimination of the Federal Payment and the requirement that certain criminal code changes must be enacted in the District, including determinate sentencing and the abolition of parole, in order for the Federal government to provide Federal budgetary support for the criminal justice system.

The proposed elimination of the Federal Payment is wrong because the Federal Payment is compensation to the District, both for the cost of services rendered by the District to the Federal government, and for revenues foregone due to the Federal presence and Congressionally imposed restrictions on our ability to raise revenue

The Federal Payment has been at the $660 million level for several years, an amount which two independent studies have concluded is only about one-half of what the Federal Payment should be -- based on a formula that calculates: (1) a payment in lieu of taxes not paid by Federally related properties and sales; (2) Federal aid in an amount that other cities receive from their states; and (3) compensation for those state-type services for which the District has budgetary responsibility.

Without objection, Mr. Chairman, I would like to enter into the record of this public hearing the two reports that independently concluded that a fair formula-based Federal Payment to the District would be calculated at approximately $1.2 billion: (1) the Brookings policy brief published in January of this year by Carol O'Cleiracain, which is entitled "The Orphaned Capital - Adopting a Revenue Plan for the District of Columbia;" and (2) the D.C. Appleseed Center's report dated November 2, 1995, which is entitled "The Case for a More Fair and Predictable

Federal Payment for the District."

Despite our concerns with certain aspects of the President's plan, the Council last week endorsed a Memorandum of Understanding (MOU) on the plan, accompanied by a Council resolution stating our concerns, both of which I would like to submit for the record. The Council took this action because the President's Plan thankfully addresses some of the District's costliest and growing burdens which no other city directly bears, and because we want to continue to be at the table to discuss the President's plan and to explore with Congress ways to improve the plan. The Council also wants to ensure that other financial and political inequities which exist in the relationship between the District and the Federal government, and which exist in the relationship between the District and our surrounding jurisdictions, are at least raised and discussed, even if they are not all addressed at this time.

We agree with those who have noted that the President's Proposal is an excellent foundation upon which we can build, and to which we hope to add value. Let me comment briefly on the other major elements of the President's plan.

1. UNFUNDED PENSION LIABILITY

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

We enthusiastically support adoption of the framework of the President's pension proposal and appreciate OMB's recognition that a significant amount of District-created assets in the pension fund must be left with the District government to fund the benefits of participants in the plans and to reduce the District's $300 million annual contribution.

2. MEDICAID

The Council also enthusiastically supports an increase in the Federal share of Medicaid costs from the current level of 50 percent. Because most cities do not pay anything directly for Medicaid, and because no city currently pays more than 25%, the Council urges Congressional consideration of an increased Federal share of the city's Medicaid costs to not less than 75%, or to the 100% level recommended by the Control Board.

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

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

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

Finally, with over half of the city's children living below the poverty level, we strongly urge the Federal government to ensure sufficient funding for early childhood development programs and 100% funding of Head Start-eligible children in our nation's capital.

3. ACCUMULATED DEFICIT FINANCING

The Council supports the President's plan for up to $500 million in U.S. Treasury loans to finance the District's accumulated deficit, because without such financing it will be extremely difficult to solve our cashflow problems.

OMB has testified -- and the Council wants to ensure -- that the existence of any outstanding debt for the Treasury financing obtained pursuant to this proposal will not by itself cause the existence of a "control period" under the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Public Law 104-8). The Treasury financing is not intended to -- and must not -- prolong unnecessarily the life of the Control Board.

The Council appreciates the Administration's recognition that such financing will require an amendment to raise the Home Rule Act's debt ceiling, in order to enable the District to obtain financing for its future capital needs. The debt ceiling, as you are aware, is the amount of debt repayment which the District can legally carry in any fiscal year and is currently capped at 14% of our revenues. I would also note that because the Federal Payment is calculated as part of our revenue, elimination or reduction of such payment also would reduce our future borrowing capability unless the debt ceiling is raised.

4. ECONOMIC DEVELOPMENT

The Council supports the establishment of an economic development corporation, albeit with increased District representation and with limited eminent domain authority, to guide and direct development opportunities throughout the city. The corporation would be capitalized, in part, with Federal funds and land grants, in order to leverage private sector development projects. The corporation also would be able to utilize Federal tax credits for both hiring District residents and for business loans and investments, and it would also be able to use tax-exempt private activity and revenue bonds in the same manner as other jurisdictions.

I believe that economic turnaround in the District depends upon the private sector, and that government can provide the catalyst for this development. We have some promising signs of economic recovery in our Downtown which are examples of this public-private partnership, including the MCI Center, the Washington Opera, and the new convention center. In recognition of the substantial economic benefit to the District and the region of a new and larger convention center in the nation's capital, and in recognition of the fact that most cities' convention centers have needed external support from their respective states to develop these facilities, the Council also requests Federal assistance to help complete the financing of the planned new convention center.

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

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

5. TRANSPORTATION INFRASTRUCTURE INVESTMENT

The Council supports the President's Proposal to establish a National Capital Infrastructure Fund with $108 million in Federal seed money in Fiscal Year 1998 for capital projects. These funds need to be available, however, not only for National Highway system projects, but also for other approved Federal aid highway and bridge projects and for our badly deteriorating local roads and bridges.

In addition to the $108 million in Federal seed money, the Council supports redirection of most of the $200 million in Federal dollars previously authorized for the Barney Circle project to the Infrastructure Fund, again to be used primarily for local infrastructure projects.

6. CRIMINAL JUSTICE SYSTEM

The Council supports the transfer of budgetary and management responsibility for incarcerating District felons from the District government to the Federal government, and the Council supports the transfer of the budgetary responsibility for the District's judiciary to the Federal government, because these again are state functions. The Council appreciates the Administration's recognition that the courts will remain self-managed, and that District involvement in both the selection and review of D.C. judges, and in commenting upon the courts' annual budget requests, will not be diminished.

However, the Council strongly opposes that, as a pre-requisite to this proposal, the Council must enact significant changes to the District's sentencing system regarding felonies, including the abolition of parole and the establishment of determinate sentencing. The Council believes that requiring such changes to the District's sentencing system substantially infringes upon the authority of the legislative and judicial branches of the District government, and that requiring such changes is not at all necessary to provide Federal budgetary and management support to the District's criminal justice system.

As an alternative to the President's proposal in this area, the Council has endorsed the Federal establishment of an independent corrections authority, along the lines set forth in recommendations recently made by the National Council on Crime and Delinquency, and which Congressman Tom Davis is exploring. However, with regards to this alternative, the Council believes that operation of the juvenile system and its facilities must be kept separate from the adult facilities. This alternative criminal justice proposal for the District, which is based largely on a privatization model and which would provide for a phase-out of the Lorton facility, would not require the implementation in the District of a different sentencing system.

7. TAX ENFORCEMENT

The Council supports assistance by the Internal Revenue Service with local enforcement of and compliance with the District's individual income taxes, if requested by the District and at no cost to the District, pursuant to legislation to be developed which is mutually acceptable to both the Federal and District governments.

8. CAPITAL INVESTMENT IN SCHOOLS

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

In summary, the Council believes that the key to economic recovery in the District depends upon 3 systemic changes, each of which is vital: (1) Local management reforms and substantially improved delivery of essential and basic public services; (2) Federal budgetary support for state-like expenditures of the District government, along with a continued Federal Payment; and (3) Tax reform for District residents and businesses -- both Federal and local -- to reverse the flight of residents and businesses and to restore a competitive revenue base.

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

ENROLLED ORIGINAL

A RESOLUTION

12-116

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

May 9, 1997

To authorize, on an emergency basis, Acting Chairman Cropp and Councilmember Jarvis to sign, on behalf of the Council, the Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan ("MOU"), with the caveat that the Council remains opposed to any elimination or reduction of the annual Federal payment to the District, and that other major concerns with certain terms and conditions of the MOU shall be transmitted to the signatories of the MOU and to the Congress.

RESOLVED, BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this resolution may be cited as the "Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan Emergency Resolution of 1997".

Sec. 2. Except for the concerns set forth in section 3 of this resolution, the Council concurs with the draft Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan ("MOU") dated May 8, 1997. Acting Chairman Linda W. Cropp and Councilmember Charlene Drew Jarvis are each authorized to sign the MOU on behalf of the Council, with the caveat that this resolution shall be referenced in the MOU and transmitted to the other signatories of the MOU and to the Congress.

Sec. 3. It is the sense of the Council that:

(1) The President's National Capital Revitalization and Self-Government Improvement Plan ("President's Proposal") provides a historic opportunity to address the city's financial crisis in a way that begins to address fundamental inequities which have long existed in the relationship between the District of Columbia and the Federal government.

(2) Although the District government under the 1973 Home Rule Act has attempted to perform state functions and to provide state-like services, the District has done so without the revenue base of a state, which has been constrained severely and primarily by the

Federal presence or by Congressionally imposed restrictions.

(3) Recognizing the unique status of the District as the National Capital and the financial constraints uniquely applicable to the District, the President has proposed that the Federal government increase its budgetary responsibility for the following very costly District operations which are either state-like functions which virtually no other city in the nation performs, or which are burdens that the Federal government itself created and unfairly transferred to the District government as part of the home rule deal:

(A) The Council strongly supports an increase in the Federal share of Medicaid costs from the current level of 50% to not less than 70% (section V.1 of the MOU), because most cities in the nation do not pay anything directly for Medicaid costs. Because no city currently pays more than 25%, the Council urges consideration of an increased Federal share of Medicaid costs to not less than 75%. The same rationale justifies a similar increase in the Federal share of the Temporary Assistance for Needy Families program in the District. Further, consideration should be given to providing Federal budgetary support for Saint Elizabeths Hospital, because this inpatient mental health facility, which was funded and operated by the Federal government until the last decade, fits into the category of governmental functions that are usually funded and operated by states rather than cities throughout the nation.

(B) The Council also strongly supports Federal reassumption of the unfunded liability that the Federal government alone created in the pension plans for District police officers, firefighters, teachers, and judges (section V.2 of the MOU), and appreciates the MOU's recognition that a significant amount of assets in the pension fund must be left with the District of Columbia to fund the benefits of participants in the District's pension plans and to reduce the District's annual contribution.

(C) The Council supports U.S. Treasury loans of up to $500 million to eliminate the District's accumulated deficit (section V.3 of the MOU); provided, that the existence of any outstanding debt for the Treasury financing obtained pursuant to this proposal shall not by itself cause the existence of a control period under the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Public Law 104-8). The Council appreciates the MOU's recognition that such financing must not jeopardize the District's ability to receive additional Treasury financing to maintain sufficient intra-year and inter-year liquidity, and that such financing will require an amendment to the Home Rule Act's debt limit to enable the District to obtain additional financing for its future capital needs.

(D)(i) The Council supports the transfer of the budgetary and management responsibility for incarcerating District felons from the District government to the Federal government (section V.4 of the MOU), and the Council supports the transfer of the budgetary responsibility for the District's judiciary to the Federal government (section V.4 of the MOU) and appreciates the MOU's recognition that the courts will remain self-managed and that District involvement in the selection and review of D.C. judges will not be diminished.

However, the Council strongly opposes that, as a prerequisite to such transfers, the Council must endorse significant changes to the District's sentencing system regarding felonies, including the abolition of parole, the establishment of determinate guideline sentencing, and the enactment of new mandatory minimum drug sentences.

(ii) The Council is opposed to this prerequisite, which is set forth in section V.4 of the MOU, because requiring such changes to the District's sentencing system substantially infringes upon the authority of the legislative and judicial branches of the District government and thereby runs counter to the stated purpose of the MOU to "strengthen Home Rule" and "respect the Home Rule Charter", and because requiring changes to the sentencing system is not necessary to provide Federal budgetary and management support to the District's criminal justice system.

(iii) As an alternative to the conditions set forth in the MOU for Federal budgetary and management assistance to the District's criminal justice system, the Council generally supports the Federal establishment of an independent corrections authority, along the lines set forth in the document entitled "Proposal for the Establishment of the District of Columbia Corrections Authority" dated April 11, 1997, which is based on a long-term study and recommendations by the National Council on Crime and Delinquency dated January 31, 1997. This alternative criminal justice proposal would not require the District government to relinquish any of its authority to amend the criminal code nor require the implementation in the District of determinate sentencing, mandatory minimum sentencing, or the abolition of parole. The Council at this time opposes the component of this alternative criminal justice proposal that would transfer responsibility for detained and committed juvenile offenders to a Federal independent corrections authority.

(E) The Council supports the establishment of an economic development corporation ("EDC") (section V.5 of the MOU), which would be capitalized initially with substantial Federal funds and Federal real property assets, and which would have broad authority to spur private development, including the use of substantial Federal tax credits both for hiring District residents and for business loans and investments, the use of tax-exempt private activity and revenue bonds, and limited authority to acquire property by eminent domain in furtherance of its statutory objectives. The Council also strongly supports the MOU's endorsement of amendments to the Home Rule Act to provide the District government with the same legal capacity to finance economic development projects as other jurisdictions. The Council requests increased District representation on the board of directors of the EDC. Also, recognizing the substantial economic benefit to the District and the region of a new and larger convention center in the nation's capital, and recognizing that most of the nation's convention centers have needed external support to develop these facilities, the Council requests Federal assistance to complete the financing of the planned new convention center.

(F) The Council supports the establishment of a National Capital

Infrastructure Fund with substantial Federal seed money in Fiscal Year 1998 (section V.6 of the MOU), which should be available not only for National Highway System projects as proposed by the MOU, but also for other approved Federal aid highway and bridge projects and for local roads in the District. The Council requests that the District be relieved of providing the non-Federal match for all National Highway System and other approved Federal highway and bridge projects. The Council also requests that the District be allowed to retain Federal interstate allocations, previously designated for projects that the District has chosen not to proceed to construct, for other local road maintenance and construction, or for local mass transit purposes in the District. The Council further requests that credit enhancement, project loans, and other advantages of the state infrastructure banks that the Federal Highway Administration is helping states to develop be available to the District out of the Fund, for projects that meet criteria to be jointly developed by the District of Columbia Department of Public Works and the Federal Highway Administration.

(G) The Council supports assistance by the Internal Revenue Service ("IRS") with the local enforcement of and compliance with the District's individual income taxes (section V.7 of the MOU), if requested by the District and at no cost to the District, pursuant to legislation to be developed which is mutually acceptable to both the District government and the Federal government.

(4) The most fundamental inequity that continues to exist in the relationship between the Federal and District governments is not addressed by the President's Proposal, and that is the lack of voting representation of District of Columbia residents in the United States House of Representatives and the United States Senate. This denial of the most basic of democratic rights of District residents will be exacerbated if the Federal government assumes management of certain District government functions, because the District will not be able to participate fully in decisions made at the Congressional level with regard to these functions.

(5) In addition to addressing inequities in the relationship between the District and Federal governments and in the relationship between the District and its surrounding jurisdictions, the primary structural goal of the Council is to increase the accountability of the District government and reinforce the Council's oversight responsibility for improving the delivery of essential and basic public services, for restoring the District's financial solvency, and for revitalizing the local economy. To this end, the Council, working together with the Mayor, the Chief Financial Officer, and the District of Columbia Financial Responsibility and Management Assistance Authority, assumed a leadership role in the effort to enact a balanced budget for Fiscal Year 1998 (section III of the MOU), which is one year earlier than required by the Congressionally approved financial plan for the District (Public Law 104-8).

(6) (A) Although not referenced within the MOU, the most troubling component of the President's Proposal is the proposed elimination of the annual Federal payment to the District of Columbia, the underlying purpose of which is to compensate the District for the costs

associated with the District's unique role as the seat of the Federal government and for the revenues foregone as a result of Federal restrictions on the District's ability to raise revenue.

(B) The elimination of the Federal payment would have a severe negative fiscal impact on the District's cash flow until the accumulated deficit has been financed and other long term cost containment measures have been implemented.

(C) The District relies on the Federal payment to repay debt from the prior fiscal year.

(D) The Federal payment is included as a source of revenue in the calculation of the debt limit established for the District in the Home Rule Charter, and, without the Federal payment, the District's debt service as a percentage of revenues would exceed the current debt limit.

(E) The Federal payment has been made available for debt service and referenced in the security documents, and, if the District does not have the Federal payment, investors may require higher interest rates on future debt obligations.

(F) Federal legislation has not been enacted to remove restrictions on the District's revenue raising capability, particularly the ability to have reciprocal taxation upon income at its source. Federal legislation also has not been enacted along the lines of Congresswoman Norton's District of Columbia Economic Recovery Act, which would provide the jolt that is desperately needed to expand the District's revenue base by reversing the hemorraghing of residents and jobs from the District. Therefore, the provision of an adequate Federal payment to the District is even more important and essential to the financial stability of the District of Columbia.

(G) The Federal payment should be determined outside of the annual Congressional appropriations process and be based on a formula that takes into account the combined value of the following components, as set forth in the Brookings Institution revenue plan for the District of Columbia entitled "The Orphaned Capital" and authored by Carol O'Cleireacain ("Brookings plan"):

(i) A payment in lieu of taxes to compensate the District for the reduction of its tax base by the presence of an extraordinary amount of federally-related tax-exempt property and by the imposition of a building height limit;

(ii) State-type aid in an amount that is comparable to the support received by cities of similar size from their state governments; and

(iii) Compensation for the District's continuing budgetary responsibility for providing state-type services.

(H) If the Federal Payment to the District were calculated on the basis of the formula proposed by the Brookings plan, the District government would be able to afford the local tax relief for residents and businesses also proposed by the Brookings plan, and the Council would enact legislation to put such local tax relief into effect simultaneously with the receipt of such adequate annual Federal payment, as part of a comprehensive effort to restore health and competitiveness to the economy of the nation's capital.

Sec. 4. The Secretary to the Council shall transmit a copy of this resolution, upon its adoption, each to the President of the United States, the Director of the Office of Management and Budget ("OMB"), the Executive Director of the District of Columbia Task Force at OMB, the District of Columbia Delegate to the United States House of Representatives, the Speaker of the United States House of Representatives, the President Pro Tempore of the United States Senate, the chairpersons of the House and Senate committees and subcommittees with budgetary and legislative oversight responsibility for the District of Columbia, the Mayor of the District of Columbia, the Chief Financial Officer of the District of Columbia, and the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority.

Sec. 5. This resolution shall take effect immediately.

Draft May 8, 1997

(With additions to original 4/11/97 draft underlined; and deletions w/strikeout)
(New additions since 5/4/97 draft double-underlined, new deletions bracketed)
(New language since 5/6/97 draft shown in bold in Section I, page 2)

MEMORANDUM OF UNDERSTANDING BETWEEN:

THE DISTRICT OF COLUMBIA

Marion Barry, Jr., Mayor ____________

Charlene Drew Jarvis, Chairman Pro Tempore (1/2/97 - 5/6/97)* ____________

Linda W. Cropp, Acting Chairman (5/6/97 - 8/1/97)* ____________

* Pursuant to Council Resolution 12-___,
"Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan Emergency Resolution of 1997"

[~~DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY~~]

[~~Andrew Brimmer, Chairman~~ ____________]

OFFICE OF MANAGEMENT AND BUDGET, EXECUTIVE OFFICE OF THE PRESIDENT

Franklin D. Raines ____________
Chair, President's District of Columbia Task Force

Dated: ____________

SECTION I. PURPOSE

The parties respect the Home Rule Charter as the fundamental basis for governance in the District. The purpose of this memorandum is to strengthen Home Rule and to agree to work toward the revitalization of the District of Columbia. By providing for additional District government functions, the Federal government will enable the District to focus its resources on the functions that remain. In some cases, however, this memorandum provides for Federal assumption of not only funding for certain government functions, but Federal assumption of management of those functions as well. While this is appropriate in limited circumstances, the parties generally favor the principle of local management over District government functions, regardless of the source of funding for those programs. The parties also favor local control over locally raised revenues. **The parties have agreed to disagree on whether the Federal Payment should continue after this program goes into effect.**

This memorandum is intended only to improve the management of, and the relationship between, the District of Columbia and the Federal government, and is not intended to and does not create any right, benefit, trust or responsibility, substantive or procedural, enforceable at law or equity by a party against the United States or the District of Columbia, its agencies, its officers, or any person.

SECTION II. PUBLIC LAW 104-8, "THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE ACT OF 1995"

The parties recognize the ~~effectiveness~~ provisions of PL 104-8 and dedicate themselves to the cooperative implementation of ~~its~~ these provisions. Among these ~~provisions~~ are:

Finance.

- For each Fiscal Year for which the District is in a control period, the Mayor shall develop and submit to the Financial Responsibility and Management Assistance Authority (the "Authority") and District Council a Budget and Financial Plan for the applicable Fiscal Year and the next three Fiscal Years.
- Expenditures for the District government for each Fiscal Year, beginning in FY1999, may not exceed revenues for that Fiscal Year.
- During Fiscal Years 1996, 1997, and 1998, the District government shall make continuous, substantial progress toward equalizing its expenditures and revenues.
- The District may not borrow money during a control year unless the Authority provides prior certification that the borrowing is consistent with the financial plan and budget for the year.
- [~~For the Secretary of the Treasury to make a short-term advance to the District, an Authority-approved Budget and Financial Plan must be in place, the Mayor must submit a requisition for an advance including a schedule for timing and amounts for advances, the Inspector General must certify the accuracy of the information provided to the Secretary, and the~~

~~Secretary determines — and the Authority certifies — that the District lacks market access on reasonable te..ns, and that the Treasury has reasonable assurance of being reimbursed.]~~

- For the Secretary of the Treasury to make a short-term advance to the District: (1) the Mayor must submit, among other things, a requisition for an advance; (2) the Authority and the Inspector General each must certify, among other things, that: (a) the Authority has approved a Budget and Financial Plan for the District for the Fiscal Year in which the requisition is made, (b) the District is in compliance with the Authority-approved Budget and Financial Plan, and (c) the borrowing and repayment of the short-term advance is consistenct with the Authority-approved Budget and Financial Plan; (3) the District and the Authoirty each must certify that the District lacks market access on reasonable terms; and (4) the Secretary must determine that the Treasury has reasonable assurance of being reimbursed.

Management.

- An Office of the Chief Financial Officer will be established in the Executive Branch of the District government, headed by the Chief Financial Officer, and including the Office of the Treasurer, Controller, Budget, Financial Information Services, and Finance and Revenue.

- An Office of the Inspector General will be established in the Executive Branch of the District government.

- During the control period, the Mayor shall submit proposed contracts and leases to the Authority for review, and cannot enter into a contract or a lease unless the Authority determines it is consistent with the Budget and Financial Plan.

- The Authority may submit recommendations to the Mayor, the Council, the President, and Congress on actions the District or Federal governments may take to ensure the District's compliance with a Budget and Financial Plan and promote its financial stability, management responsibility, and service delivery efficiency. The Mayor and the Council shall submit a statement to the Authority, President, and Congress providing notice as to whether the District will adopt the recommendations. An affirmative statement must include a written implementation plan, with performance measures and a schedule for audit compliance. If the statement rejects the recommendations, the Authority may vote to take what actions it deems appropriate, after consulting with the Senate Governmental Affairs Committee and the House Government Reform and Oversight Committee.

SECTION III. GENERAL PROVISIONS

~~1.~~ ***Balanced Budget***. PL 104-8 requires that the District balance its budget by FY1999. By this agreement, the District agrees to present and/or approve a balanced budget for the Fiscal Year beginning October 1, 1997.

~~2. *Agreement to be Bound*. The District agrees to be bound by and to use its offices and best efforts to implement this agreement.~~

SECTION IV. SUBMISSION OF LEGISLATION & FEDERALLY ASSUMED FUNCTIONS

As Chair of the President's District of Columbia Task Force, the Director of the Office of Management and Budget intends to recommend the submission of legislation to the Congress that is consistent with the National Capital Revitalization and Self Government Improvement Plan (the "Plan") announced by the President on January 14, 1997.

Once implemented, the Plan will provide the District substantial relief from its operating expenditures, relief which will grow over time. It will also invest considerable resources ~~to improve~~ in the District's criminal justice systems and capital infrastructure. If this legislation is enacted, the Federal government will undertake the functions described below. The Federal government will not undertake a function until the District government meets the conditions for that function, described in Section V.

1. *Medicaid*. The Federal government will increase its share of the District's Medicaid payments to 70 percent, thereby reducing the District's share to 30 percent. The 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.

2. *Pensions*. The Federal government will take financial and administrative responsibility for virtually all pension benefits accrued under the plans for all active and retired police and firefighters, and teachers, and will take full responsibility for the pensions of judges. The bulk of the assets of the retirement plans will be transferred to the Federal government and placed with a third party Trustee chosen by the Secretary of the Treasury. A significant amount of assets will be left with the District of Columbia to fund the benefits of participants in the District's plans and to reduce the District's annual contribution. The Trustee will invest funds, manage the existing plans, and make payments on behalf of beneficiaries. The Federal government will pledge its full faith and credit to meet its responsibilities to pay these benefits. Current retirees will have all their benefits paid by the Federal government. Retirement, death, and some disability benefits payable by the Federal government to current employees will be based on service earned as of the date the legislation is introduced. While the Federal government will not be responsible for benefits earned during future years of service by members of the current retirement programs (other than judges), these members will get the benefit of pay increases on the frozen benefits. Frozen benefits will continue to be subject to cost-of-living adjustments under the terms of the existing programs. All future employee contributions (except for judges) will be paid into the new plans.

3. *Treasury Loans to Eliminate the Deficit*. 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 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.

4. ***Criminal Justice.*** The Federal and District governments will develop and implement a transition plan which transfers responsibility over a three-to-five-year period for incarcerating felons. The Federal Bureau of Prisons (BOP) will house adult felons convicted of D.C. Code violations and designated in the same manner as Federal inmates in correctional institutions operated or contracted by the BOP. This will occur after BOP's capacity has been increased through new construction at Lorton and other locations selected by BOP, and through renovation of existing facilities at Lorton, Virginia. After October 1, 2001, the BOP will also designate to Federal correctional institutions sentenced D.C. felons in the custody of the D.C. Department of Corrections, as the Director of BOP deems appropriate, in accordance with available capacity, until they have all been designated to Federal institutions. The BOP will accept employment applications from persons currently employed by the D.C. Department of Corrections for existing BOP vacancies, and will process such applications in accordance with existing Federal procedures and standards.

The Attorney General will select, after consultation with the Mayor, the D.C. City Council, and the Chair of the D.C. Financial Responsibility and Management Assistance Authority, a Trustee to oversee operations of the D.C. Department of Corrections until the BOP assumes responsibility for all incarcerated District felons.

The Federal and District governments will develop and implement a framework for changes to the D.C. sentencing system, including the abolition of parole, institution of determinate guideline sentencing and the enactment of the new mandatory minimum drug sentences, which are a prerequisite for the Federal government accepting responsibility for the incarceration of felons convicted of D.C. Code violations. The sentencing system will be enacted within 24 months, or the Federal government will not be required to obligate any funds appropriated for the purpose of incarcerating D.C. Code felons and will have no responsibility for housing such persons.

Consulting with representatives of the Federal and District judiciary, the Federal and District governments will also develop and implement a transition plan transferring responsibility for D.C. Code violation offender pretrial, public defender, parole, probation, and post-adjudication/post-conviction adult offender supervision from the District government to the Federal government over a three-to-five-year period. The United States Parole Commission will continue to assume responsibility for all D.C. felons housed in Federal Correctional Institutions who have sentences subject to provisions of parole.

The Federal government will take direct responsibility (in consultation with the D.C. judiciary) for funding the D.C. court system and related services (including plans relating to retirement benefits and other personnel matters), and establishing an independent budgetary, financial oversight, and administrative support system for the D.C. courts. The Courts will remain self-managed, and District involvement in the selection and review of D.C. judges will not be diminished.

5. ***Economic Development.*** The Federal government will assist the economic development of the District of Columbia in three ways:

First, a new economic development corporation (EDC) will be established as a public authority of the District of Columbia, with the mission of revitalizing the nation's capital city and benefitting the District's residents and businesses. The EDC will be governed by a board of directors consisting of nine voting members. ~~Six~~ Five of the board members will be appointed by the President in consultation with the Congress. Of those ~~six~~ five, four will be selected from the for-profit business community, and ~~two~~ one will be selected from a community-based organization[s]. One of the board members will be appointed by the Mayor with the advice and consent of the Council, from the for-profit business community or from a community-based organization. All six of the appointed board members will be persons who either maintain a primary residence or have a primary place of business in the District. The remaining three board members will be ex officio members, one chosen by the President from the Federal government, a second ~~chosen by~~ who will be the Mayor or such alternates from the D.C. government as the Mayor may from time to time designate to serve as the Mayor's representative ~~from the District government~~, and a third ~~chosen by~~ who will be the Council Chairman or such alternates from the D.C. government as the Council Chairman may from time to time designate to serve as the Council Chairman's representative ~~from the District government~~. The EDC will be run by a Chief Executive Officer and served by a professional staff. ~~[The EDC will receive an initial capitalization of Federal funds.]~~

The Administration will seek an authorization for appropriations in fiscal year 1998 to carry-out economic development in the District of Columbia and to pay the expenses of the EDC. The EDC will evaluate existing economic development plans and will give expedited consideration to applications for financial assistance for projects contemplated by existing plans that the EDC adopts. The EDC will establish a comprehensive strategic plan for economic development and will consult with the rest of the District government in doing so. The EDC will provide financial assistance for economic development projects, directly or in participation with other sources of financing, by making loans, equity investments, and grants, but not guarantees; by leasing or conveying land; by allocating tax credits for qualified equity investments and loans; by issuing tax-exempt private activity bonds for certified qualified projects; and by issuing project revenue obligations for any economic development project that it approves. All EDC projects will be required to comply with applicable Federal and District law. The EDC will have limited powers to acquire property through condemnation by eminent domain in the name of the District of Columbia and in furtherance of the EDC's statutory objectives. These provisions will be undertaken in a manner consistent with a legislative agreement being developed with the District.

Second, the Federal government will provide $250 million in tax incentives to encourage business investment both downtown and in distressed communities, and to help businesses increase employment of residents of the District. There will be a new 40 percent tax credit on the first $10,000 of eligible wages in the first year of employment for employers in the District that hire certain residents of the District. Businesses that have a significant portion of their activities in higher poverty areas of the District and that have a work force at least

35 percent of which is made up of District residents will be eligible for expensing (rather than capitalizing) an additional $20,000 of business equipment and machinery acquired each year. The EDC will be authorized to issue tax-exempt private activity bonds to finance a broader range of business property than under existing District law if the business is located in a higher poverty area of the District and has a work force at least 35 percent of which is made up of District residents. The EDC will be authorized to allocate $95 million in tax credits for investors in, or lenders to, District businesses for up to 25 percent of the amount invested or loaned.

Third, the District government's [~~borrowing~~] revenue bond financing authority will be clarified and improved ~~[by removing impediments in its borrowing statutes]~~ so that the District government will have [~~the same~~] legal capacity to finance projects comparable to other similar jurisdictions [~~have~~].

~~[These provisions will be undertaken in a manner consistent with a legislative outline being developed with the District]~~.

6. ***Infrastructure***. The Department of Transportation will assume responsibility for the funding and oversight of certain National Highway System (NHS) capital projects (including roads, bridges, and transit) and NHS operations and maintenance projects (excluding police authority, National Park Service roads, and transit) in consultation with the District. The District will select the NHS projects to be funded and the Secretary of Transportation will review the District's project selections in accordance with Title 23 planning procedures. Contract administration will be performed by the Federal Highway Administration. In addition, eligibility for Surface Transportation Program (STP) funds will be expanded to include local public roads. To support NHS projects, the National Capital Infrastructure Fund (NCIF) will be established in FY1998 with $108 million for road, bridge, and transit capital projects. An additional $17 million will be provided in FY1998-03 for NHS operations and maintenance. Federal-aid funds for the District's NHS, Interstate Maintenance, and Bridge programs will be transferred to the NCIF in FY1998-03. The Administration [~~also~~] will propose[~~s~~] that, subject to approval by the District government, the NCIF be authorized to accept contributions from other sources.

7. ***Personal Income Tax ~~Collection~~ Administration***. At the request of, and at no cost to, the District, the Internal Revenue Service will assume responsibility from the District of Columbia for administering and/or enforcing D.C. individual income ~~and payroll~~ taxes, and the IRS may assume other responsibilities for the District on a reimbursable basis. ~~This would potentially include the procesing those taxes paid by individuals, as well as the payment of related employment and payroll taxes.~~ The District government will maintain processing and collection responsibility for all other taxes. After 5 years the District and the IRS will undertake a study of the performance and benefits of the IRS' participation in District tax administration. In year six, either party may terminate the arrangement. If neither party terminates the arrangement, it will continue. A new evaluation of the IRS' participation in District tax administration will be undertaken every subsequent five years, and both parties will retain the right to terminate the IRS participation in District tax administration.

Both during the drafting and ~~U~~upon enactment of the legislation to implement the Plan, the parties to the MOU will review the legislation and confer on whether any revisions to the MOU are necessary to ensure its consistency with the legislation.

SECTION V. DISTRICT CONDITIONS

The District government understands that it will be expected to undertake significant actions as part of the *National Capital Revitalization and Self-Government Improvement Plan* (the "Plan"). This section sets out the actions that the District government agrees to take as a condition of the Federal government actions under the legislation to carry out the Plan.

1. ***Medicaid***. The District agrees to develop and implement plans satisfactory to the Secretary of Health and Human Services to accomplish each of the following:

1.1. To develop an effective system for the identification and collection of amounts owed by third parties for medical care and services furnished to individuals under the District's Medicaid plan.

1.2. To ensure the timely audit and settlement of cost reports of institutional providers (including hospitals, nursing facilities, and intermediate care facilities for the mentally retarded) under the District's Medicaid plan, including prompt elimination of the backlog of such audits and settlements.

1.3. To develop and implement, directly or under contract, a comprehensive health care management information system that will standardize data base development and management, and integrate health care delivery with a public health data system. Such a system shall at a minimum have the capacity to accomplish the following functions:

1.3.1. To assist with eligibility verification;

1.3.2. To create utilization and financial profiles of providers;

1.3.3. To identify services (including preventive services) received by program beneficiaries;

1.3.4. To monitor the claims processing and other Medicaid operations of the fiscal agent;

1.3.5. To monitor the quality of care provided under managed care contracts; and

1.3.6. To coordinate information management with respect to the District's Medicaid program and other public health programs and functions.

1.4. To develop a comprehensive behavioral managed health care system, which combines substance abuse and mental health grant programs. Development of such a plan shall include a pilot project for better evaluation of in-patient acute psychiatric patient admissions, and the purchase of a comprehensive, risk-based system for managed care of behavioral health which covers all eligible populations and services.

2. ***Pensions***. The District Government agrees: (see Appendix One for definitions)

2.1. To establish a Replacement Plan for the current Retirement Program.

2.1.1. The Replacement Plan will cover all existing and new employees (except for judges) who are, or would be, covered by the Retirement Program, if the Retirement Program continued unchanged, and will be established by the date specified in legislation.

2.1.2. To the extent required by current law, the Replacement Plan will be established through collective bargaining.

2.1.3. After the Adoption Date, the Replacement Plan may not be amended in any manner that materially increases the cost of the Replacement Plan without provision of a mechanism for funding such increases, in accordance with Section 2.2.

2.2 That the Replacement Plan will use appropriate funding methods and costs that do not exceed the sum available in the District of Columbia Budget and Financial Plan.

2.2.1. The cost of any defined benefit plan will be determined in accordance with the measurement standards of Governmental Accounting Standards Board Statement No. 27 (GASB 27), with the following additional restrictions:

2.2.1.1. funding methods will be limited to *entry age* or *frozen entry age*; and

2.2.1.2. amortization of any unfunded actuarial liability is required over no more than 30 years on a *closed* basis.

2.2.2. The cost of any defined contribution plan is the employer contribution required under the provisions of the plan.

2.2.3. All costs of the Replacement Plan must be reflected in the D.C. Budget and Financial Plan in accordance with the standards described above.

2.2.4. All costs of the Replacement Plan must be paid in accordance with the D.C. Code 1981, Title 1, Chapter 7, subchapter III.

2.2.5. Contributions of all existing and new employees (except judges) will be paid into the Replacement Plan.

2.3. To transfer copies of books and records of the Retirement Program and the Fund and to be financially responsible for errors and omissions, including all necessary records of individual employees.

2.3.1. Copies of any books and records pertaining to the Retirement Program and the Fund required by the Secretary of the Treasury or the Trustee must be made available to the Secretary or Trustee within 30 days after the Secretary or Trustee requests them.

2.3.2. The District will reimburse the Trustee for all costs, including benefit payments, resulting from errors or omissions in the books and records pertaining to the Fund.

2.4. To transfer assets from the Fund.

2.4.1. Any and all assets of the Fund required to be transferred to the Trustee shall be transferred on the Transfer Date in a form specified by the Trustee.

2.4.2. The District of Columbia Retirement Board will administer the retirement programs until the Trustee assumes these responsibilities. The District government will reimburse the Fund for any benefits paid out of the Fund between the Freeze Date and the transfer date that exceed payments that would have been the responsibility of the Federal government if the transfer had occurred simultaneously with the freeze.

2.4.3 A significant amount of assets will be left with the District government to fund the benefits of participants in the District's plans and to reduce the District's annual contribution.

3. ***Treasury Loans to Eliminate the Deficit.*** The District agrees that:

3.1. Any Treasury loan to eliminate the accumulated fund balance deficit would be for no more than 15 years, with an interest rate equal to the prevailing yield on outstanding Treasury marketable securities of comparable maturities plus 1/8 of one percent.

3.2. The combined amount of the Treasury loans to eliminate the accumulated fund balance deficit and to manage its liquidity position will not exceed the amount of $500 million, except for intra-year loans.

3.3. 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.

3.4. Before any lending may occur, the District must provide a requisition for an advance of funds and a promissory note to reimburse the Treasury for the Advance, in forms satisfactory to the Secretary of the Treasury.

3.5 Before any lending may occur, the Secretary of the Treasury shall consider the impact of such lending on the District's obligations to the District's bond and note holders

3.~~5~~6. Before any lending may occur, the Secretary of the Treasury must receive certifications from the Financial Responsibility and Management Assistance Authority and the District of Columbia Inspector General that there is an approved Budget and Financial Plan in effect for the District for the Fiscal Year in which the requisition is made, that the District is in compliance with the Authority-approved Budget and Financial Plan, and that the borrowing and repayment of the loan is consistent with the Authority-approved Budget and Financial Plan.

3.~~6~~7. Before any lending can occur, the Secretary of the Treasury must receive certifications from the District government and the Financial Responsibility and Management Assistance Authority that the District is unable to obtain enough credit elsewhere to meet the District government's need for financing.

3.~~7~~8. 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.

4. *Criminal Justice.* This subsection of the Memorandum of Understanding (MOU) between the Federal government and the District of Columbia government (D.C.) outlines the offer of the Federal government, conditioned wholly on appropriations and D.C.'s acceptance and satisfaction of all other conditions and predicates identified and described herein, to assist D.C. by assuming responsibility for certain traditionally State responsibilities and the conditions that D.C. must agree to and fulfill should it choose to accept that offer as it relates to criminal justice functions, including, but not limited to, certain defendant and offender services, corrections and the judiciary. The MOU sets forth the expectations and responsibilities relating to proposed changes and reforms in the D.C. criminal justice and judicial system and the procedures (including new statutory and regulatory provisions) the Federal government and D.C. will use to implement the MOU. In particular, the MOU is designed to:

4.i. provide a framework for changes to the D.C. sentencing system, including the abolition of parole, institution of determinate guideline sentencing and the enactment of the new mandatory minimum drug sentences, which are a prerequisite for the Federal government accepting responsibility for the incarceration of felons convicted of D.C. Code violations.

4.ii. ensure that such sentencing system is to be enacted within 24 months after funding has been provided, or the Federal government will not be required to obligate any funds appropriated for the purpose of incarcerating D.C. Code felons and will have no responsibility for housing such persons.

4.iii. ensure an appropriate transfer and transition of responsibility from D.C. to the Federal government for pretrial, public defender, parole, probation, and post-conviction supervision and services for adult D.C. Code defendants and offenders.

4.iv. ensure an appropriate transfer of responsibility from D.C. to the Federal government for the incarceration of sentenced felons convicted of D.C. Code violations, assuming sufficient resources are provided by Congress to develop necessary bed space to accommodate the resulting increase in the Federal Bureau of Prisons (BOP) population and D.C. Code violators are designated in the same manner as Federal inmates.

4.v. provide the basis for establishing an independent budgetary, financial oversight, and administrative support system for the D.C. courts.

4.vi. define the respective roles of the D.C. and Federal Governments in relation to lawsuits and resulting liability, as they may be affected by the reforms agreed to in this MOU.

4.vii. ensure the development by D.C. and the Federal Governments of transition plans

4.vii.a. (in consultation with the Federal and D.C. judiciaries) for transferring responsibility for pretrial, public defender, parole, probation, and post-conviction supervision and services for adult D.C. Code defendants and offenders over a transition period of one to three years from the enactment of the federal implementing legislation.

4.vii.b. for transferring responsibility for incarcerating sentenced felons convicted of D.C. code violations over a period of approximately three to five years.

4.vii.c. (in consultation with the D.C. judiciary) for transferring responsibility for funding the D.C. court system and related services, including plans relating to retirement benefits and other personnel matters.

4.vii.d. for transferring control of the property at Lorton, Virginia to the Federal Government.

4.1. Administration of District of Columbia Pretrial, Parole, Probation, and Post-Conviction Offender Supervision, Housing, and Public Defender Services

4.1.1. Federal Government Responsibilities

4.1.1.1. After consultation with the Mayor of D.C., representatives of the D.C. Council, the Chairman of the D.C. Financial Responsibility and Management Assistance Authority (Financial Authority), and members of the affected Federal and D.C. judiciaries, the Attorney General will select an Offender Supervision, Defender and Courts Services Trustee to:

a) assure the smooth transition and continued operations of D.C.'s Pretrial Services Agency and Public Defender Service;

b) implement an orderly shutdown of the D.C. Board of Parole in coordination with the U.S. Parole Commission and the Superior Court for the District of Columbia;

c) establish and operate a new D.C. Offender Supervision, Defender and Courts Services Agency; and

d) accomplish, without disruption of services, the transfer of the adult offender probation supervision functions of the D.C. Courts Social Services Division,

until the Federal government assumes responsibility for each of these functions.

4.1.1.2. During the transition period, under the general auspices of the Trustee, the D.C. Pretrial Services Agency will continue uninterrupted to provide services and support for both juvenile and adult D.C. Code and Federal defendants and offenders to the U.S. District Court for the District of Columbia, the U.S. Court of Appeals for the District of Columbia, the Superior Court for the District of Columbia, and the District of Columbia Court of Appeals. The Director of Pretrial Services may employ such personnel as shall be necessary pursuant to procedures and standards established by the Trustee to facilitate transition to Federal status.

4.1.1.3. Following the transition period, the D.C. Pretrial Services Agency and the D.C. Public Defender Service will be organizationally housed in a part of a new Federal D.C. Offender Supervision, Defender and Courts Services Agency.

4.1.1.4. The D.C. Board of Parole will be terminated after the Trustee establishes a transition agency with the capacity to provide adequate field supervision to adult D.C. offenders on parole, probation or supervised release, and the U.S. Parole Commission is capable of carrying out parole functions for D.C. Code felony offenders. Subject to appropriations, the D.C. Board of Parole's functions and jurisdiction *vis a vis* felon parolees will be assumed by the U.S. Parole Commission. Similarly, its functions and jurisdiction *vis a vis* misdemeanant parolees will be assumed by the D.C. court system. Substantive D.C. law will continue to apply to parole determinations for all D.C. Code offenders. The District of Columbia Superior Court Division of Social Services will continue to provide supervision to D.C. Code juvenile offenders and will assume responsibility for the supervision of misdemeanant parolees.

4.1.1.5. The Trustee will accept employment applications for new offender field supervision positions in the transition agency from persons currently employed by the D.C. Board of Parole or in offender supervision related capacities by the D.C. court system ~~and the D.C. Board of Parole~~. Qualified, experienced personnel will be essential to an effective, timely transition and will receive priority consideration. Applications will be processed in accordance with procedures and standards established by the Trustee to facilitate transition to subsequent Federal law enforcement employment in the successor Offender Supervision, Defender and Courts Services Agency. Positions will be advertised prior to hiring to assure notice to all interested D.C. agency personnel.

4.1.1.6. During the transition period, the Federal government will transfer funds for the Pretrial Services Agency, the Public Defender Service and the supervision of D.C. offenders to the Trustee. The head of any Federal department or agency may provide the services of any personnel on a reimbursable basis to the Trusteeship to assist in carrying out the Trustee's duties.

4.1.1.7. During the transition period, under the general auspices of the Trustee, the Public Defender Service will continue uninterrupted to provide services to D.C. Code defendants and the D.C. court system. The Director of the Public Defender Service may employ such personnel as shall be necessary pursuant to procedures and standards established by the Trustee to facilitate transition to Federal status.

4.1.1.8. During the transition period, the employees of and funds allocated to the Trustee and the agencies for which the Trustee is responsible shall not be counted against the personnel and budget ceilings imposed on D.C. by the Financial Authority or Congress.

4.1.1.9. The U.S. Marshals Service (USMS) will contract with D.C., at a mutually agreeable rate, to obtain space not needed by D.C. at D.C.'s Correctional Treatment Facility (CTF), to house persons in the custody of the USMS for whom the USMS requires bed space in the D.C. area.

4.1.1.10. Subject to appropriations, the Federal government will provide funds to support the D.C. Board of Parole functions during the one to three year transition period culminating in the termination of the D.C. Board of Parole.

4.1.2. District of Columbia Responsibilities

4.1.2.1. The District of Columbia will maintain responsibility for all D.C. Code juvenile offenders not prosecuted as adults.

4.1.2.2. The District of Columbia will have responsibility for housing and supervising persons charged with and/or convicted of misdemeanor violations in the Superior Court for the District of Columbia, both before and after sentencing.

4.1.2.3. The District of Columbia will continue to house persons charged with felonies under the D.C. Code and persons convicted of felonies under the D.C. Code but not yet sentenced, in the Superior Court for the District of Columbia. To the extent beds are available, D.C. will continue to house persons charged with felonies under the U.S. Code, and persons convicted of felonies under the U.S. Code but not yet sentenced in the U.S. District Court. D.C. will continue to receive reimbursement, at a mutually negotiated rate, from the Federal government for the costs of housing such persons. "House" and "housing" include subsistence, transportation of persons to and from court appearances, revocation hearings, medical facilities, and the maintenance of necessary prisoner records.

4.1.2.4. The District of Columbia will continue to house persons sentenced by the Superior Court and detained pending a hearing for revocation of parole, probation, or supervised release, and will provide suitable facilities for such hearings. To the extent beds are available, D.C. will house persons sentenced by the U.S. District Court and detained pending a hearing for revocation of parole, probation, or supervised release, will provide suitable facilities for such hearings, and will continue to receive reimbursement by the Federal government at a mutually negotiated rate for the costs of housing such persons and for providing such facilities. "House" and "housing" include subsistence, transportation of persons to and from court appearances, revocation hearings, and medical facilities, and the maintenance of necessary prisoner records.

4.1.2.5. The Trustee will be an independent officer of the D.C. Government and can be removed by the Mayor only with the concurrence of the Attorney General. The Attorney General has authority to remove the Trustee only for misfeasance or malfeasance in office.

4.1.2.6. The Trustee will propose funding requests for offender supervision and services for inclusion in the President's budget for each Fiscal Year of the transition.

4.1.2.7. The Trustee will allocate funds for offender supervision (including adult felon parole and probation) in D.C., including funds for short term improvements, equipment contracts, and salary increases necessary to retain key personnel, maintain and enhance current levels of service, including offender drug testing, and provide for the safety and security of the community.

4.1.2.8. Upon receipt of funds identified by Congress or other entities for Pretrial Services, the Trustee will immediately transfer such funds to the Pretrial Services Agency.

4.1.2.9. Upon receipt of funds identified by Congress or other entities for the D.C. Public Defender Service, the Trustee will immediately transfer such funds to the Public Defender Service.

4.1.2.10. Effectively immediately and in view of the responsibility to be undertaken by the U.S. Parole Commission to carry out the functions of the D.C. Board of

Parole pursuant to the parole laws and regulations of D.C., the D.C. Council will not enact legislation that changes or modifies parole laws and regulations as applicable to felony offenders without the concurrence of the Attorney General. D.C. will immediately take steps to modify parole as applicable to misdemeanants to provide for D.C. court supervision of D.C. misdemeanant parolees and the elimination of the D.C. Board of Parole. ~~Following the assumption by the U.S. Parole Commission of the functions of the D.C. Board of Parole, the D.C. Council will cede to Congress the sole authority to legislate changes to the D.C. Code pertaining to the parole of D.C. felony offenders.~~

4.1.2.11. It is expected that the transition period for these offender, defender and court services will end no sooner than one year but not later than three years after the enactment of the related legislation.

4.1.2.12. The D.C. Corporation Counsel will provide representation for the Trustee and Trustee supervised agencies. (see litigation and liability section)

4.2. Administration of District of Columbia and Federal Prisons

4.2.1. Federal Government Responsibilities

4.2.1.1. The Federal government will take administrative control of the nine parcels of land, collectively located at or in the vicinity of Lorton, Virginia ("the Lorton property"), and other appropriate sites. After the BOP's capacity has been increased through renovation of existing facilities and new construction at the corrections complex in Lorton and other locations selected by BOP, BOP will house felons who were convicted of D.C. Code violations and sentenced to terms of imprisonment. (A recently completed Congressionally mandated study of the D.C. Department of Corrections revealed that most of the institutions at Lorton have exceeded their useful lifespan and need major renovations or demolition.)

4.2.1.2. BOP will conduct a thorough preliminary assessment of the Lorton property to determine its environmental condition, including a study of the contamination on the property and an estimation of the costs associated with bringing the property into compliance with environmental and other applicable regulations. Based on preliminary information gathered pursuant to a review of the environmental conditions of a portion of the Lorton property, BOP could begin planning for renovation and construction immediately; actual physical renovations would not begin until Fiscal Year 1998. The estimated date for the completion of the preliminary environmental assessment process is March 21, 1998.

4.2.1.3. BOP will oversee the operation of community corrections centers in D.C. as necessary to provide an appropriate transition for inmates who are nearing release from Federal prisons, including those convicted of D.C. Code violations. BOP intends to use existing community corrections centers in D.C. to the extent practicable and will work with D.C. officials to identify prospective sites, as needed to establish new community corrections facilities.

4.2.1.4. D.C. Code offenders will be housed together with Federal offenders in facilities operated by BOP in Lorton, Virginia and elsewhere. Every effort will be made to house D.C. felons at facilities as close to D.C. as permitted by inmate program and security needs and BOP population management requirements. D.C. felons will be designated in the same manner as Federal inmates, and ordinarily initially assigned to institutions located within a 500-mile radius of their release residence. BOP anticipates that many of the initial designations for D.C. offenders will be within a significantly closer radius. BOP also will work with D.C. officials to identify sites for possible Federal correctional facility construction within D.C.

4.2.1.5. During the transition period, based upon assurances from D.C. that felons convicted of violating the D.C. Code will, in the future, receive sentences similar to those received by comparable offenders convicted of comparable Federal offenses, BOP will house those sentenced D.C. felons in the custody of the D.C. Department of Corrections as the Director of the BOP deems appropriate in accordance with available capacity. If such a new structure for sentencing under the D.C. Code is in place as of October 1, 2001, BOP will accept D.C. felons sentenced under the new sentencing structure in accordance with the capacity of BOP. By October 1, 2002, and assuming fulfillment of all requisite conditions, BOP will have assumed responsibility for incarcerating all sentenced D.C. felons.

4.2.1.6. BOP will accept employment applications from persons currently employed by the D.C. Department of Corrections for BOP vacancies and will make hiring selections in accordance with existing Federal procedures and standards. <u>Qualified, experienced personnel will receive priority consideration.</u> Positions for new BOP facilities will be advertised prior to hiring <u>to assure notice to all interested D.C. agency personnel</u>.

4.2.1.7. After consultation with the Mayor, representatives of the D.C. Council, the Chair of the Financial Authority, members of the judiciary and others, the Attorney General will select a Corrections Trustee to oversee expenditures of the D.C. Department of Corrections relating to sentenced, incarcerated felons, until BOP assumes responsibility for all incarcerated sentenced D.C. felons.

4.2.1.8. To the extent authorized by law, the Federal government will provide funds for the incarceration of sentenced D.C. felons through the Trustee to the D.C. Department of Corrections. The head of any Federal department or agency may provide on a reimbursable basis the services of any personnel to the Trustee to assist in carrying out the Trustee's duties.

4.2.1.9. Of the Federal funds received by the Trustee, the Trustee will reimburse BOP for those funds identified by Congress to be used for the construction of new facilities and the major renovation of existing facilities. BOP will be responsible and accountable for determining how these funds will be used, including the type, security level, and location of new facilities.

4.2.1.10. During the transition period, the employees of and appropriations allocated to the Trustee and the agencies for which the Trustee is responsible shall not be scored or counted against the personnel and budget ceilings imposed on D.C. by the Financial Authority or Congress.

4.2.2. District of Columbia Responsibilities

4.2.2.1. Offenders convicted of D.C. Code violations will be sentenced pursuant to a new D.C. sentencing system, described below. BOP shall not be required to obligate any funds appropriated for the absorption of D.C. Code felons into the Federal prison system and will have no responsibility to house any persons convicted of felony offenses, if the new sentencing system is not enacted within 24 months of the authorizing legislation's enactment.

4.2.2.2. D.C. will continue to house felons sentenced to terms of imprisonment by the Superior Court for the District of Columbia until such persons have been designated by BOP. To the extent beds are available, D.C. will continue to house felons sentenced to terms of imprisonment by the U.S. District Court until such persons have been designated by BOP and will continue to receive reimbursement by the Federal Government, at a mutually negotiated rate, for costs of housing persons sentenced by the U.S. District Court.

4.2.2.3. The Trustee will be an independent officer of the D.C. government and can be removed by the Mayor only with the concurrence of the Attorney General. The Attorney General has authority to remove the Trustee only for misfeasance or malfeasance in office.

4.2.2.4. The Trustee will propose funding requests for the incarceration of sentenced D.C. felons, for inclusion in the budget submitted by the President to Congress for each Fiscal Year of the transition.

4.2.2.5. The Trustee will allocate funds to the D.C. Department of Corrections, including such sums as may be appropriated for short term improvements that are necessary for the safety and security of staff, inmates, and the community.

4.2.2.6. The D.C. Department of Corrections will implement the short term improvements in physical security identified in the "District of Columbia

Department of Corrections Short-Term Improvements Plan (September, 1996).

4.2.2.7. Upon receipt of Federal funds identified by Congress for constructing new prisons and making major renovations to existing facilities for the incarceration of D.C. felons, the Trustee will immediately reimburse BOP for such funds.

4.2.2.8. The D.C. Corporation Counsel will provide representation for the Trustee and Trustee supervised agencies. (see litigation and liability section)

4.2.2.9. During the transition, D.C. will transfer custody and control of the property at Lorton, Virginia to the Federal Government, though the D.C. Department of Corrections may continue to house D.C. felons at facilities located at Lorton until such time as BOP absorbs such offenders into the Federal prison system.

4.3. Sentencing. The District of Columbia understands and agrees that the D.C. sentencing system will be changed pursuant to proposed legislation in the following manner:

4.3.1. ~~Congress will amend t~~The D.C. Code will be amended to abolish parole for all persons convicted of D.C. felony offenses committed on or after three years from the enactment of the Federal authorizing legislation.

4.3.2. ~~Congress will amend t~~The D.C. Code will be amended so that good time calculations for all persons convicted of D.C. felony offenses committed on or after three years from the enactment of the Federal authorizing legislation will be made according to the Federal requirements.

4.3.3. Congress will establish a new D.C. Board of Criminal Sentences (the Board) as an independent body within the D.C. Government. All persons convicted of D.C. felonies committed on or after three years from the enactment of the Act will be sentenced according to a determinate sentencing system promulgated by the Board and transmitted by the Board to the D.C. Council no later than 18 months after enactment of the Federal authorizing legislation.

4.3.4. The Board will develop a sentencing system which shall include binding guidelines and may include such amendments or repeals of provisions in the D.C. Code relating to the maximum and minimum prison terms as are necessary to accomplish the purposes of the Act. Ninety days after the Board promulgates and transmits the sentencing system to the D.C. Council, the sentencing system, its guidelines, amendments and repeals will become effective, unless disapproved in its entirety by ~~a majority~~ an act of the Council. ~~If disapproved by the Council, the system may be enacted by Congress.~~

4.3.5. The promulgated sentencing system will supersede any inconsistent provision of the D.C. Code.

4.3.6. ~~Congress will repeal certain other p~~Provisions of the D.C. Code that do not ~~to~~ conform with the new sentencing system ~~(D.C. Code Title 24, Chapters 2 and 8), including the Youth Rehabilitation Act~~ will be repealed or amended to conform with the new sentencing system.

4.3.7. ~~Congress will amend~~ D.C. Code Title 33, Section 541 will be amended to adopt certain mandatory penalties necessary to further the Superior Court of the District of Columbia's Drug Intervention Program and effective local law enforcement. The new sentencing system will incorporate these mandatory penalties, thereby excluding local narcotics offenses from the mandate that sentences be similar to those that would be imposed upon comparable offenders in the Federal system.

4.3.8. The Board will not have the authority to provide for capital punishment under any law applicable exclusively in D.C.

4.3.9. The Board will have seven voting members. All the members of the Board shall have knowledge and responsibilities with respect to criminal justice matters. The Attorney General (or the Attorney General's designee) will chair the Board. The other members will include two judges of the Superior Court for the District of Columbia and one representative each of the following entities: the D.C. Council, the Executive Branch of the D.C. Government, the D.C. Public Defender Service, and the U.S. Attorney for the District of Columbia. One representative each of the D.C. Corporation Counsel and BOP will serve as non-voting, ex officio members.

4.3.10. An affirmative vote of at least six Board members will be necessary to promulgate the sentencing system.

4.3.11. In developing the sentencing system, the Board will hold two or more public hearings, review other sentencing guideline system models, consult with sentencing reform experts, and solicit written comments from the public.

4.3.12. If the Board fails to promulgate a sentencing system within 18 months, the Board will terminate, and the Attorney General will develop a sentencing system to be transmitted to the D.C. Council for approval. Ninety days after the Attorney General transmits the sentencing system to the D.C. Council, the sentencing system, its guidelines, amendments, and repeals will become effective, unless an act of the Council disapproves the system in its entirety ~~and Congress, in turn, does not approve it~~.

4.3.13. The Board will have the mandate to ensure that the sentencing system it establishes, among other things:

4.3.13.1. will result in sentences for those convicted of D.C. felony offenses similar to those that would be imposed upon comparable offenders convicted of comparable offenses in the Federal system;

4.3.13.2. will result in sentences that reflect the seriousness of the offense and provide for just punishment, afford adequate deterrence to potential future criminal conduct of the offender and others, and provide the defendant with needed educational or vocational training, medical care, and other correctional treatment;

4.3.13.3. will provide certainty and fairness in meeting the purposes of sentencing, avoiding unwarranted sentencing disparities among similar defendants, while maintaining sufficient flexibility to permit individualized sentences;

4.3.13.4. will take into account the high volume of sentencing proceedings in the D.C. Superior Court as bearing upon the degree of complexity of the sentencing system; and

4.3.13.5. will ensure that the system is neutral as to the race, sex, marital status, ethnic origin, religious affiliation, national origin, creed, socioeconomic status, and sexual orientation of offenders, if not related to the commission of the offense.

4.3.14. As part of the sentencing system, the Board will develop binding guidelines for use in determining the sentence to be imposed upon convicted felons. The guidelines will specify:

4.3.14.1. when to impose a sentence of probation, a fine, or a term of imprisonment and the appropriate amount or length, thereof, as well as intermediate sanctions;

4.3.14.2. when to impose a term of supervised release following imprisonment, and the appropriate length, thereof; and

4.3.14.3. whether multiple sentences to terms of imprisonment should run concurrently or consecutively.

4.3.15. Ninety days after promulgation of the sentencing system, the Board ~~will be~~ shall terminate~~d~~. There will be established a successor, Federally funded agency~~to amend the guidelines as necessary to achieve the purposes of the Act. The D.C. Council may recommend to Congress whether or not these amendments should be approved. However, the amendments will take effect as prescribed by the successor agency, unless they are modified or disapproved by Congress. The successor agency will have no powers to revise the D.C. Code but will recommend changes to the Code as may be necessary to further the purposes of the Act.. The successor agency shall be available to advise the Council regarding sentencing related matters but will have no powers to revise the D.C. Code~~. The successor agency shall be available to advise the Council regarding sentencing-related matters but will have no powers to revise the D.C. Code. The successor agency will recommend to the D.C. Council such changes to the D.C. Code as may be necessary to further the purposes of the Act. The D.C. Council will continue to have authority to enact D.C. Code revisions independent of the recommendations of the successor agency. The successor agency also may recommend to the D.C. Council amendments to the D.C. sentencing guidelines as necessary to achieve the purposes of the Act. Such amendments shall articulate sentencing adjustments or new guidelines subject to maximum sentences or ranges established by the D.C. Council in the D.C. Code. Guideline amendments that pertain to established D.C. Code provisions will take effect unless disapproved by an act of the Council that is in turn affirmed by the Congress. Guideline provisions related to proposed changes of the D.C. Code will only take effect under this procedure if the Code change is first adopted by the Council.

4.3.16. The Superior Court for the District of Columbia, D.C. Department of Corrections, and any other agency will submit information about convicted felons as required by the Board and the U.S. Department of Justice. This would permit an assessment of the extent to which sentences imposed by the Superior Court of the District of Columbia are similar to those imposed for comparable offenders in the Federal system. The results of this assessment would be used by the Board in developing the new sentencing system for D.C.

4.3.17. Four years after the enactment of the new sentencing system, there will be an evaluation to determine the extent to which the sentencing system has succeeded in accomplishing the goals set forth in the Act.

4.4. Liability and Litigation Responsibility and Authority

4.4.1. Federal Government Responsibilities

4.4.1.1. The Federal government will be responsible for the defense of any claim arising from any alleged act or failure to act on the part of the United States, its agencies and personnel, in connection with pretrial, defender, offender supervision, sentencing reform, corrections, probation and parole services, and for any resulting liability, after responsibility for these services has passed to the Federal government at the end of the transition period.

4.4.1.2. The Federal Government's assumption of responsibility for the defense of claims, and any resulting liability, set forth in paragraph 4.4.1.1. above shall include claims arising from any alleged act or failure to act of BOP, its agencies and personnel in connection with the demolition, repair, renovation, or construction of any building, structure, or other improvement of any kind at the Lorton, Virginia property.

4.4.1.3. At the discretion of the Attorney General, the Attorney General may direct any litigation involving the Trustees appointed pursuant to sections 4.1.1.1. and 4.2.1.~~6~~7. above, pretrial services, offender supervision services, or sentencing reform during the transitional period, and may provide litigation services for the Trustees and the agencies responsible for pretrial services, offender supervision services, and sentencing reform during the transitional period in lieu of representation by D.C. ~~Exercise of the Attorney General's discretion shall not change the terms of this agreement and shall not otherwise enlarge the liability of the United States, its agencies, or personnel. However, D.C.~~ The District [~~may~~] shall petition the Attorney General [~~to request~~] for reimbursement for litigation costs and liability arising from actions of the Trustees.

4.4.2. *District of Columbia Responsibilities and Liability*

4.4.2.1. D.C. will be responsible for the defense of any claim that has arisen or may arise from any act or alleged failure to act by D.C., its agencies or personnel, in connection with D.C.'s pretrial, defender, offender supervision, sentencing reform, corrections, or probation and parole services, and for any resulting liability. D.C. will remain responsible for defending and bearing any liability resulting from any such claim even if responsibility for the pertinent service has passed to the Federal Government. D.C. will also be responsible for the defense of any claim arising from any activity of D.C., its agencies or personnel as a result of any action agreed to in this MOU, and for any resulting liability.

4.4.2.2. D.C. is, and will remain, responsible for the defense of any and all claims described in paragraph 4.4.2.1. above, including the defense of claims arising from any alleged act or failure to act of the Trustees (see sections 4.1.1.1. and 4.2.1.~~6~~7.). Except as otherwise provided in this memorandum ~~paragraph 4.5.3. and in paragraph 4.1.3.) above~~, the D.C. Corporation Counsel will provide litigation services as required to carry out this responsibility.

4.4.2.3. Notwithstanding paragraph 4.4.2.2. above, the Trustees and the agencies responsible for pretrial, defender, offender supervision services, and sentencing reform may choose not to utilize the Corporation Counsel and to engage other litigation services.

4.4.2.4 D.C.[~~is responsible for petitioning~~] shall petition the Attorney General [~~to request~~] for reimbursement for litigation and liability costs arising from actions of the Trustees. Such a petition should include, if appropriate, documentation that such litigation resulted from actions of the Trustees and/or the extent to which D.C.'s liability may have been enlarged by actions of the Trustees.

4.5. District of Columbia Courts

4.5.1. ~~Congress will make all necessary amendments to t~~The D.C. Code and other laws will be amended to terminate budgetary control ~~and other involvement~~ of the D.C. Government in

the finances and administration of the D.C. court system, including the Superior Court of the District of Columbia and the District of Columbia Court of Appeals.

4.5.2. The Joint Committee on Judicial Administration of the D.C. courts will prepare and submit the budget for the D.C. court system, in accordance with section 1105(b) of Title 31 of the U.S.C. Prior to submission to Congress, the budget for the D.C. courts system shall be [~~provided~~] presented in a timely manner to the Mayor and the Council of the District of Columbia in order that they may develop recommendations on the budget to the Office of Management and Budget and the Congress. The budgetary requests of the D.C. courts system will not be subject to revision by the D.C. Government or the Executive Branch of the Federal Government.

4.5.3. The D.C. court system, through its Executive Office, will be authorized to contract with D.C. agencies, Federal agencies, and other public and private entities, for necessary supplies, equipment, and services.

4.5.4. Expenditures of the D.C. court system will be paid out of funds appropriated for those courts and credited to a Treasury account established for that purpose. Funds received by the D.C. court system will not be part of the funds or budget of D.C.

4.5.5. District involvement in the selection and review of D.C. judges will not be diminished.

5. *Economic Development.* The District government will:

5.1. Implement timely and efficient zoning, permitting, and licensing processes by the end of FY~~1997~~ 1998.

5.2. Offer personnel resources and fully cooperate with the Economic Development Corporation (EDC) in its review and evaluation of existing economic development plans, in the development of the EDC's strategic plan, and in subsequent implementation of the plan.

5.3. Give expedited consideration to the EDC's request for land transfers (including transfers from the Redevelopment Land Agency), zoning adjustments (including variances and special exceptions), and building and other permits and licenses for projects and activities as requested by the EDC.

5.4. Support legislation that:

5.4.1. allocates to the EDC 50 percent of the applicable State ceiling on the authority of the District government to issue private activity bonds in each calendar year under section 141 of the Internal Revenue Code, and that any portion of the ceiling allocated to the EDC, but not identified for specific projects by the EDC within the calendar year allocated, reverts back to the District;

5.4.2. authorizes the EDC to acquire property in furtherance of its statutory objectives through ~~condemnation by~~ [~~certain~~] its limited powers of eminent domain in the name of the District of Columbia; and

5.4.3. provides that all powers, rights, assets, duties, obligations, and liabilities of the EDC will transfer to the District government upon the EDC's dissolution.

6. Infrastructure.

6.1. Secretary of Transportation Responsibilities. The Secretary of Transportation (hereinafter in this section referred to as the Secretary) agrees that:

6.1.1. Beginning on October 1, 1997, the Secretary shall assume responsibility for the funding and oversight of certain National Highway System (NHS) capital projects that have been selected by the District of Columbia in accordance with 6.1.2 and shall assume responsibilities for funding operations and maintenance costs related to the NHS within the District of Columbia (exclusive of police authority and exclusive of funding those NHS routes currently under the jurisdiction of the National Park Service) with funds made available under the National Capital Revitalization and Self-Government Improvement Act of 1997, to be referred to henceforth in this section as the "Act."

6.1.2. The Secretary shall advance NHS projects through the Federal Highway Administration (FHWA) in consultation with the District of Columbia. Projects will be selected by the District of Columbia in accordance with the requirements of Title 23, United States Code, and in particular, the planning requirements of 23 U.S.C. 134 and 135. The Secretary shall fully exercise his current authorities under Title 23 to oversee, approve, and modify these plans and project selections. In reviewing the plans, the Secretary shall consider the District of Columbia Needs Assessment and Strategic Action and Investment Program currently being developed by the FHWA in cooperation with the District of Columbia Department of Public Works. The FHWA shall provide the District of Columbia with technical assistance to improve the planning process.

6.1.3. The Secretary, through the FHWA and in consultation with the District of Columbia, shall award and manage the contracts necessary to advance the NHS projects selected in accordance with sections 6.1.2 and 6.1.4.

6.1.4. Beginning on October 1, 1997, the District of Columbia shall continue to advance those NHS projects approved prior to that date that are not under construction or under a contract for such construction by October 1, 1997, unless the FHWA and the District of Columbia agree to vest responsibility for such project advancement with the FHWA. Such projects that are transferred under this section shall also be governed by the requirements contained in section 6.2.5.

6.1.5. The Secretary, in response to a request by the District of Columbia, may transfer National Capital Infrastructure Funds authorized under the Act and available for capital expenditures and NHS apportioned funds authorized to be transferred under the Act to other Federal-aid highway funding categories, consistent with Title 23, United States Code provisions governing the transfer of NHS funds. In addition, the Secretary must certify that performance measures related to the condition of and congestion on the NHS and any other performance measures, including safety, that may be established by the Secretary of Transportation are met before such transfers may occur.

6.1.6. Funds made available to the Secretary for obligation on NHS projects under this Act shall be administered by FHWA. From time to time as work progresses on a project, payments shall be made by FHWA for the costs of construction, operations, maintenance, and other eligible activities under this Act in accordance with applicable procedures under Title 23, United States Code, or as established by the Secretary.

6.1.7. For fiscal year 1998, the Administration will propose that $108 million [~~shall~~] be authorized to be appropriated to the National Capital Infrastructure Fund (NCIF) which shall be used for construction, reconstruction, and rehabilitation of the NHS in accordance with 23 U.S.C. 103 (i), including transit capital projects eligible for funding under section 103 (i).

6.1.8. In each of the fiscal years 1998 through 2003, the Secretary shall retain and deposit into the NCIF:

(a) 100 percent of the District of Columbia's apportionment for the NHS;

(b) 100 percent of the apportionments for Interstate Maintenance; and

(c) 75 percent of the apportionment for the Highway Bridge and Replacement for use consistent with 23 U.S.C. 103 (i).

6.1.9. In each of the fiscal years 1998 through 2003, the Administration will propose that $17 million [~~shall~~] be authorized to be appropriated to fund operations and maintenance of the NHS within the District of Columbia, exclusive of those NHS routes under the jurisdiction and control of the National Park Service.

6.1.10. The Secretary shall be responsible for funding those operations and maintenance activities and costs to the extent funds are appropriated in accordance with 6.1.9. excluding police services (except for those construction zone, incident management and other police activities that are eligible for Federal-aid highway reimbursement under Title 23, United States Code) associated with the management and operations of NHS highways including the following activities: routine maintenance of roadways and rights-of-way, road repair, snow removal, lighting, signage, and those utilities necessary for the NHS operations. Operating expenses for any transit activities shall not be eligible for funding under this Act.

6.1.11. The Secretary shall continue to provide oversight and technical assistance to the District of Columbia for all Federal-aid projects that remain the responsibility of the District of Columbia.

6.1.12. The Secretary, through the FHWA, will enter into any agreements or contracts with any entity to advance, construct, reconstruct, rehabilitate, repair, maintain, or operate the NHS within the District of Columbia, excluding those NHS roadways under the jurisdiction and control of the National Park Service, consistent with 23 U.S.C. 103 (i).

6.1.13. The Secretary shall encourage the hiring of local labor by contractors awarded contracts including welfare to work labor, on NHS projects financed under this Act to the maximum extent possible and consistent with federal law.

6.1.14. Unless reauthorized by Congress on, or prior to, September 30, 2003, the Secretary of Transportation's new responsibilities under this Act, other than the oversight of projects for which funding has been previously received through this Act, would cease and no new deposits of Federal funds would be made into the National Capital Infrastructure Fund after September 30, 2003.

6.1.15. The Secretary shall provide the District of Columbia with the technical assistance necessary to reassume its NHS responsibilities by September 30, 2003. The April 1996 findings of FHWA's review of the organizational capacity of the District of Columbia's Department of Public Works shall guide the assistance.

6.2. *District of Columbia Responsibilities*. The District of Columbia agrees that:

6.2.1. The District of Columbia shall retain its current responsibilities under Title 23, United States Code, for NHS project selection.

6.2.2. The District of Columbia shall continue to be responsible for providing police services on NHS highways (including, but not limited to civil police functions, crime prevention, investigations including traffic and accident investigation, and emergency traffic direction). The District shall continue to own the right-of-way of NHS highways that are located within the District of Columbia.

6.2.3. The District of Columbia will continue to be responsible for all utilities and utility work that are not necessary for operation of the NHS even if such utilities are located within the right-of-way of the NHS.

6.2.4. The District of Columbia shall continue to be responsible for non-NHS projects funded with Federal-aid highway funds. Surface Transportation Program (STP) funds will be made available to the District of Columbia for use on local streets, highways, and roadways (except alleys). This authority does not relieve the District of Columbia of the responsibility for the non-Federal matching share for STP funds. The use of other Federal-aid highway apportioned funds by the District of Columbia, other than as provided herein, also requires a non-Federal matching share.

6.2.5. Beginning on October 1, 1997, the District of Columbia is relieved of the responsibility to provide the non-Federal match for NHS projects that are funded by the Secretary with monies made available through the NCIF for NHS projects under this Act. The relief from providing the non-Federal match shall not include those projects that were approved by FHWA prior to October 1, 1997 for which Federal-aid highway funds have been obligated. The District of Columbia is responsible for providing the non-Federal match, the Federal-aid funds, and any obligation authority for any such projects transferred to the Secretary for project administration, oversight, or contracting.

6.2.6. The District of Columbia shall continue to be responsible for any liability incurred on the basis of the activities of the District of Columbia, its agencies, or personnel as a result of any acts or omissions in carrying out this Act. The United States, its agencies, and personnel will not incur any liability for any such acts or omissions.

6.2.7. The District of Columbia shall cooperate with the FHWA in its technical assistance efforts in order to assure that the District of Columbia can reassume its NHS responsibilities by September 30, 2003. The goal of the effort shall be to satisfy the April 1996 findings of FHWA's review of the organizational capacity of the District of Columbia's Department of Public Works.

7. *Personal Income Tax Administration* The District agrees that:

7.1. The District and the Executive Branch will work together to develop a mutually acceptable legislative proposal consistent with the intent of Section IV.7.

~~General~~

~~7.1.1. The IRS shall administer and/or enforce the District's individual income and employment taxes.~~

~~7.1.2. The District shall continue to administer its unemployment benefits program. The District shall also receive, accept, and process D.C. individual income tax returns.~~

~~7.2. Tax Codes~~

~~7.2.1. The IRS will administer the District's existing individual income and employment tax laws. The only provision the IRS cannot administer is the District's refundable property tax credit. If the District wishes to retain this provision, it must be transferred to its real estate tax administration.~~

~~7.2.2. All of the administrative, procedural, and enforcement provisions of the Internal Revenue Code of 1986 and related statutes will govern IRS administration of District taxes. The~~

~~District will have to amend its own tax code to achieve this to the satisfaction of the Secretary of the Treasury.~~

~~7.2.3. To avoid the possibility of any inconsistent interpretations of similar provisions, the District will have to amend its definitional provisions to conform them to the Internal Revenue Code to the satisfaction of the Secretary of the Treasury.~~

~~7.2.4. The District must notify the Secretary of the Treasury of any future changes to its individual income and employment tax law. The Secretary may object if, in his judgement, the prospective change would prove overly burdensome for the IRS to administer, in which case such change shall not be administered or enforced by the IRS. If the Secretary does not object within 60 days after notification, the IRS will administer the provision within a reasonable time after enactment.~~

~~7.3. Transfers to the District~~

~~7.3.1. The IRS will set up separate accounting and deposit systems for its collections of District taxes. The District must, in turn, identify the person and/or office authorized to receive transfers of collected amounts and set up related deposit accounts.~~

~~7.4. Effective Date~~

~~7.4.1. The IRS administration of District taxes shall be prospective, starting on January 1 of the calendar year that is at least 18 months after the Secretary certifies that the District of Columbia has met the conditions set forth in the Memorandum of Understanding between the United States and the District of Columbia.~~

Appendix One

DEFINITIONS FOR THE PENSIONS SECTION OF THE MOU

~~["Adoption Date" means the date the Replacement Plan is adopted by the District Government or, if later, October 1, 1997.]~~

"Adoption Date" means the date the Replacement Plan is adopted by the District government or, if later, one year from the date of enactment of legislation, or such later time as the Secretary of the Treasury may prescribe.

"District Government" means, as appropriate, the "District government" as defined by section 305(5) of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Pub. L 104-8) or the District of Columbia Retirement Board as defined in section 102(5) of the Reform Act.

"Freeze Date" means the date of introduction of the Revitalization Act.

"Fund" means the District of Columbia Police Officers and Fire Fighters' Retirement Fund, the District of Columbia Teachers' Retirement Fund, and the District of Columbia Judges' Retirement Fund as defined in section 102(10) of the Reform Act.

"Reform Act" means the District of Columbia Retirement Reform Act (Pub. L. 96-122).

"Replacement Plan" means the plan or plans described under Title I of the Revitalization Act.

"Retirement Program" means any of the retirement programs as described in section 102(7) of the Reform Act as in effect on the day before the freeze date.

"Revitalization Act" means the "District of Columbia Revitalization Act of 1997."

"Secretary" means the Secretary of the Treasury or the Secretary's designee.

"Transfer Date" means the date on which the assets and obligations of the Fund are transferred to the Trust.

"Trust" means the District of Columbia Retirement Trust created under Title I of the Revitalization Act.

"Trustee" means the firm designated by the Secretary of the Treasury under Title I of the Revitalization Act.

THE ORPHANED CAPITAL

Adopting a Revenue Plan for the District of Columbia

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

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

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

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

CAROL O'CLEIREACAIN

POLICY BRIEF

January 1997

No. 11

COMMON AND UNCOMMON SENSE FROM THE BROOKINGS INSTITUTION

THE ORPHANED CAPITAL

CAROL O'CLEIREACAIN

Adopting a Revenue Plan for the District of Columbia

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

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

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

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

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

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

Brookings gratefully acknowledges the generosity of the Cabot Family Charitable Trust for its support in initiating the *Policy Brief* series.

THE FINDINGS

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

The Tax Structure Is a Dysfunctional Hybrid

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

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

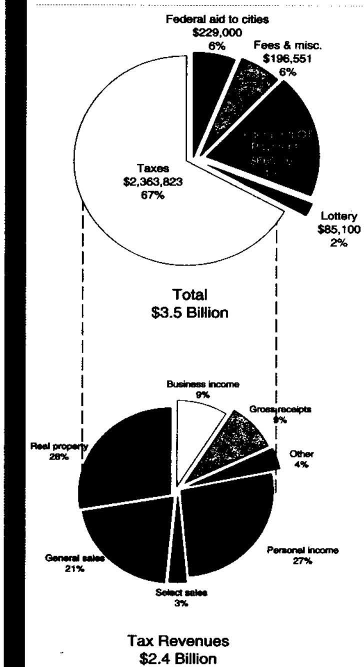
For households, the tax burden becomes progressively higher as income levels rise, and at $100,000 and above is the highest in the metropolitan area. For businesses, the District tax bill is at least 25 percent greater than elsewhere in the region. The District's high commercial property tax and sales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

The Hometown Industry Is Tax Exempt

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

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

thousands of dollars



Source: *District of Columbia 1995 Comprehensive Annual Financial Report*

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

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

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

The District Lacks State Aid

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

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

The Revenue Collection System Is Broken

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

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

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

THE PROPOSALS

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

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

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

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

DETAILED PROPOSALS FOR LONG-RUN BUDGET BALANCE

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

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

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

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

City-Type Taxes

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

Real Property Tax

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

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

millions of dollars

	CURRENT	PROPOSED	DIFFERENCE	percent CURRENT	percent PROPOSED
City-type taxes	1,653,171	1,179,123	(474,048)	47	38
Property	654,284	477,104	(177,180)	19	15
Personal property	61,305	0	(61,305)	2	0
Gross receipts	210,269	260,269	50,000	6	8
Other	67,313	59,271	(8,042)	2	2
PILOT	660,000	382,479	(277,521)	19	12
Intergovernmental aid	229,364	663,530	434,166	7	21
Federal aid to cities	229,364	229,364		7	7
State aid	0	434,166	434,166	0	14
Fees	188,509	188,509		5	6
City revenues(total)	2,071,044	2,031,162	(39,882)	59	65
State-type taxes	1,370,652	1,015,973	(354,679)	39	32
Personal income	643,676	449,676	(194,000)	18	14
Sales (selective and general)	549,490	549,490		16	18
Business income	160,679	0	(160,679)	5	0
Other	16,807	16,807		0	1
State fees-lottery	85,100	85,100		2	3
State revenues(total)	1,455,752	1,101,073	(354,679)	41	35
State and city revenues[a]	3,526,796	3,132,235	(394,561)	100	100

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

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

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

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

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

Table 2. Budget Reconciliation, Fiscal Year 1995

millions of dollars

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

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

a. Includes $3,248 million of appropriated revenues as defined in the *CAFR*, plus $85 million in lottery revenue, plus $229 million in federal aid to cities (total federal grants of $882 million less $653 million in categorical human services grants), less the $35 million motor fuel tax, less the $175,000 health care provider fee, and less the $468,000 general fund portion of the arena fee (*CAFR*, p. 23, 46).
b. Federal grants for human support services, primarily Medicaid and welfare (*CAFR*, p. 46).
c. Nonappropriated charges for services and miscellaneous revenues (*CAFR*, p. 23).
d. Total expenditures for the enterprise funds as reported in the budget (*Budget*, p. 35).

Personal Property Tax

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

Professional License Fee

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

Gross Receipts Tax

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

PILOT

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

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

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

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

State-Type Taxes

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

The Personal Income Tax

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

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

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

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

Business Income Taxes

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

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

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

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

State Aid

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

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

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

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

millions of dollars

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

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

a. Not included in PILOT are other tax exemptions that reduce the District's tax base and the estimated revenue forgone: sales tax on military purchases, $10.9 million; sales tax on diplomatic purchases, $11.2 million; income tax on military purchases, $10.9 million; sales tax on diplomatic purchases, $11.2 million; income tax on military purchases, $21.1 million; income tax on diplomatic purchases, $25.6 million; federal and special act of Congress personal property, $52.6 million; and federal sales tax (not available).

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

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

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

State-Type Services (Medicaid)

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

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

State-Type Services (Others)

Finally, there remains a range of general state-type services that the District is presently providing. In a recent study for the Control Board, Philip Dearborn and Carol Meyers of the Greater Washington Research Center estimate these at an annual cost of $277 million. Here, too, there should be a sharing of costs—a 50-50 split. Again, the option always remains for direct federal provision. The judgment lies with the federal government as to what it may be able to provide efficiently.

The Norton Plan

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

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

CONCLUSION

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

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

The proposals presented here are budget neutral and can be phased in. For example, the income tax proposal requires a planning process for the IRS that should begin immediately. Changes in the property tax calendar and payment schedule need to precede cuts in the property tax rates (and revenues) to avoid making bondholders nervous over the District's ability to repay debt. Further, the property tax cuts can proceed hand in hand with the refinancing of existing debt and the bonding-out of the accumulated deficit over the coming years. Or the gross receipts tax could be dedicated to paying off the accumulated deficit. The elimination of the business taxes can be linked to changes in spending or the introduction of an independent economic development agency. And, of course, the introduction of state aid and federal sharing of state-type spending can be linked to improvements in the District's delivery of these services and greater efficiencies in their operations and can be provided through the Control Board, if necessary.

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

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

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

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

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

D.C. APPLESEED CENTER REPORT

THE CASE FOR A MORE FAIR AND PREDICTABLE FEDERAL PAYMENT FOR THE DISTRICT

November 2, 1995

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November 2, 1995

The DC Appleseed Center for Law and Justice is pleased to publish The Case for a More Fair and Predictable Federal Payment for the District, a proposal for an annual formula-based federal payment for the District of Columbia that would replace the present *ad hoc* lump sum payment.

The formula that we propose would, we believe, produce a federal payment fair to the District and its citizens and predictable by those who must budget the District's expenditures. The present *ad hoc* lump sum payment is neither fair nor predictable.

The proposed formula is logical and practical. It is keyed to the tax revenues that the District could raise for itself, but for the revenue-raising limits imposed upon this unique federal enclave.

DC Appleseed is a new public interest organization of lawyers and other professionals. It is one of a number of local centers started by The Appleseed Foundation. DC Appleseed is concentrating upon the performance and restructuring of the District Government. Its projects seek to improve the operation and reduce the cost of various agencies of the District Government.

DC Appleseed is grateful to the task force that prepared this report, co-chaired by Lawrence R. Walders, of Graham & James, and Bert T. Edwards, of Arthur Andersen & Co. The other members of the task force were Richard S. Toikka, of Graham & James; Sandra Bernhardt, of Arthur Andersen & Co.; John W. Hechinger, Sr., of The Hechinger Company; Alan Morrison, of Public Citizen; Matthew R. Nicely, of Willkie Farr & Gallagher; Linda Ranema, of Willkie Farr & Gallagher; and Gary Ratner, of the National Veterans Legal Services Project. All members of the task force served in a personal capacity and not as representatives of any organizations.

Richard J. Wertheimer
President

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EXECUTIVE SUMMARY

As District of Columbia officials, the new Financial Responsibility and Management Assistance Authority ("Control Board"), and Congress search for solutions to the District's vexing financial problems, it is essential to bear in mind that a solution to the District's financial problems requires attention to the District's revenues as well as its expenditures. In this regard, the District of Columbia Appleseed Center for Law and Justice ("Appleseed") proposes that the Control Board and Congress seriously consider revamping the system by which the District's "Federal Payment" is determined to achieve greater predictability and fairness.

We recognize that Appleseed is not the first organization to make such a proposal. The Rivlin Commission, McKinsey & Company/The Urban Institute, the Fair Budget Coalition, and the District's own Department of Finance and Revenue, among others, have all pointed out inadequacies in the Federal Payment. We add our voice to the chorus in the hope that our different perspective and approach might focus attention on the problem and produce a new and creative solution. In bringing to light the unfairness and unpredictability of the current Federal Payment mechanism, as well as the history behind that mechanism, we hope this report will help ultimately to alleviate the District's financial difficulties.

The crux of our position is that the current system by which the Federal Payment is decided is both unfair and unpredictable. The reason for the Federal Payment is clear: to reimburse the District for the costs associated with its role as the seat of the Federal government and revenue lost as a result of Federal restrictions on revenue collections. In addition to expenses incurred simply by nature of its unique role -- including, among others, additional police and fire department services -- the District's losses also include the revenues foregone due to Congressional limitations on the District's taxing authority. This reality is acknowledged not only by those who advocate for an increase to the Federal Payment; it was also recognized by Congress in the legislative history supporting the District of Columbia Self-Government and Governmental Reorganization Act (the "Home Rule Act") and the District of Columbia Budgetary Efficiency Act of 1991.

The problem is that, since passage of the Home Rule Act, the Federal Payment has never fully reflected the District's legitimate needs it was meant to cover and has often been an unpredictable part of the District's budgeting process. Although Congress in 1991 adopted a formula-based approach for the Federal Payment, that formula related the Federal Payment only to District local revenues. Thus, it bore no direct relationship to the costs or revenue losses the payment was meant to cover, and its use may have had the perverse effect of driving up District tax rates. In 1994, due to disagreements over the tax base to which the formula applied, Congress dropped the formula-based system and resorted to a lump sum payment that is neither predictable nor related to the District's unique burdens.

Calculating a fair and predictable Federal Payment need not be a complicated endeavor. An exact calculation of the costs incurred by the District is unnecessary. The District needs a payment that approximates its costs, not one that tracks those costs exactly. Based on Appleseed's review of available estimates of the District's lost revenue due to Federally-imposed restrictions, two primary sources of revenue loss appear more significant than the others: (1) the exemption from real estate taxes of a substantial percentage of the real property located in the District; and (2) the District's inability to tax nonresident D.C. source income.

The Federal government requires the District to provide tax exemptions on certain kinds of property. For the District, this represents a significant loss of revenue. In 1994, tax exempt real property in the District represented 57 percent of the District's land area. Forty-two percent of the District's land area was exempt by virtue of its being owned by the Federal or foreign governments. This percentage is higher than the total for *all* exempt properties in most *states*. This should be part of the Federal Payment calculation mechanism.

The District is prohibited under the Home Rule Act from taxing the income earned within its borders by nonresidents, even by those who work for the District itself. This ban on a "commuter tax" deprives the District of a substantial portion of its potential revenue. Studies show that the District leads the nation in the percentage of income earned in the city by nonresidents -- nearly two of every three dollars earned in the District are earned by nonresidents. In those cities where the majority of city workers live in the suburbs, the earnings of these workers are taxed by the state and recycled to the city. Where cities lie close to the borders of neighboring states, many cities have imposed a nonresident income tax to mitigate the loss of revenue. The District has neither the benefit of recycled state funds nor the ability to tax nonresident income. This loss should also be part of the Federal Payment calculation.

Although the District is Congressionally required to forego other forms of revenue as well, in order to simplify our proposed Federal Payment calculation, Appleseed proposes to limit the calculation to these two significant components of lost revenue. Thus, our proposed formula is based on the sum of (1) the estimated real property tax loss due to the District's inability to tax Federal and foreign government-owned real property located within the District and (2) the estimated income tax loss due to the District's inability to tax District source income of nonresidents. In short, we propose substituting "equity" for "charity."

For tax year 1995, Appleseed's proposed formula, when applied to the best available data, would produce a Federal Payment of $1.165 billion, $693.8 million of which is based on lost property tax revenue and $471.4 million of which is based on lost income tax revenue. While this would not fully cover the District's lost revenue, it would at least fairly relate to a portion of those losses and provide predictability to the budget process -- neither of which is achieved under the current system.

Appleseed does not contend that this proposal is the sole solution. It is, however, a first step. Our proposal, and future refinements to it, should provide the District with a reliable and predictable Federal Payment that at least partially compensates for federally imposed restrictions on the District's revenue sources. Such a payment should enable the District to better approximate its revenue needs, and hopefully, by improving the District's financial situation, encourage citizens to remain in or move to the District, and promote economic growth.

I. INTRODUCTION

The current fiscal crisis in the District of Columbia -- culminating in May 1995 with the Federal appointment of a Control Board[1] -- *should* lead to a thorough examination of *both* the District's spending *and* its revenues. It would be unfair to the citizens of the District and ultimately unproductive for all concerned, to consider only the District's spending problems. Its revenue problems are serious, particularly in light of the District's unique position as the seat of the Federal government. Although the District's population may be above average in wealth and education[2], these favorable attributes do not offset the burden placed on the District by Congressionally-mandated restrictions on its revenue sources and by its multiple roles of city, county and state without the revenue sources typically available to pay for services provided.

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[1] *District of Columbia Financial Responsibility and Management Assistance Act of 1995,* P.L. 104-8 (1995) establishes a Presidentially-appointed five-person Financial Responsibility and Management Assistance Authority, commonly referred to as the "Control Board," with broad powers to assist the District of Columbia in addressing its pressing fiscal problems. Earlier, during 1976-80, the District had a similar mechanism of more narrow scope, the Temporary Commission on Financial Oversight of the District of Columbia, whose responsibility under P.L. 94-399 (1976), was to install accounting and financial management systems to permit the District to prepare timely and accurate internal financial and management data, and to permit an independent audit of external financial statements prepared under generally accepted accounting principles.

[2] The Washington, D.C. area is first among the nation's 15 largest U.S. metropolitan areas by certain income, educational and employment measures, and the District is fifth among the 25 largest cities in household income. *See* McKinsey & Company, Inc., *Assessing the District of Columbia's Financial Future* (1994) (hereinafter "*McKinsey Report*"), at 3 and Table 2 from an April 1995 Special Report from The Tax Foundation, Exhibit 1 hereto.

We recognize that the issues of fiscal management and the appropriate level of spending by the District government are important, but they are beyond the scope of this report. Our premise is that the District deserves a Federal Payment that compensates for the revenue lost as a result of its unique status and tax limitations, without which even the best managed and prudent government would labor under a severe burden.

II. HISTORICAL SUPPORT FOR A FAIR, PREDICTABLE FEDERAL PAYMENT[3]

The Federal government has made contributions to the District of Columbia's operating budget since before Washington was established as the Nation's Capital in 1800. Until 1878 the Federal contribution to support local government operations, when made, was negotiated on an *ad hoc* basis. Apparently, Federal Payments were made in 12 of the years between 1790 and 1822, and in every year between 1823 and 1876. The Federal Payment averaged almost 40 percent of local government costs during the period 1790 to 1878.

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[3] There are several excellent summaries of the history of the Federal Payment to the District of Columbia. The account given in this section is drawn primarily from the following sources: *Financing the Nation's Capital: The Report of the Commission on Budget and Financial Priorities of the District of Columbia* (1990) (hereinafter "*Rivlin Commission Report*"); Michael E. Bell, *The Federal Payment to the District of Columbia -- Problems and Prognosis,* prepared statement appearing in Hearings and Markup of the Subcommittee on Governmental Affairs and Budget and the Committee on the District of Columbia, House of Representatives, on H.R. 7558 and H.R. 7845, 96th Cong., 2d Sess., Serial No. 96-16 (1980); H.R. Rep. 102-92 (District of Columbia Budgetary Efficiency Act of 1991), 102nd Cong., 1st Sess., at 3 (1991); KPMG Peat Marwick, "Federal Payment," paper prepared for the Rivlin Commission (June 1990).

During the 1870s, there was active debate over the appropriate fiscal relationship between the Federal government and the District. In June 1874, the House Committee on the Judiciary recommended (in the "Poland Report") that a *regular* and *predictable* Federal contribution should be at least 50 percent of local expenditures. In December 1874, the Joint Select Committee on the Affairs of the District of Columbia concluded (in the "Morrell Report") that the proportion of local expenditures that ought to be borne by the Federal government was "not deemed susceptible to exact determination." Instead, the Committee proposed that an annual Federal Payment be made to balance the approved budget after the inclusion of locally raised revenues collected in taxes and fees set at rates comparable with those prevailing in other communities.

In the Organic Act of 1878, Congress established a commission form of government for the District of Columbia. As part of this arrangement, Congress agreed to pay each year 50 percent of the expenditures of the local government. This arrangement lasted until 1921, when the payment percentage was reduced to 40 percent. Since Congress fully controlled the District's budget, with no semblance of local control, the percentage figure had been in fact more symbolic than real since the payment was subject to being cut if Congress approved lower spending. Beginning in 1925, all semblance of a predictable formula-based payment was abandoned, and the Federal Payment came to be negotiated in a lump sum.

During Home Rule deliberations in 1972-73, there was renewed debate as to whether the amount of the Federal Payment to the District should be determined by negotiations or by some predictable formula. The 1972 Report of the Commission of the Government of the District of Columbia (the "Nelsen Commission") concluded that there is no objective mathematically precise formula for computing an appropriate level of the Federal Payment. However, the Nelsen Report observed that "the Federal Payment . . . will continue to represent a kind of equilibrium, balancing extraordinary net benefits of the Federal presence with extraordinary net costs . . . ."

In 1973, the Senate passed a bill that would have provided for a Federal Payment equal to 37.5 percent of the District's own revenue for fiscal year 1974, with the percentage rising to 40 percent for subsequent years. The House rejected the notion of a payment formula, however, and opted instead for specific dollar authorizations for fiscal year 1975 and every year thereafter.

Congress nonetheless required Home Rule Act that, as part of the budget preparation process, the Mayor must identify the elements of costs and benefits to the District "which result from the unusual role of the District as the Nation's Capital."[4] In particular, to the extent feasible, the Mayor is required to consider the following:

1. Revenues unobtainable because of the relative lack of taxable commercial and industrial property;

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[4] *District of Columbia Self-Government and Governmental Reorganization Act*, P.L. 93-198 (1973), hereafter the "Home Rule Act."

2. Revenues unobtainable because of the relative lack of taxable business income;

3. Potential revenues that would be realized if exemptions from District taxes were eliminated;

4. Net cost, if any, after considering other compensation for tax base deficiencies and direct and indirect taxes paid, of providing services to tax-exempt non-profit organizations and corporate offices doing business only with the Federal government;

5. Recurring and non-recurring costs of unreimbursed services to the Federal government;

6. Other expenditure requirements placed on the District by the Federal government which are unique to the District;

7. Benefits of Federal grants-in-aid relative to aid given to other States and local governments;

8. Recurring and non-recurring costs of unreimbursed services rendered the District by the Federal government; and

9. Relative tax burden on District residents compared to that of residents in other jurisdictions in the Washington, D.C., metropolitan area and in other cities of comparable size.[5]

In 1991, a formula-based Federal Payment was established by the District of Columbia Budgetary Efficiency Act of 1991.[6] A conceptual basis for the Federal Payment was set forth in the House Committee Report. The Committee noted that, due to four extraordinary factors, the costs placed on the District by the Federal presence are not completely offset by special benefits, such as a strong

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[5] *Id.*

[6] P.L. 102-102 (1991).

tourism industry and the attraction of companies and individuals doing business with the Federal government. These extraordinary factors were identified as: (1) Congress' unwillingness to allow the District to impose a reciprocal non-resident income tax with neighboring jurisdictions, (2) Congress' limitation on the height of buildings in the District to a level far below that in adjacent jurisdictions, which has reduced the value of commercial and high density residential property, (3) the presence of parks, monuments, Federal buildings, foreign embassies, and other tax-exempt property in the District, which has reduced its tax base, and (4) numerous recurring and non-recurring extraordinary expenses caused by the presence of the Federal government such as parades, demonstrations, and other planned and unplanned events.

The House Committee considered it desirable to establish a formula-based Federal Payment to eliminate the uncertainty it believed was impeding the District's budgetary process and causing a lower bond rating. The Committee also noted that, since Home Rule had been instituted in 1975, the Federal Payment had constituted a decreasing share of the District's budget. Apparently concerned that increasing local revenues might be used as a justification for a reduction in the Federal Payment, and wanting to provide an incentive for the District to continue to raise local revenues, Congress established a payment formula authorizing the Federal Payment for fiscal years 1993, 1994 and 1995 at a level equal to 24 percent of audited District non-Federal revenues for the fiscal year two years prior. The Committee was apparently influenced by the Rivlin Commission Report which recommended a Federal Payment formula of 30 percent of similarly computed local revenues.

However, in the Federal Payment Reauthorization Act of 1994, Congress declined to continue using the 24 percent formula. Appleseed's conversations with District officials indicate that, while the 24 percent factor was clear, the definition of "District revenues" was a very disputed base. The District believed the base was General Fund revenues, together with certain other revenues such as the Water and Sewer Fund, based on the second preceding year's audited financial data. However, the U.S. General Accounting Office, which was asked to review P.L. 102-102, concluded that "District revenues" excluded *any* Federal-source revenues arising in the ordinary course of business, e.g., Federal facilities' use of water and sewer service, Federal tuition paid to the D.C. Schools for the Capital Page School, etc. As a result, Congress "simplified" the Federal Payment during the three "test years" to a negotiated basis, settling at the 1995 appropriation level of $660 million.[7] Congress postponed to another day consideration of a revised formula, citing the need to better understand the actual state of the District's financial conditions.[8] Meanwhile, the nexus between the Federal Payment and the purpose for which it was devised has disappeared.

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[7] *See* H.R. Rep. 103-754, 103rd Cong., 2d Sess. at 14 (1994).

[8] *See id.* at 11; *see also id.* at 7 (District Delegate Eleanor Holmes Norton indicated that, because the formula had not worked as expected, methods for recalculating the payment should be considered).

As can be seen from the data in Exhibit 2 to this report, since 1984 the Federal Payment has declined as a percentage of District expenditures. The current percentage remains substantially below prior historical levels (e.g., 50 percent in the 19th and early 20th centuries, 40 percent in the 1920's). Despite the growth of legitimate revenue needs, the Federal Payment has become relatively smaller and smaller. Unless this trend is reversed, the District faces a very troubled and uncertain financial future.

Notwithstanding the documented historical purpose of the Federal Payment -- to reimburse the District for Federally-imposed revenue restrictions and the unusual costs associated with its role as the Nation's Capital -- Congress continues to apply either an arbitrary formula based on a percentage of local revenues, or worse, determine the Federal Payment as an arbitrary lump sum. Neither approach is sufficient; neither is predictable; neither is fair. Congress should consider a new approach. Before addressing our proposal for a new approach, we provide in Section III a more complete discussion of the limitations on the District's revenue stream.

III. THE LIMITATIONS ON DISTRICT REVENUES

The four major sources of revenue for the District are real estate taxes, income taxes, sales taxes, and the Federal Payment. Because the District has no state government to turn to for financial support typically provided by state or county governments, and because it provides many functions normally funded by state governments, the District's tax rates are *higher* than most other cities its size. Whereas most cities depend on local sources of revenue for only 15 percent of their total revenue -- receiving the rest from state and county support (either in the form of revenues or, more likely, services) -- well over half of the District's revenues are dependent upon local income, sales, and real estate taxes.[9]

Another reason for the District's high taxes is that the Federal Payment does not adequately reimburse the District for the local tax limitations imposed by Congress. Indeed, through Federally-mandated restrictions and limitations, Congress itself has reduced the District's ability to raise revenue. The wide variety of exempted entities and individuals is a major reason for the District's financial problems. As of February 1995, the records of the District of Columbia Department of Finance and Revenue show that the District is host to 9,052 properties exempt from real estate tax, including 3,922 that are Federally-owned and 580 that are owned by foreign governments. The records also indicate that, within the District, there are 5,698 entities exempt from the personal property tax, 5,659 exempt from the franchise (corporate income) tax, and 5,945 entities exempt from the sales tax, including 294 Federal agencies and 173 foreign embassies.[10] Furthermore, approximately 437,000 persons employed by District-based employers are non-residents and thus exempt from the District's individual income tax (including 54.3 percent of those persons employed by the District

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[9] *McKinsey Report* at 5 and Exhibit 7.

[10] District of Columbia Department of Finance and Revenue, Report, *Study of Property, Income and Sales Tax Exemptions in the District of Columbia* (1995), (hereafter "*Department of Finance Report*") at I.

itself.)[11] It is ironic that the District cannot even tax the wages and salaries it pays to many of its own employees.

These Federal tax limitations are in place because, as the Nation's Capital, the District must be host to certain activities which serve and benefit the Nation. However, the resultant revenue losses borne by the District are not being sufficiently reimbursed. Most of these tax-exempt entities are receiving benefits at the expense of the District and its resident citizenry with little or no cost to these recipients.

The balance of this section discusses the major sources of income of which the District is effectively deprived, and provides justification for a more fair, predictable, and rational Federal Payment.

A. Real Property Tax

Most cities and states, the District included, have several categories of tax-exempt real properties. These include churches, schools, charities, educational institutions, and government-owned land, together with improvements thereon. The District, however, is unusual in the remarkably high concentration of tax-exempt land and buildings it contains. For example, in 1994, tax-exempt real property represented 57 percent (by land area) and 41 percent (by the District's estimate of value) of all real property in the District.[12] The major component of

[11] *Department of Finance Report* at 14-15 and Appendix C thereto.

[12] *See* Table 5, D.C. Real Estate Assessments - Taxable Exempt And Totals (Tax Year 1994) (hereinafter, "*1994 Assessments*"), Exhibit 3 hereto.

exempt real property in the District is property owned by the Federal and foreign governments, representing 42 percent (by land area) and 27 percent (by value) of all the property in the District.[13] This percentage is higher than the *total* for all exempt properties, not just Federally-owned properties, in many *states*.[14]

Real property exemptions are provided either directly or indirectly. Direct property exemptions are the largest category of property tax exemptions in the District. Property which is government-owned (Federal or foreign), religious, educational, charitable, hospitals and cemeteries fall within this category. Indirect property exemptions are provided to for-profit entities which lease space in a tax-exempt property. Specific examples of this latter category in the District are Union Station, the Post Office Pavilion, and the proposed Sports Arena.[15]

The direct property exemptions awarded to the Federal and foreign governments are unusually high. Consequently, there is a very large amount of property which the District is prohibited from assessing and taxing. The ensuing

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[13] *See id.*

[14] The Federal government makes payments to local governments under the Payments in Lieu of Taxes Act of 1976. *See BLM News* (Sept. 27, 1994). However, these are limited to payments for tax-exempt Federal land administered by the United States Departments of the Interior and Agriculture, Forest Service, National Park Service, Fish and Wildlife Service, Federal water projects and some military installations. *Id.* The District's needs are not met by this program, as is indicated by the fact that for fiscal year 1994, it received only $49,513 through this program. *See id.*

[15] There are also personal property exemptions for personal property owned or leased by the Federal government. However, estimates of revenue loss from these exemptions are small compared to that from the real property exemptions. *See Department of Finance Report* at 22.

revenue loss is substantial, amounting, by the District government's estimate, to $586.2 million for tax year 1995 for tax exemptions to Federal and foreign government-owned real property alone.[16] As shown in Section IV, *infra*, this estimate may be conservative in part perhaps because of the District's admittedly poor appraisal calculations.[17]And for the commercial property that is taxable, the Federally-imposed height restriction on all buildings makes the land less valuable and thus reduces the taxes that are generated.

B. Income Tax

As stated above, approximately 437,000 non-residents commute to work in the District from Maryland and Virginia. In those cities where the majority of the city workers live in the suburbs, the earnings of the workers are taxed by the state and recycled to the city. In some metropolitan cities, as much as 75 percent of the financing is in the form of state aid.[18] Likewise, cities whose borders lie close to neighboring states have imposed nonresident or commuter taxes to mitigate the loss of this revenue.[19] Alternatively, some states have reciprocity

[16] *See Department of Finance Report* at 10 (table).

[17] *See id.* at 11.

[18] *See McKinsey Report* at 6.

[19] The *Department of Finance Report* (at 16-17) indicates that 45 states *require* withholding of non-resident earnings and that local jurisdictions in at least 16 states have the opportunity to assess an income tax or payroll tax against nonresidents. Most foreign countries also impose taxes on non-resident, non-citizens given for their income that is earned within the foreign countries' borders. The average nonresident income tax in the U.S. is about 2 percent. *See McKinsey Report* at Exhibit 11.

agreements in which the states themselves determine revenue foregone to another state and then settle the net obligation between themselves.[20] Under such circumstances, migration of the city-based employees to the suburbs or across state lines does not necessarily cripple other cities' fiscal capacity.

The District, however, is prohibited from taxing the income earned within its borders by nonresidents under section 602(a)(5) of the Home Rule Act. The Home Rule Act states that the Council may *not* "impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District." This Congressional ban on taxing the income of nonresidents -- often referred to as a "commuter tax" -- deprives the District of a substantial portion of its potential income taxes. It is important to note that no other jurisdiction has such a tax limitation imposed on it and that most states with personal income taxes levy taxes on nonresidents working within the state.

The District, therefore, is a city without access to the tax base of its workers who reside in the surrounding suburbs. This is further exacerbated by the fact that the District's population -- particularly middle income and high income members of the population -- has been in significant and unusual decline for the last 25 years, with migration to the Maryland and Virginia suburbs.[21] Despite the steady decline in the District's population, the District continues to be the chief

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[20] *See Department of Finance Report* at 16.

[21] *See Department of Finance Report* at 2; *see also McKinsey Report* at 5.

source of jobs in the entire Washington Metropolitan area.[22] Studies show that the District leads the nation in the percentage of income earned in the city by nonresidents -- nearly two of every three dollars earned in the District (64%) are earned by nonresidents.[23]

As a result of these trends in residence and employment, the District has an extraordinarily high imbalance between the number of people *working* within, and those *living* within, its boundaries.[24] Yet, the District does not have the benefit of a central state government to transfer otherwise lost funds into the city's revenues. The migration of the city's middle class and the resultant diminished tax base is not offset by a flow of revenue from any state or county governmental entity.

The costs associated with the daily onslaught of the commuting workforce cannot be understated. The District and its citizenry bear the burden of increased congestion, traffic, pollution, damaged roads, inadequate parking caused by the commuters, and building and maintenance of all bridges between Virginia and the District. In fact, because there is no commuter tax to offset the cost of the services provided by the District to commuters or the burden imposed on District

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[22] Studies show that, compared to jurisdictions such as Fairfax, Montgomery, Prince George's, and Arlington Counties and the City of Alexandria, the District of Columbia had the highest employment in 1993. *See McKinsey Report* at 6 and Exhibit 9.

[23] *McKinsey Report* at 6.

[24] *McKinsey Report* at 6 and Appendix E thereto.

residents, the District is increasingly disadvantaged in its ability to provide local services.

The Federal prohibition against a District commuter tax results in an estimated revenue loss, at current District income tax rates, of $1.18 and $1.21 billion for fiscal years 1994 and 1995, respectively.[25] Using a typical commuter tax rate of 2 percent[26], the loss amounts to $457.7 and $471.4 million for fiscal years 1994 and 1995, respectively.[27] The District is, in turn, compelled to raise revenue by taxing its own citizenry at a higher rate to enable it to provide basic city services.[28] The higher tax rates suffered by the District residents contributes to an ever-increasing flight of the middle and upper income classes to the suburbs, which in turn forces the District to cut services or raise tax rates.

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[25] This estimate is developed using data on earnings of nonresidents, on journey-to-work patterns in the Washington Metropolitan Area, and on the income distribution of income taxpayers in surrounding jurisdictions. *See Department of Finance Report* at 14-15 and Appendix C. The numbers reported in the text were derived from the projections on page 17 of Appendix C, by which the tax base was assumed to grow at 3 percent per year from 1992.

[26] The United States Advisory Commission on Intergovernmental Relations has estimated based on a sample of cities whose borders lie close to neighboring states that the average commuter tax is about 2 percent. *See McKinsey Report* at Exhibit 11.

[27] These figures are derived as two-thirds of the estimates presented in Appendix C to the *Department of Finance Report* which utilized a 3 percent tax rate.

[28] *See* Exhibit 1 to this report (showing that the taxes imposed by the District are the third highest in the United States); *see also McKinsey Report* at Exhibit 16.

C. Sales Tax

Most states provide sales tax exemptions for certain types of products and/or to certain classes of buyers. In addition to the sales tax exemption for certain products, the District is obliged by Congress to provide sales tax exemptions for certain categories of sellers or buyers. Examples of exempt buyers are the U.S., foreign, international, and District governments, states which exempt the District from their own sales taxes, semi-public institutions which have received an exemption entitlement, and state or local tax administration associations. Frequently, such exemptions apply to other taxes such as alcoholic, beverages, gasoline and petroleum, and similar transaction taxes.

Thus, sales made to any foreign embassies or diplomats located within the District are exempted from sales tax payments. Sales made by Federal entities, such as the Smithsonian Institution, the National Gallery, the Kennedy Center, the National Air and Space Museum, and all purchases made by the Federal government and military personnel in the District, are also exempted. In 1993, Federal government purchases alone accounted for nearly $4 million in exempt sales taxes.[29] Moreover, sales tax exemptions for military personnel are estimated to reduce District revenues by $10.9 million annually.[30] Thus, because

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[29] Stephen S. Fuller, Ph.D., *Federal Spending in Metropolitan Washington, FY 1993: An Analysis of Total Federal Spending with an Emphasis on Procurement*, June 1994.

[30] *Department of Finance Report* at 25.

of the high concentration of sales tax-exempt entities in the area, the District foregoes a substantial amount of revenue.

Finally, the District has experienced a steady decline in its sales tax base as a result of the expansion of retail developments in the city's suburbs which are able to provide the District and suburban residents with more spacious and attractive shopping centers with adequate and inexpensive parking. The District, in contrast, can only provide shoppers with increasing traffic congestion, high parking fees and limited parking space.[31] The retail development in the suburbs is further advanced by the middle-class flight phenomenon. Because there is no state income tax to recycle lost sales tax income to the District, the steady loss in sales tax revenue due to changing demographics shows no signs of reversing.

D. Franchise (Corporate Income) Tax

The District, like other jurisdictions, is Congressionally prohibited from taxing the income of government-sponsored entities such as Fannie Mae, Sallie Mae, and Freddie Mac. However, because Fannie Mae and Sallie Mae are headquartered in the District, the inability to tax these very profitable corporations has a particularly strong impact on the District. It is estimated that Fannie Mae's $3 billion net income would yield $300 million in revenue if taxed at state and local levels, a large portion of which would accrue to the District, where it is headquartered.

[31] According to the *McKinsey Report*, in 1992 and 1993, the District added 29,000 square feet of new retail space, in contrast to Virginia suburbs which added 5.8 million square feet and the Maryland suburbs which added 2.6 million square feet. *See McKinsey Report* at Exhibit 15.

E. Federal Payment as a Restricted Source of Revenue

As discussed above, a major but restricted and declining component of District revenues has been the Federal Payment. In addition to reimbursing the District for foregone tax revenue, the purpose of the payment is also to cover the costs associated with the District's role as the seat of the Federal government. The Federal presence requires that the District bear certain unreimbursed costs not borne by other cities, such as extraordinary security and ceremonial functions. These costs should also be considered a factor in determining the significance of and necessity for an adequate Federal Payment. However, these costs and revenue losses are not fully reflected in the Federal Payment as it is currently determined.

F. Summary

The District is saddled with a real property base hamstrung by Federal ownership or Federally-imposed tax exemptions. As the middle-class increasingly migrates to the suburbs, the District is also faced with a concomitant loss of income tax and sales tax revenues because there are no state income tax revenues to be recycled to the District. Finally, because of the Federal presence, the District bears costs for which it receives no compensation.

Without an adequate Federal Payment to cover these externally imposed fiscal burdens, the only mechanism available to the District is to increase its citizens' taxes. However, given the adverse effect a tax increase would have on perpetuating the flight of the middle class, the District cannot be expected to achieve and maintain a balanced budget simply by raising taxes. Doing so would increase middle class flight and perpetuate the downward spiral of the District's financial crisis.

The Federal Payment has become a source of funding on which the District cannot rely and which, in reality, no longer serves the purpose for which it was originally intended. In order to achieve its purpose, the concept and calculation of the Federal Payment need to be reconsidered. It should not be viewed as a "contribution" or "gift" from the Federal government. It is funding to which the District is justifiably entitled. The Federal Payment should reflect the economic reality of the effect of the Federal presence on lost property taxes and sales taxes, increased local costs, the Congressional legislation prohibiting the District's ability to collect income tax revenue from non-residents, and the fact that the District does not have the financial support of a state or county government. It must also take into account in some way the benefits that accrue to the District from being the Nation's Capital, however difficult these may be to quantify. Lastly, the Federal Payment must provide a predictable source of revenue for the District, enabling it to manage its budget properly.

In the section that follows, Appleseed proposes a fair, predictable, and practical approach to the District's Federal Payment. While this new approach does not cover all of the sources of lost revenue discussed above, it covers the most significant sources. In our view, those omitted areas may be offset by what others see as benefits to the District, and the size of the revenue loss, even without them, is so significant that we need go no further. Perhaps, most importantly, our approach can be applied *simply* and *predictably*.

IV. PROPOSAL

A Federal Payment based on an objective, simple and principled formula has a number of advantages. First, it would provide the District with a predictable amount of revenue, aiding in its budgeting and long term fiscal planning and bolstering its bond ratings. Second, it would free Congress, the District, and others from devoting time, energy and resources to an unnecessary annual process of negotiating a lump sum payment. Third, a formula reflecting only true relative costs imposed on the District by the presence of the Federal government and Federally-imposed restrictions on the District's taxing ability should result in a rationally based and equitable sharing of the tax burden between residents of the District and of other jurisdictions. Fourth, by providing a permanent, albeit partial, remedy for the District's fiscal ills, it should assist in restoring the District to its proper role as a viable city befitting its position as the Nation's Capital.

Although Congress in 1991 briefly adopted a formula relating the Federal Payment proportionately to District local revenues, that formula is not the best approach for several reasons.[32] First, making the Federal Payment directly proportional to the level of District-generated revenue has a perverse effect -- the lower the District's revenues are (for reasons beyond its control) and therefore the

[32] *See* discussion of the District of Columbia Budgetary Efficiency Act of 1991, *infra* pp. 5-7.

more Federal Payment it needs, the less the District will get; conversely, the higher the District's revenues are, and therefore, the less total Federal Payment it will need, the more it will get.[33] Second, by rewarding the District with a higher Federal Payment for the more local revenue, the current scheme creates an incentive for the city to increase its taxes on its own residents. But, in fact, it appears that District residents are already paying disproportionately *high* combined "state and local taxes" compared to residents of other states. These excessive District tax rates are one factor influencing District residents to flee from the city to Maryland and Virginia, thereby further eroding the District's tax base and weakening its viability. Third, the level of Federal Payment generated by this formula is arbitrary, i.e., it bears no rational relationship to either the value of the services which the District provides to the Federal government or to replacing the amount of income, property and sales tax revenue which Congress prohibits the city from collecting.

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[33] It has been suggested that the Federal Payment should be directly related to the level of local revenues to give the District an incentive to contribute to its own budget. However, if this reflects a concern that the District government would lower its taxes in response to a Federal Payment, this concern is misplaced and unfair, because District residents are currently overtaxed, in part because of the revenue restrictions Congress places on the District's government. Indeed, to encourage current residents not to flee the city and to encourage others to move in, the District should be encouraged to *reduce* its tax rates to the levels in other jurisdictions. Moreover, any concern about the District not contributing its fair share of revenues would be better addressed by putting a floor under the District's tax rates rather than by including local revenues in the formula for the Federal Payment.

Instead of setting the Federal Payment at an arbitrary percentage of local District revenues, Appleseed proposes instead to relate the payment to measurable components of the revenue sources the District forgoes as a result of Federal restrictions. The two components in this formula, as described below, would be based upon measures of (1) the extent of real property located within the District which is exempt from taxes because it is owned by Federal or foreign governments and (2) the District source income of non-residents who work in the District.

A. Revenue Loss From Tax-Exempt Federal and International Real Property

The first element in our proposed Federal Payment formula is based on two readily measurable components. First, using data on the District's actual tax assessments for its taxable real property and the total acreage of such property, we compute a measure of property tax per acre. Then, this rate is multiplied by the total acreage of Federal and foreign government-owned real property exempt from District tax. Based on 1994 data from the D.C. Department of Revenue and Finance, there were approximately 12,940 acres of D.C. property subject to tax, while there were approximately 12,341 acres of Federally-owned property and approximately 286 acres of foreign government-owned property which were exempt. The taxes assessed in 1994 on D.C. taxable property totalled $742,562,316, or approximately $57,385 per acre. The District's current estimates of assessed real property taxes for 1995 is lower at approximately $711 million[34], or approximately $54,946 per acre, due to reduced assessed value of the real property. If the property owned by Federal and foreign governments yielded tax on the same basis, the amount of revenue foregone by the District by not having these sources available would be $724,600,395 for 1994 and $693,803,142 for 1995.

This computation is simple and based on readily verifiable data available on an annual basis. It also avoids recognized problems in estimating the value of property which is exempt from D.C. taxes. For example, the D.C. government currently lacks the resources to assess the value of exempt property reliably.[35] There is also inherent difficulty in valuing certain unique government property, e.g., the Capitol, the Mall, the Lincoln Memorial, etc. Moreover, because the land area ratio employed is not likely to change much from year to year, we submit that this component is fairly predictable.

This methodology is not offered as the last word on the subject, but merely as a long overdue badly needed first step. We believe that, over time and with appropriate study, refinements may improve the methodology.[36] For example, we note that the District's Department of Finance and Revenue has estimated the

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[34] This figure was provided to Appleseed by Dr. Julia Friedman of the District's Department of Revenue and Finance.

[35] *See Department of Finance Report* at 11.

[36] For example, it may be possible to sharpen the estimate by applying our methodology separately by category of property and then aggregating the resulting estimates. Also, additional measures such as square feet of occupancy or an index of utilization might be added to the calculation.

real property tax revenue loss from Federal and foreign government-owned property exemptions to be about $470 million for 1994 and about $586 million for 1995, basing its determination on specified valuations for properties not paying taxes.[37] Appleseed has not had access to the District's data and methodology, and so we cannot determine how the District arrived at a value for unique Federal properties such as the Capitol or Mall. In the absence of any reliable basis to make that determination, we have decided to use a more objective and predictable method, (*i.e.*, measurement of the area of the Federal and international land rather than the valuation of the land and the structures).

Notwithstanding the possibility of improvement later, we propose that the aggregate land area ratio approach is a reasonable first step to be adopted pending future refinements in this formula component.

B. Revenue Loss From Restrictions On Taxing Income Of Non-Residents

The second component in our proposed formula is based on revenue foregone by the District because of Federally-imposed restrictions on its ability to tax the income of non-residents. Unlike our proposed measurement of property tax loss, for which it was possible to devise a simple objective calculation based on a relatively unchanging ratio of land areas, the measurement of income tax loss is somewhat more elusive, but certainly no less important.

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[37] *See* Table 5, *1994 Assessments* (Exhibit 2 hereto) and *Department of Finance Report* at 10 (table). The 1994 figure is based on all exempt property being assessed at the Class 4 commercial property rate. The 1995 figure in the *Department of Finance Report* is based on the actual assessments conducted by D.C. Department of Finance and Revenue assessors.

The U.S. Commerce Department "Journey To Work" data are apparently the best available on the number of persons who commute to work in the District from Maryland and Virginia.[38] The reported sample data include the *number* (but not *income*) of people who work in the District and reside in nearby areas in Virginia and Maryland. Although the reported data do not include the income of these commuters, estimates of their taxable income can be obtained by assuming the distribution of taxable income for the commuters is the same as for other residents of those areas as reflected in state tax returns. On this basis, the District of Columbia Department of Finance and Revenue has estimated that the net income tax revenue loss for 1995 (at current full D.C. tax rates) would be approximately $1.2 billion. Although Appleseed respects this methodology, we believe that an estimate based on a lower 2 percent tax rate is more appropriate as a basis for the Federal Payment than an estimate based on actual District income tax rates because commuter income taxes, where they exist, are typically imposed at a rate lower than the jurisdiction's resident income tax rate, and average around 2 percent.[39] Accordingly, while we base our estimate of income tax revenue loss on the same projected commuter income data used by the D.C. Department of Finance and Revenue, we would apply the typical commuter tax rate of 2 percent rather than current District income tax rates. Under this revised methodology, the

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[38] *See Department of Finance Report* at 14-15 and Appendix C thereto.

[39] *See supra* note 26.

income tax revenue loss is estimated to be $457.7 million for 1994 and $471.4 million for 1995.

This second component in our proposed formula is not as simple to calculate as the first, involving as it does projections forward in time from Census data on commuting patterns. However, our proposed approach is based on the best available data and reasonable assumptions. Unless and until a better methodology and/or better data become available, we believe our approach should be used in the formula for the Federal Payment as a good proxy for foregone income tax revenue.[40]

C. Combining The Two Components

As set forth above, our proposed formula would estimate the Federal Payment based on an objective and readily-computable estimate of revenue lost because of (1) the presence in the District of property owned by the Federal government or foreign governments and (2) restrictions on the District government's ability to tax the District source income of non-residents. Under our proposal the Federal Payment would be computed by summing the estimated real property tax loss (*e.g.*, $693.8 million projected for 1995) and the estimated income tax loss (*e.g.*, $471.4 million projected for 1995). On this basis, the formula-based Federal Payment would be approximately $1.165 billion for 1995. This compares with the $660 million actually authorized to be appropriated.

[40] Appleseed would support further study of this issue, possibly by an independent commission, which could recommend refinements or improvements in the methodology and/or data.

We do not contend that our proposed formula is inherently superior to all others, or free from difficulties and/or objections. But we do contend that, unlike the current approach to setting the Federal Payment, it is reasonable, fair, and objective. Because it relates the Federal Payment amount to two major components of the revenue losses caused by Federal restrictions on the District's ability to raise revenue, it is rationally related to the principal purpose of the Federal Payment.

This proposed Federal Payment formula and any future refinements to the formula might enable the District to reduce the disproportionately high taxes it currently imposes on its residents, or at least not increase them further, and thereby encourage current residents to remain and others to move in. It would also remove the perverse effect of the most recently used formula based only on local District tax revenue by guaranteeing the city the level of Federal Payment it actually needs.

D. Integration With The District's Budgeting Process

The Federal Payment based on our formula would greatly exceed the current Federal Payment and also exceed the amount necessary to close the current District budget deficit. In the absence of lowered tax rates on District residents or property, it may also produce a budget surplus.[41] The Congress, anticipating the prospect of a District budget surplus, may be inclined not to appropriate the full

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[41] If the District were to respond to this by increasing expenditures beyond what is appropriate, Appleseed believes that the Control Board and Congress are capable of preventing any unwarranted increase in expenditures by the District.

amount of the formula-based payment. This would be unfair and inequitable and would at least in part defeat the purpose of a formula-based payment. Even then, the formula would still not be useless or irrelevant. Instead, it would be like an authorization for a Federal agency -- a target around which planning would occur. But it should be more than that since the Federal Payment is not a "gift," but a replacement of revenue that the Federal government has, in effect, taken away from the District.

To deter Congress from reducing the Federal Payment in anticipation of a budget surplus, we advocate a mechanism that would more equitably reduce the Federal Payment in the event of an actual budget surplus. We propose that in the event of an actual surplus, the Federal government should be given a credit to be offset against the subsequent year's Federal Payment amount. To be fair, the credit should bear the same proportionate relationship to the actual surplus that the Federal Payment bears to total District revenues. This would leave part of the surplus to fund either future District expenditures or tax relief, as the local authorities see fit, and yet also rebate to the Federal government its equitable share of the surplus.

An illustration may be helpful. Suppose that the District government passes a budget with total expenses of $3 billion and that Congress agrees with that spending figure. Suppose that, on the revenue side, District income and property taxes would total $1.4 billion, other receipts/taxes another $800 million, and the Federal Payment under our formula would be $1.1 billion, for a total of $3.3 billion.

Thus, revenue exceeds expenses by $300 million. Since the Federal Payment contributed one-third of total revenue, the Federal government's credit would be one-third of the surplus, or $100 million. This credit would be used to reduce the subsequent year's Federal Payment.

This credit proposal is fair to the Federal government and also consistent with the principles of Home Rule. The Federal government through the credit would receive its fair share of any budget surplus and the local authorities would decide how to deal with the remaining surplus.

REFERENCES

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3. *Financing the Nation's Capital: The Report of the Commission on Budget and Financial Priorities of the District of Columbia* (1990) ("Rivlin Commission" Report).

4. Michael E. Bell, *The Federal Payment to the District of Columbia--Problems and Prognosis*, prepared statement in Hearings and Markup of the Subcommittee on Governmental Affairs and Budget and the Committee on the District of Columbia, on H.R. 7558 and H.R. 7845, 96th Cong., 2d Sess., (1980).

5. H.R. Rep. 102-92 (District of Columbia Budgetary Efficiency Act of 1991), 102nd Cong., 1st Sess. (1991).

6. KPMG Peat Marwick, "Federal Payment" (June 1990).

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12. Stephen S. Fuller, Ph.D., *Federal Spending in Metropolitan Washington, FY 1993: An Analysis of Total Federal Spending with an Emphasis on Procurement*, June 1994.

SPECIAL REPORT

EXHIBIT 1

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Table 2
Taxes Per Capita and as a Percentage of Income, 1995

	Per Capita Taxes			Per Capita Income (NNP)	Taxes as a Percent of Income		
	Total	Federal	State/Local		Total	Federal	State/Local
U.S.	$8.305	$5.461	$2.841	$24,135	34.4%	22.6%	11.8%
Alabama	6,163	4,294	1,868	20,013	30.8	21.5	9.3
Alaska	7,479	6,331	1,148	26,346	28.4	24.0	4.4
Arizona	6,905	4,358	2,547	20,996	32.9	20.8	12.1
Arkansas	6,206	4,104	2,102	18,812	33.0	21.8	11.2
California	8,656	5,610	3,046	24,667	35.1	22.7	12.4
Colorado	8,212	5,660	2,552	25,130	32.7	22.5	10.2
Connecticut	12,584	8,464	4,120	32,045	39.3	26.4	12.9
Delaware	8,436	6,505	1,931	25,216	33.5	25.8	7.7
District of Columbia	13,381	8,077	5,304	35,541	37.6	22.7	14.9
Florida	7,997	5,436	2,561	23,927	33.4	22.7	10.7
Georgia	7,150	4,828	2,321	22,499	31.8	21.5	10.3
Hawaii	9,923	5,874	4,049	26,569	37.3	22.1	15.2
Idaho	6,784	4,363	2,420	20,792	32.6	21.0	11.6
Illinois	9.160	6,267	2,893	26,310	34.8	23.0	11.8
Indiana	7,260	4,941	2,318	22,501	32.3	22.0	10.3
Iowa	7,339	4,688	2,651	21,268	34.5	22.0	12.5
Kansas	7,757	5,218	2,539	22,897	33.9	22.8	11.1
Kentucky	6,604	4,199	2,406	20,078	32.9	20.9	12.0
Louisiana	6,245	4,213	2,032	19,666	31.8	21.4	10.5
Maine	7,251	4,489	2,762	21,768	33.3	20.6	12.7
Maryland	9,200	6,312	2,887	27,375	33.6	23.1	10.5
Massachusetts	9,963	6,674	3,289	28,465	35.0	24.4	[illegible]
Michigan	8,310	5,543	2,767	24,918	33.3	22.2	11.1
Minnesota	8,926	5,698	3,228	24,405	36.6	23.4	13.2
Mississippi	5,139	3,477	1,662	17,570	29.2	19.8	9.5
Missouri	7,167	5,017	2,151	22,915	31.3	21.9	9.4
Montana	6,618	4,440	2,178	20,335	32.5	21.8	10.7
Nebraska	7,733	5,016	2,718	22,756	34.0	22.0	11.9
Nevada	8,559	5,898	2,660	26,881	31.8	21.9	9.9
New Hampshire	8,922	5,946	2,976	25,700	34.7	23.1	11.6
New Jersey	11,624	7,518	4,106	30,904	37.6	24.3	13.3
New Mexico	6,322	4,001	2,322	19,131	33.0	20.9	12.1
New York	11,373	6,754	4,618	28,997	39.2	23.3	15.8
North Carolina	6,975	4,618	2,357	21,928	31.8	21.1	10.7
North Dakota	6,742	4,407	2,335	19,483	34.6	22.6	12.0
Ohio	7,825	5,285	2,540	23,115	33.9	22.9	11.0
Oklahoma	6,324	4,277	2,047	19,605	32.3	21.8	10.4
Oregon	7,779	5,011	2,768	22,914	34.0	21.9	12.1
Pennsylvania	8,738	5,655	3,083	24,700	35.4	22.9	12.5
Rhode Island	8,788	5,769	3,019	24,694	35.6	23.4	12.2
South Carolina	6,143	4,149	1,994	19,525	31.5	21.2	10.2
South Dakota	6,623	4,578	2,045	20,836	31.8	22.0	9.8
Tennessee	6,636	4,803	1,833	21,616	30.7	22.2	8.5
Texas	7,389	4,923	2,466	22,110	33.4	22.3	11.2
Utah	6,147	3,913	2,235	19,182	32.0	20.4	11.6
Vermont	8,019	4,917	3,103	22,496	35.6	21.9	13.8
Virginia	8,059	5,565	2,494	24,887	32.4	22.4	10.0
Washington	9.056	5,871	3,186	25,323	35.8	23.2	12.6
West Virginia	6,145	3,890	2,255	19,283	31.9	20.2	11.7
Wisconsin	8,314	5,227	3,087	23,198	35.8	22.5	13.3
Wyoming	7,708	5,295	2,413	23,339	33.0	22.7	10.3

Source: Tax Foundation. Note: Totals may not add up to rounding.

EXHIBIT 2

FEDERAL PAYMENT ($000s)

FISCAL YEAR	TOTAL FEDERAL PAYMENT	DISTRICT TOTAL EXPENDITURES	AS PERCENTAGE OF DISTRICT TOTAL EXPENDITURES	TOTAL DISTRICT SOVEREIGN REVENUES	AS PERCENTAGE OF DISTRICT SOVEREIGN REVENUES
1985	$471,353	$2,609,020	18%	$1,596,701	30%
1986	$450,265	$2,795,028	16%	$1,755,913	26%
1987	$479,500	$3,035,119	16%	$1,944,143	25%
1988	$459,500	$3,378,690	14%	$2,095,107	22%
1989	$453,800	$3,483,722	13%	$2,283,178	20%
1990	$506,966	$3,798,448	13%	$2,359,954	21%
1991	$625,231	$3,652,330	17%	$2,457,755	25%
1992	$643,772	$4,087,093	16%	$2,478,016	26%
1993	$635,930	$4,292,438	15%	$2,654,261	24%
1994	$647,930	$4,776,313	14%	$2,567,258	25%

Data are from "General Fund Operating Results," District of Columbia Comprehensive Annual Report, Year Ended September 30, 1994. Federal Payment includes both general purpose and special purpose payments.

EXHIBIT 3

TABLE 5
D.C. REAL ESTATE ASSESSMENTS-TAXABLE, EXEMPT AND TOTALS
TAX YEAR 1984

Type of Property	Total Acres	Land Value	Improvements	Total Value	Tax	% of all Properties: Land Acres	% of all Properties: Land Value	% of all Properties: Total Value	Number of Items
Total Taxable	12,840.380	$20,680,035,158	$26,403,926,578	$47,083,961,730	$742,682,318	43.5	51.2	59.4	157,023
Class One (Gross)	6,648.782	$ 5,674,671,633	$11,424,905 018	$17,099,575,623	$139,097,830	22.3	14.0	21.6	92,502
Residential/Single Family	4,248.226	3,630,528,026	6,902,690,317	10,533,218,343	87,071,800	14.3	9.0	13.3	48,778
Residential/Multifamily	200.819	325,878,336	1,284,143,532	1,610,021,868	11,769,512	.7	.8	2.0	12,815
Flats/Conversions	144.223	213,136,049	420,289,172	633,425,221	5,232,723	.5	.5	.8	2,845
Cooperatives	99.224	123,598,450	331,749,804	455,348,254	4,328,425	.3	.3	.6	150
Garage/Unimproved Land	118.178	66281,832	17,123,194	83,405,026	799,615	.4	.2	.1	3,669
Mixed Use	71.558	72,868,065	137,425,743	210,293,783	2,428,329	.2	.2	.3	300
Seniors	1,764.936	1.242,154,082	2,330,937,728	3,573,091.807	27,462,325	5.9	3.1	4.5	23,834
Commercial	0.617	226,793	544,528	771,321	5,101	.0	.0	.0	11
Class Two (Gross)	3,372.760	$2,509,178,559	$5,015,116,388	$7,524,294,878	$117,313,496	11.3	8.2	9.5	49,759
Residential/Single Family	1,318.085	1,119,454,352	1,928,407,868	3,047,862,220	46,830,554	4.4	2.8	3.8	20,567
Residential/Multifamily	1,206.618	678,067,887	1,996,390,853	2,674,458,240	41,174,273	4.1	1.7	3.4	15,667
Flats/Conversions	401.535	326,614,348	540,691,074	867,305,422	13,355,160	1.3	.8	1.1	6,437
Cooperatives	54.782	25,281,507	41,621,152	66,902,659	1,028,927	.2	.1	.1	103
Garage/Unimproved Land	104.341	56,716,890	38,340,157	95,057,047	1,463,397	.4	.1	.1	5,892
Mixed Use	286.498	296,880,352	468,035,637	764,915,918	13,242,037	1.0	.7	1.0	1,050
Seniors	0.138	231,941	525,378	757,320	10,787	.0	.0	.0	3
Hotels/Motels	0.713	3,409,382	1,187,368	4,596,750	70,791	.0	.0	.0	9
Commercial	0.071	521,920	1,917,380	2,439,300	37,570	.0	.0	.0	31

TABLE 5--Continued
D.C. REAL ESTATE ASSESSMENTS-TAXABLE, EXEMPT AND TOTALS
TAX YEAR 1994

Type of Property	Total Acres	Land Value	Improvements	Total Value	Tax	% of all Properties: Land Acres	% of all Properties: Land Value	% of all Properties: Total Value	Number of Items
Class Three	130.804	$ 914,302,684	$ 990,721,620	$ 1,905,024,298	$ 36,214,915	.4	2.3	2.4	205
Garage/Unimproved Land	2.894	8,631,213	0	8,631,213	159,678	.0	.0	.0	43
Mixed Use	38.791	267,907,493	323,639,100	591,546,588	11,915,553	.1	.7	.7	22
Hotels/Motels	88.480	636,082,857	667,066,279	1,303,149,136	24,108,284	.3	1.6	1.6	129
Commercial	0.639	1,681,121	16,241	1,697,362	31,400	.0	.0	.0	11
Class Four	2,338.081	$11,302,363,718	$ 8,971,959,525	$20,274,323,282	$435,898,893	7.8	28.0	25.6	11,455
Residential/Single Family	0.046	135,115	513,880	648,995	13,954	.0	.0	.0	2
Residential/Multifamily	0.021	4,570	35,430	40,000	860	.0	.0	.0	1
Flats/Conversions	6.380	4,812,451	10,595,257	15,407,708	331,265	.0	.0	.0	38
Garage/Unimproved Land	255.281	579,316,993	2,806,128	582,123,121	12,515,676	.8	1.4	.7	3,316
Mixed Use	9.317	9,014,303	6,550,002	15,564,304	334,634	.0	.0	.0	
Hotels/Motels	8.316	18,491,776	18,285,586	36,777,362	790,715	.0	.0	.0	25
Commercial	1,898.918	10,626,554,309	8,933,173,242	19,559,727,551	420,535,061	6.4	26.4	24.7	7,896
Unimproved	159.802	64,034,241	0	64,034,241	1,376,728	.5	.2	.1	178
Class Five	449.933	$ 279,515,525	$ 1,228,125	$ 280,743,650	$ 14,037,182	1.5	.7	.4	3,102
Residential/Single Family	0.115	43,300	121,700	165,000	8,250	.0	.0	.0	1
Garage/Unimproved Land	448.860	278,235,982	9,061	278,245,043	13,915,676	1.5	.7	.4	3,095
Hotels/Motels	0.310	554,238	359,300	913,538	45,677	.0	.0	.0	1
Commercial	0.648	685,005	735,064	1,420,069	71,003	.0	.0	.0	5

TABLE 5—Continued
D.C. REAL ESTATE ASSESSMENTS-TAXABLE, EXEMPT AND TOTALS
TAX YEAR 1984

Type of Property	Total Acres	Land Value	Improvements	Total Value	Tax	% of all Properties: Land Acres	% of all Properties: Land Value	% of all Properties: Total Value	Number of Items
Total Exempt	17,028.278	$19,739,684,613	$12,397,563,719	$32,136,248,332	$690,929,339	57.2	48.8	40.6	11,551
Total US/DC Government	13,952.876	15,746,340,343	8,390,946,529	24,136,286,872	518,930,168	46.8	39.0	30.5	5,411
United States	12,340.957	14,150,030,440	6,715,818,867	20,865,849,307	448,619,760	41.5	35.0	26.3	3,931
District of Columbia	1,611.919	1,596,309,903	1,675,127,662	3,270,437,565	70,314,408	5.4	3.9	4.1	1,480
Total Non-US/DC Exempt	3,075.402	$ 3,993,344,270	$ 4,006,617,190	$ 7,999,961,460	$171,999,171	10.3	9.9	10.1	6,140
Taxes Abated	0.445	1,044,608	4,827,797	5,872,405	126,251	.0	.0	.0	76
W.M.A.T.A.	151.016	149,985,771	42,298,025	192,283,796	4,134,102	.5	.4	.2	452
D.C.R.L.A.	54.402	142,081,702	14,803,434	156,885,136	3,373,030	.2	.4	.2	381
Homestead Preservation	2.263	425,875	1,103,706	1,529,581	32,886	.0	.0	.0	16
Low Income-Abated	124.915	56,807,379	153,234,720	210,042,099	4,515,905	.4	.1	.3	2,429
Religious	587.103	571,264,853	666,064,326	1,237,329,179	26,602,577	2.0	1.4	1.6	1,097
Educational	646.935	882,373,686	811,902,039	1,694,275,725	36,426,928	2.2	2.2	2.1	347
Foreign Government	286.921	410,088,191	604,400,521	1,014,488,712	21,811,507	1.0	1.0	1.3	576
Charitable	148.960	115,893,102	151,213,405	267,106,507	5,742,790	.5	.3	.3	299
Cemetary	333.242	127,425,512	2,069,910	129,495,422	2,784,152	1.1	.3	.2	31
Hospital	211.572	254,464,453	434,529,911	688,994,364	14,813,379	.7	.6	.9	18
Library	1.220	3,301,135	6,172,865	9,474,000	203,691	.0	.0	.0	2
Miscellaneous	516.408	1,278,188,003	1,113,996,531	2,392,184,534	51,431,967	1.7	3.2	3.0	419
Total Taxable and Exempt	29,968.638	$40,418,719,772	$38,801,490,395	$79,220,210,062	$1,433,491,655	100.7	100.0	100.0	168,674

1/ Detail may not add to total due to rounding.
Note: Tax amount for exempt properties is potential tax based on Class 4 commercial rate of $2.15 per $100 value.

District of Columbia Financial Responsibility
and Management Assistance Authority
Washington, D.C.

THE NECESSITY AND COSTS

OF

DISTRICT OF COLUMBIA SERVICES

by

Philip M. Dearborn and Carol S. Meyers

Greater Washington Research Center

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The contents of this report, of course, are solely the responsibility of the authors.

PHILIP M. DEARBORN
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REPORTS ON EACH SERVICE (cont.)

EXECUTIVE SUMMARY

The D.C. Financial Responsibility and Management Assistance Authority commissioned this study to ascertain the necessity of District services, and to evaluate the workloads and costs of those services in relation to comparable governments.

A list of more than 200 separate District activities provides a detailed look at how the District spent $3.3 billion of locally raised revenues in 1995. The list also provided the basis for a detailed examination of individual District services to determine their necessity and to compare their expenditures to similar expenditures by other governments. The report contains descriptions of 50 specific services and conclusions about the necessity and costs for each of them.

To determine necessity, services were classified as "essential" when the government could not discontinue the service regardless of budget constraints; "basic" when the service is generally provided by other governments, but could be discontinued; and "discretionary" when the service, or feature of a service, meets unusual needs that either do not exist in or are not considered high enough priority by other governments to provide them. Discretionary services often have vigorous supporters who believe the District must provide the service.

The general conclusions of this study are summarized below:

1. Most District services are essential or basic, but a substantial number have some portion that is discretionary. The expenditures for discretionary services could not be precisely measured, but they probably total less than $100 million.

2. The District's total expenditures for many services exceed those of Maryland and Virginia state and local governments by wide margins after adjusting for differences in total population. Unless the disproportionately high expenditures by the District can be reduced, the District must also have revenues that are similarly high relative to population to balance its future budgets.

3. A principal reason for high service expenditures, especially for state-type services, is a disproportionate workload in the District because of its urban characteristics. Workload as used in this study means persons requiring the service or potentially using the service.

4. District service expenditures are also high because of higher costs measured relative to workload or, in some cases, population. Higher costs may result from excessive employees; higher employee pay and benefits; higher Washington area costs, such as for health care; inefficient organization and management; or unique features such as retirement costs. In some instances, the reasons for higher costs are identified (such as the higher retirement costs), but in most cases a more detailed management and organization analysis of the service will be necessary.

5. Three factors workload, retirement, and debt service account for about $1.03 billion of higher District spending compared to spending in Baltimore and Maryland:

Workload - Fifteen District services have workloads that can be reasonably quantified and compared to similar workloads encountered by Maryland, or the combined Maryland and Baltimore governments in the case of shared responsibilities. These 15 services resulted in 1995 District expenditures of $1,048 million. If the workloads had been comparable, the estimated District expenditures for these services would have been $411 million, or about $637 million less.

Police, Fire, and Teacher Retirement - District expenditures for police, fire, and teacher retirement are unusually high in the District because of generous benefits and because the systems were not funded prior to 1980. As a result, the District spent $291 million in 1995 for retirement for police, fire, and teachers. In Baltimore, the city's retirement costs for these employees was $85 million, or $206 million less.

Debt Service - The District has very high debt service expenditures. Some of the reasons include: the costly 30-year level debt service borrowing from the U.S. Treasury prior to 1984; the need to finance facilities to meet high demands or workloads, such as correctional facilities; financing a $332 million accumulated deficit; limited use of pay-as-you-go financing; and a high city share of Metrorail capital costs. The District's 1995 debt service expenditure was $366 million. The Baltimore debt service, with Maryland's debt service apportioned to the city, was $176 million, or $190 million less.

6. For a few services, the District provides a lower level of service or has a lower cost than neighboring governments. Some District costs are lower because of federal augmentation of costs. The federal augmentation could not be exactly determined, but appears to total over $100 million.

The report recommends improved analysis of District workloads, improved expenditure reporting, and assignment of debt service costs to specific programs. It also recommends additional studies that should be made.

Part 1 OVERVIEW

The D.C. Financial Responsibility and Management Assistance Authority commissioned this study to ascertain the necessity of District service expenditures, and to evaluate the workloads and costs of those services in comparison with those provided by governments in jurisdictions with similar characteristics.

This study consists of: (1) a detailed list of the services provided by the District, (2) a description of the services and an evaluation of their necessity, and (3) a comparison of the District's workloads and costs for the services compared to other governments.

I. COMPARING DISTRICT SERVICES

The District of Columbia has a deep and recurrent structural imbalance in its budget. Stabilizing the finances of the District will require substantial changes in the way the city finances and delivers services. Some of those changes are under way and more are being identified. Even if the current recovery plan is successful, there is a concern that revenues may be inadequate to deliver essential services in the long run.

Addressing the question of revenue adequacy requires an examination of both service expenditures and the revenue system. On the expenditure side, which is the subject of this study, it is required to determine whether the programs and services provided in the District are necessary and whether they are provided efficiently and economically. Necessity and efficiency must be measured against some norm. In this study the norm is services provided in similar urban areas. A parallel comparison of the District's revenue system to some norm in terms of revenue base, tax structure, and effort will be necessary to put this study of service costs in perspective.

List of Services

The detailed list of District services (see Table 1 at the end of Part 1) contains more than 200 separately identified activities. The District's total 1995 spending is divided into specific activities based on the accounting system's responsibility centers and includes expenditures for activities that are not services in the accepted sense, such as facility maintenance, administrative support, and debt service. The purpose of the list is to provide a detailed look at how the District spent $3.3 billion of locally raised revenues in 1995 and to provide a basis for reviewing services.

Necessity of Services

It is commonly perceived that the District spends more per capita than other state and local governments. One suggested cause for high spending is that the District provides a higher level of services or is more generous in its benefits than other governments. Testing the validity of this reason for high spending requires a determination of the necessity of service to see whether the District goes beyond what governments usually provide.

The services reviewed in this study are looked at from the perspective of people receiving the service, regardless of what government provides or finances the service. For example, does a person in Baltimore or Arlington County receive the same service as a person in the District, and is that service better or worse when measured by such factors as eligibility, benefits, or other objective criteria.

For purposes of classifying services in this study, the level of necessity has been divided into three categories as follows:

Essential Some services are clearly essential, such as police, fire, and those required by federal law. In these instances, the government could not discontinue the service, regardless of budget problems.

Basic For other services, necessity is not so clear-cut and must be decided as a matter of policy. Nevertheless, there are services that are so generally provided by governments that they fall into the classification of basic. In these instances, the District could discontinue a service, such as libraries, city planning, or parks and recreation, but it would mean that persons in the District would not receive services generally provided in other cities and states.

Discretionary Services that the District provides to meet unusual requirements or needs are defined as discretionary. These are services to meet needs that either do not exist or are generally not considered high enough priority by other governments to provide them. There are also District services that are essential or basic, but have additional features that are discretionary. It should be recognized that discretionary is not the same as unnecessary. Many discretionary District services have vigorous supporters.

For this study, the District's services have generally been compared to those in adjoining Maryland and Virginia, as well as the City of Baltimore and Arlington County, to determine whether services are essential, basic, or discretionary. The determinations may not be definitive in terms of all states and local governments, but they should be valid in a regional context.

Most District services are essential or basic, but a number have some discretionary components. The expenditures for discretionary services could not be precisely measured, but they probably total less than $100 million.

The conclusions regarding which services are essential, basic, and discretionary, are summarized in Table 2.

Table 2. **Services Classified by Necessity**

Services	**1995 Approp. Cost ($ millions)**	**Essential**	**Basic**	**Some or All Identified as Discretionary**
Public Schools	$613.7	X		X
Medicaid	377.9	X		X
Police	366.8	X		
Debt Service	366.4	X		
Adult Corrections	238.8	X		
Fire and EMS	150.4	X	X	
Mass Transit	123.1		X	X
Mental Health	113.7	X		
Courts	87.3	X	X	
AFDC	62.8	X		X
Foster Care	59.5	X		
D.C. General Hospital	56.7			X
Higher Education	53.9		X	
Indigent Representation	37.9		X	X
Streets	37.0	X		
Financial Management	36.5	X		
Juvenile Corrections	35.3	X		
Regulation	34.9		X	
Developmental Disabilities	27.0		X	
Parks and Recreation	25.2		X	
Child Day Care	23.8	X		X
Need Determination	23.3	X		
Alcohol and Drugs	23.0		X	
Solid Waste	21.0	X		
Elderly Services	20.2		X	
Health Clinics	20.2		X	
Public Library	19.8		X	
Hsg. and Community Develop.	15.4		X	X
Settlements and Judgements	14.5	X		X
Training	14.1			X
Homeless	12.7		X	
Parking Enforcement	9.2	X		
Economic Development	7.8		X	
Legislative	7.7	X		
General Relief	7.5		X	
Rehabilitation	6.8		X	

Table 2. Cont.

Services	**1995 Approp. Cost ($ millions)**	**Essential**	**Basic**	**Some or All Identified as Discretionary**
HIV/AIDS	6.1		X	
Disease Prevention	5.7	X		
Vehicle Registration	5.7	X		
Parole Services	5.4		X	
SSI Supplements	5.2	X	X	
School Health	4.6		X	
Long-Term Care	4.0			X
City Planning	3.2		X	
Pretrial Services	3.2		X	
Child Support	2.9	X		
Elections	2.5	X		
Medical Examiner	1.9	X		
Arts and Humanities	1.7		X	
Health Labs	1.4		X	

Costs of Services

The District's total expenditures for many services exceed those of Maryland and Virginia state and local governments by wide margins after adjusting for differences in total population. This conclusion is based on a comparison of District expenditures for state-type services to Maryland and Virginia, and District expenditures for local-type services generally to Baltimore and Arlington County. It is not surprising that the District's spending to provide services for a concentrated and distressed urban population is greater than similar spending by these states.

Unless the disproportionately high expenditures by the District can be reduced, the District must also have revenues that are similarly high relative to population to balance its future budgets. The examination of whether the District can expect future revenues to be disproportionately high is not part of this study, but such a future seems doubtful. For this reason, it is important to examine the reasons for the high District expenditures and the potential for reducing those expenditures.

A principal reason for high service expenditures, especially for state-type services, is a disproportionate workload in the District because of its urban characteristics. Workload as used in this study means persons requiring the service or potentially using the service. The best example of a disproportionate workload is Medicaid. With virtually identical eligibility requirements, 26.9 percent of the District population receives Medicaid compared to 9.3 percent of Maryland's population. If the District and Maryland had the same percentage of population receiving Medicaid, District Medicaid spending would have been at least $500 million less than it actually was in 1995. This large proportion of city residents receiving the service is not, however, a unique District characteristic. Baltimore has an almost identical 26.8 percent of its population receiving Medicaid, but Maryland is able to redistribute the high Baltimore workload costs to other areas of the state.

District service expenditures are also high because of higher costs measured relative to workload or, in some cases, population. Higher costs seem to be particularly true in city-type services, such as police, emergency medical services, and public education. Higher costs for delivering a service may result from a variety of causes in addition to better services, including excessive employees; higher employee pay and benefits; higher Washington area costs, such as for health care; inefficient organization and management; or unique features, such as the retirement costs for police, fire, teachers, and judges. In some instances, the reasons for higher costs are identified (such as the higher retirement costs), but in most cases a more detailed management and organization analysis of the service will be necessary.

Table 3 summarizes the services for which expenditures are relatively higher, comparable, or lower, and identifies the apparent causes of the higher expenditures between workload, higher costs, and discretionary services or other reasons.

Table 3. **Services More Expensive than Comparable Governments**

		Causes		
Services	**1995 Apppropriated Expenditures ($ millions)**	**Workload**	**Cost**	**Discretionary or Unclear**
Public Schools	$613.7		X	X
Medicaid	377.9	X	X	X
Police	366.8		X	X
Debt Service	366.4			X
Adult Corrections	238.8	X	X	
Fire and EMS	150.4		X	
Mass Transit	123.1			X
Mental Health	113.7	X	X	
Courts	87.3			X
AFDC	62.8	X	X	X
Foster Care	59.5	X	X	

Table 3. Cont.

Services	1995 Appropriated Expenditures ($ millions)	Causes: Workload	Cost	Discretionary or Unclear
D.C. General Hospital	56.7			X
Indigent Representation	37.9	X	X	X
Juvenile Corrections	35.3	X		
Developmental Disabilities	27.0		X	X
Need Determination	23.3	X		
Alcohol and Drugs	23.0			X
Elderly Services	20.2	X	X	X
Settlements and Judgements	14.5			X
Training	14.1			X
Homeless	12.7			X
Rehabilitation	6.8	X	X	
HIV/AIDS	6.1	X	X	
Parole	5.4	X		
SSI Supplements	5.2	X		
Pretrial Services	3.2		X	
Child Support	2.9	X	X	
Elections	2.5	X		

For a few services, the District's costs are lower than neighboring governments, sometimes because of a lower level of service in the District. The most apparent of these are higher education, which is both more extensive and more costly in Maryland and Virginia, and street services, which are much more extensive in Baltimore. Table 4 shows the District services with lower or comparable costs.

Table 4. **Services with Costs Comparable or Lower ($ millions)**

Higher Education	53.9	Economic Development	7.8
Streets	37.0	Legislative	7.7
Parks and Recreation	25.2	Disease Prevention	5.7
Child Day Care	23.8	Vehicle Registration and Related	5.7
Solid Waste	21.0	School Health	4.6
Health Clinics	20.2	City Planning and Zoning	3.2
Public Library	19.8	Arts and Humanities	1.7
Housing and Community Develop.	15.4	Health Labs	1.4
Parking Enforcement	9.2		

Services for Which Cost Comparisons Could Not be Made:

Financial Management	36.5	Long-Term Care	4.0
Regulations	34.9	Medical Examiner	1.9
General Relief	7.5		

In some cases, the costs are lower because of federal augmentation. As shown by the partial list in Table 5, the value of the federal augmentation appears to be over $100 million.

Table 5. **Services Provided by the Federal Government**

Retirement costs for District employees in the U.S. Civil Service Retirement System (normal cost after employee and employer contributions)	$71 Million
Contract costs for District annuitants in the Federal Employees Health Benefits plan	$26 Million
Life insurance costs for post-1990 District retirees under age 65 who are in the Federal Employees Government Life Insurance plan	
Prosecution of felonies and most misdemeanors	
U.S. Marshals Service	
Smithsonian institution museums, art galleries, and zoo	
National parks	
Streets in national parks (10 percent of total District streets)	

Major Determinants of High District Expenditures

The analyses of District services in this study reveal three major determinants of high District expenditures:

Workload

Fifteen District services have workloads that can be reasonably quantified and compared to similar workloads encountered in Maryland or the Maryland and Baltimore governments combined in the case of shared responsibilities. These fifteen services produced 1995 District expenditures of $1,048 million (see Table 6). If the workloads had been comparable, the estimated District expenditures for these services would have been $411 million, or about $637 million less.

Table 6. **Services for which Higher District Workload Costs Can Be Estimated** ($ Millions)

Services	Actual Cost	Workload Factor	Adjusted Cost
Medicaid	$419.3	3	$139.8
Adult Corrections	238.8	2.5	95.5
Mental Health	113.7	2	56.9
AFDC	62.8	3	20.9
Foster Care	59.5	1.5	39.7
Indigent Representation	37.9	2	19.0
Juvenile Corrections	35.3	4	8.8
Day Care	23.8	2	11.9
Need Determination	23.3	4	5.8
GPA	7.5	2	3.8
Rehabilitation	6.8	2	3.4
HIV/AIDS	6.1	5	1.2
Parole	5.4	3.5	1.5
SSI	5.2	3	1.7
Child Support	2.9	2	1.5
Total	$1,048.3		$411.4

Police, Fire, and Teacher Retirement

District expenditures for police, fire, and teacher retirement are unusually high in the District because of generous benefits and because the systems were not funded prior to 1980. As a result, the District spent $291 million in 1995 for retirement for police, fire, and teachers. In Baltimore, the city's retirement costs for these employees was $85 million, or $206 million less.

Debt Service

The District has very high debt service expenditures. Some of the reasons include: the costly 30-year level debt service for borrowing from the U.S. Treasury prior to 1984; the need to finance facilities to meet high demands or workloads, such as correctional facilities; financing a $332 million accumulated deficit; limited use of pay-as-you-go financing; and a high city share of Metrorail capital costs. The District's 1995 debt service expenditure was $366 million. The Baltimore debt service, with Maryland's debt service apportioned to the city, was $176 million, or $190 million less.

Three factors workload, retirement, and debt service account for about $1.04 billion of higher District spending compared to spending in Baltimore and Maryland.

II. HOW THE STUDY WAS DONE

Study Procedures

A preliminary list of District activities was compiled by examining Fiscal Year 1995 actual expenditures reported by the city accounting system's responsibility centers. Some of the responsibility centers do not reflect meaningful activities, so it was necessary to combine them. In other instances, it would have been desirable to have greater detail than was provided by the responsibility centers, but such information was not available. The sewer and water enterprise fund, lottery fund, hospital fund, and some other self-supporting activities are not listed as city services, except to the extent that the general fund contributes resources to them.

For each activity on the preliminary list, the city's appropriated and total spending in 1995 is reported. Because this study is concerned with local funds spending, only the appropriated amounts supported by local revenues and the unrestricted federal payment were used for comparative purposes. Spending supported by federal grants, reimbursements, and interagency transactions were excluded. Fiscal year 1995 expenditures were used because uncertainties about the 1996 and 1997 budgets made it impossible to get accurate responsibility center data for those years.

Data and service definitions for 1995 were used throughout, unless otherwise noted. In some instances, changes that have been made or are planned for future years in District services, organization, and spending are noted. The recently approved federal changes in the AFDC program are not reflected in the discussion of that service.

Some of the activities included on the list compiled from responsibility centers constitute services in themselves, but in other instances, several activities were combined for analysis purposes to create a single integrated service. This was often necessary to enable the service to be compared to that of other governments that do not show activities in as much detail, or in the same detail, as the District. The effect of these consolidations was to reduce the list of about 200 activities to 50 services that were examined and compared. About 20 activities that involved small dollar amounts or were difficult to compare were not examined and compared.

For each District service examined, a similar service in Maryland, Virginia, the City of Baltimore or Arlington County was sought to aid in making judgments about necessity. National sources about eligibility, benefits, and other features were also consulted. When comparable services were identified in other governments, available workload and relative costs were examined. The school system in Alexandria was used for comparison with the District because of its similar local characteristics.

In making comparisons, it was necessary to adjust for differences in size of jurisdictions. For population adjustments, the following estimates were used:

District of Columbia	570,175
City of Baltimore	691,131
Arlington County	174,611
City of Alexandria	113,522
City of Philadelphia	1,585,000
State of Maryland	5,042,438
Commonwealth of Virginia	6,394,000

While these population estimates were obtained from different sources and are not all for the same date, they represent reasonable estimates of the 1995 relative populations of these jurisdictions. Using different estimates would not have substantially changed the findings of the study because per capita or relative population comparisons were made in general terms.

Individual reports were prepared for each service, describing the service in the District and in other governments. A determination is made about whether the District service is essential, basic, or discretionary. To the extent possible and relevant, eligibility, benefits, workload, total costs, and unit costs are compared to neighboring governments. Conclusions about comparative benefits, workloads, total costs, and unit costs are made when possible. Reasons for differences in these factors are reported, if known.

District officials provided excellent cooperation and help in doing the analyses. In some instances, District officials were asked to review the findings for factual accuracy, and some changes resulted from these reviews. However, the final decisions about the contents of the report were made by the authors.

STATE AND LOCAL SERVICE COMPARISONS

The District is a unique government that provides all non-federal government services within its jurisdiction. This includes services typically provided by state and local governments. When comparing the District's services to those provided by other governments, it is tempting to divide the city's services between state and local types. However, comparisons based on such division of services encounter problems that limit their usefulness and restrict the purposes for which they are used.

One reason for attempting to separate state and local activities may be to relate the service to the District's financing capacity. State revenue capacity is very different from local revenue capacity in terms of its economic, demographic, and tax structure characteristics. States typically rely on personal and corporate income taxes, general sales taxes, and motor vehicle related taxes. Local revenues are derived primarily from property taxes and limited sales and income taxes.

From their broad-based taxes, states generally finance entitlements and other services with income redistribution features that are oriented to individuals. Cities, in contrast, are generally responsible for financing those services that are collective, and that benefit property and the entire community. Because the District is one government responsible for providing and financing all non-federal government services, the distinction between state and locally delivered services is important.

Some services are more costly when provided in cities because of urban characteristics, such as high poverty rates. These are the services typically financed by state revenue systems. Their costs in the District should be compared to state costs because the costs are incurred in the states. In contrast, services that, typically, are financed locally should be compared to other local governments' costs.

Sorting out District services so that they can be appropriately compared to states and other local governments may be desirable, but there are some problems in doing so. First, there is no national model that provides guidance. Each state makes its own decisions about how services are financed.

Second, financing for many services provided by local governments is shared between state and local governments. The government that delivers the service may not finance it or may finance only a portion of the cost. The leading example of this is public schools which are a local responsibility in every state except Hawaii, but for which states provide over 50 percent of financing on average. In some states, welfare, Medicaid, and other income redistribution programs are administered by local officials, but most of the cost is state financed. In these cases, care must be taken to avoid double counting the expenditure, first when the state makes payment to the local government, and second, when the local government provides the service.

Third, the same or related services are often financed and provided by both state and local governments. For example, state police usually complement local police activities and often provide specialized services such as crime labs, major crime investigations, and computerized identification files. Similarly, state park systems augment local facilities in most states.

Fourth, whether the service is state or locally financed may be optional for the local governments. This is true particularly in the enforcement of regulatory laws. For example, most cities and large local governments enact and enforce their own building and sanitation regulations, but if they do not, there is generally a state regulation. Some local governments are unhappy with state higher education programs, and they finance and provide for local community colleges to supplement the state programs.

Finally, for some services there is simply no common pattern. Courts may be an example of this. The responsibilities and financing of both criminal and civil adjudication vary widely with felony and major civil courts being state functions in some states, county (but not city) functions in other states, and regional or circuit courts in still other states.

In short, there is no clear definition of what are local services and what are state services, nor is there any clear division as to which government finances those services. Each state makes its own decisions about the appropriate division. The best we can do is to list those services that most often are financed by state governments, those that are most often financed locally, and those that are generally financed by both.

The services falling into each of these categories are shown in Table 7.

Table 7. **Services Predominantly Financed by State and Local Governments**

	1995 Appropriated Expenditures ($ millions)		
Service	**State**	**Local**	**Both**
AFDC	62.8		
SSI Supplements	5.2		
General Relief	7.5		
Need Determination	23.3		
Foster Care	59.5		
Development Disabilities	27.0		
Child Day Care			23.8
Elderly Services		20.2	
Homeless		12.7	
Rehabilitation	6.8		
Child Support	2.9		
Disease Prevention			5.7
Medical Examiner		1.9	
School Health		4.6	
Health Labs	1.4		
Medicaid	377.9		
D.C. General Hospital			56.7
Health Clinics		20.2	
Long-term Care	4.0		
HIV/AIDS			6.1
Alcohol and Drugs		23.0	
Mental Health	113.7		
Public Schools			613.7
Higher Education	53.9		
Training			14.1
Police		366.8	
Adult Corrections			238.8
Juvenile Corrections			35.3
Parole	5.4		
Mass Transit		123.1	
Streets			37.0
Parking Enforcement		9.2	
Vehicle Registration and Related	5.7		
Fire and EMS		150.4	
Courts			87.3

Table 7. Cont.

Service	1995 Appropriated Expenditures ($ millions) State	Local	Both
Pretrial Services		3.2	
Indigent Representation		37.9	
Parks and Recreation			25.2
Public Library		19.8	
Arts and Humanities			1.7
Regulations		34.9	
Housing and Community Develop.		15.4	
Economic Development			7.8
Settlements and Judgements			14.5
Solid Waste		21.0	
City Planning		3.2	
Legislative			7.7
Elections		2.5	
Financial Management			36.5
Debt Service			366.4
Totals	**757.0**	**870.0**	**1,578.3**

III. NEXT STEPS

Future Improvements Needed

This report is based on the best information that was readily available. In many instances, comparisons could not be made, or could have been improved if better information was available. Because of the importance of the type of analysis contained in this report to future decisions about the District's budget and overall financial planning, some of the improvements that would be helpful are described below.

Workload Analysis

It is difficult to judge whether the District's service costs are economical and efficient without determining the demands for service on the District relative to other comparable governments. Such comparisons are difficult because the services being compared must be generally the same. For example, it would not be reasonable to compare total Medicaid costs if the District's enrollees contain more high-cost elderly recipients than the government being compared. Similarly, if eligibility standards were more lenient in the District than in the other government, it would bias the comparison. Thus, precise information is needed to compare workloads. In some instances, the District has good workload data but other governments report their information differently. In other cases, good information is not available regarding District services.

Sometimes it is more appropriate to examine the underlying characteristics of the population that relate to demands for services. By using such measures of demand, District policy influences on demand are removed. For example, more children in poverty as a percentage of population should result in greater potential demand for AFDC entitlement payments regardless of District policies. Much of the data that would make such comparisons meaningful are not available on a uniform and current basis, and in some instances where data are available, the direct relationship to the service demand is not always clear. For example, we would like to use more of the 1990 Census data characteristics of population in our workload analyses, but we believe much of the data are too out-of-date to be relevant.

For each service examined in this study, exactly comparable workload information was sought from the government being compared or from other outside sources. However, uncertainties about comparability often resulted in only general statements about how workloads compare.

Comparing workloads in the District to those in other governments is a critical factor in evaluating the costs of District services, and priority should be given to developing better workload comparisons.

Expenditure Reporting

During the course of this study, it was apparent that the classification and reporting of District expenditures are not designed to support a budget process that is needed for effective planning, decisions, and control. The District needs to determine at the time it makes its budget what services it intends to provide and the total level of funding for those services, regardless of the organizational units making the expenditures.

For example, part of the cost of foster care services is clearly identified in a Department of Human Services responsibility center. Very substantial additional foster care costs are incurred by the Superior Court's social services division and judicial staff. The courts do not report these costs separately, so it is not possible to judge accurately the total cost of foster care services in the District.

In another example, Medicaid expenditures for patients treated at St. Elizabeths Hospital and city health clinics are not classified as Medicaid expenditures. Only because the District claims federal reimbursement for these patients is it possible to estimate the amount of District funds spent on these patients and thus be able to estimate total District Medicaid costs. The District accounting system should provide accurate total costs of Medicaid, regardless of where the services are provided.

Current technology makes it possible to accumulate information in a variety of ways that satisfy both the needs for accountability and for service information necessary for budget and planning decisions. In the design of the District's new financial management system, there should be a clear directive to address the needs of analysis such as that conducted in this study.

The design of a new financial management system should provide for the accumulation of data in ways that reflect meaningful information about expenditures for services. This data should address budgeting needs as well as the need for financial accountability. Persons concerned with the appropriate definition of services should be actively involved in the design of a new system to be sure all needs are met.

Assignment of Debt Service Costs to Service Programs

Evaluating the necessity for debt service expenditures is hindered by the lack of information about the purposes for which the debt was issued. While the District is conforming to accepted government accounting practices by using a single classification for all general obligation debt service, it would be helpful to a better understanding of District expenditures if information is also recorded about the uses of the capital funds for which the debt service is paid.

The District should provide a basis for reporting future debt service costs by specific programs, as well as by a single category. To the extent feasible, existing debt service also should be allocated to programs for information purposes.

SUBJECTS NEEDING ADDITIONAL STUDY

Time and resource constraints in this study made it impossible to explore all of the factors that are important to understanding District services and comparing their costs. For example, most information had to be obtained from published sources, with only a small amount feasible from personal interviews or customized surveys. Several subjects that need additional research are discussed below.

Dynamic Analysis of Services

This study examined the cost of District services in 1995 and was not able to determine the rate of growth of expenditures over time, or even if expenditures in that year were typical. To determine varying growth rates and the causes of variances would require examining several years of District expenditures. Such an examination would be important because there is a likelihood that District revenues will grow slowly in the future and that special efforts will be necessary to control those services with fast-growing expenditures.

The rates of growth in District expenditures for specific services and their causes need to be determined.

Pay Differences

Higher pay scales and benefit levels are often suggested as a reason for higher District spending compared to other governments. A comparison of 7 of 81 benchmark jobs in governments in the Washington-Baltimore area revealed a mixed pattern for hiring-level salaries, with 5 higher than Baltimore, but with 5 lower than Arlington County. This comparison does not take into account differences in tenure and experience costs related to actual workforce characteristics or how pay scales are structured, or other features such as health insurance, retirement benefits, annual leave, and sick leave.

The effect of pay differences on District costs could not be determined, but should be the subject of a more detailed study.

General Administration Costs

Most administrative and support costs are included as an integral part of the service provided. In some instances, administrative and support costs cut across several different services and could not be easily compared to those incurred in other governments. There are also definitional problems in evaluating administrative costs because they often include a mixture of items, such as rents, utilities, and other costs that are not purely administrative. A study of administrative costs would require extensive research, but would be desirable, especially in those instances where they appear to be high.

The District's administrative and support expenditures should be analyzed more thoroughly than was possible in this study.

Indigent Representation

Large differences in indigent representation costs between the District and Maryland and Baltimore could not be explained. Abused children and their families, and criminal defendants apparently have greater access to these services in the District.

The reasons for higher indigent representation costs in the District should be determined.

Juvenile Corrections

One apparent reason for high costs for juvenile corrections is the greater rate of commitment to expensive private facilities. The experience of District courts in juvenile commitments compared to courts in other urban areas should be studied to see if this is true.

The use of private facilities for juvenile commitments compared to other jurisdictions should be studied.

Medicaid

The higher District costs per Medicaid enrollee are only partly explained by higher hospital costs.

A careful analysis of all costs should be made to determine other reasons.

Table 1. EXPENDITURES ON DISTRICT SERVICES
FY 1995 ACTUAL (**$ Thousands**)

SUMMARY

SERVICES:	**LOCAL**	**TOTAL**
Social Services and Income Support	254,714	403,068
Health	623,077	1,136,387
Education and Training	682,632	813,374
Police	366,847	373,120
Corrections	279,512	282,697
Transportation	175,532	200,370
Fire Protection and Emergency Medical Services	150,404	151,054
Judicial and Legal	128,416	131,511
Recreation and Cultural	46,632	52,724
Regulation	34,918	51,454
Housing and Community Development	15,422	121,691
Economic Development	7,839	10,252
Other Services	42,001	48,135
Undistributed Employee Compensation	38,276	38,287
General Government	122,785	168,955
Debt Service	366,436	366,436
TOTAL, SERVICE EXPENDITURES	**3,335,442**	**4,349,515**

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
SOCIAL SERVICES AND INCOME SUPPORT		
CASH PAYMENTS		
Aid to Families with Dependent Children	62,849	128,140
General public assistance	7,546	10,043
Supplemental Security Income	5,179	5,179
Emergency assistance	2,681	4,636
Energy assistance	376	*376*
Need determination for income support	23,332	41,821
TOTAL, CASH PAYMENTS	*101,963*	*190,195*
OTHER ASSISTANCE		
Foster care and child welfare	59,489	78,745
Developmental disabilities services	26,966	26,966
Child day care	23,762	29,794
Elderly services	20,179	28,167
Homeless services	12,731	12,848
Rehabilitation	6,756	18,994
Child support enforcement	2,868	15,487
Refugee resettlement		1,873
Administration and support	371	1,365
TOTAL, OTHER ASSISTANCE	*152,751*	*212,873*
TOTAL SOCIAL SERVICES AND INCOME SUPPORT	**254,714**	**403,068**
HEALTH		
COMMUNITY HEALTH SERVICES		
Disease prevention and control	5,667	11,126
School health program	4,563	4,623
Medical Examiner	1,929	2,034
Health labs	1,411	1,477
Administration and support	807	1,135
TOTAL, COMMUNITY-BASED HEALTH	*14,377*	*20,395*

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
HEALTH Cont'd		
PERSONAL HEALTH CARE		
Medicaid:		
Hospital - inpatient and outpatient services	154,062	291,700
Nursing and residential treatment facilities	72,941	145,882
Physician and other vendor payments	50,343	100.008
Insurance premiums	49,992	97,943
Intermediate care facilities/mentally retarded	32,281	65,875
Day treatment	12,602	25,204
Administrative support	5,641	15,840
Total, Medicaid	377,862	742,453
Other Health:		
Payment to D.C. General Hospital	56,735	56,735
Alcohol and drug abuse treatment	23,043	27,806
Public health clinics - medical and dental	10,983	12,339
Home care	5,188	8,921
HIV/AIDS programs	6,130	25,007
Maternal/child health	4,083	15,234
Long-term care of elderly and handicapped	3,964	24,549
Medical services for detained youth, retarded	2,208	2,218
Medical Charities	1,716	1,716
Nutritional programs	460	10,011
Administration and support	2,643	5,595
Total, Other Health	117,154	190,132
Mental Health:		
Saint Elizabeths and other adult	48,853	72,171
Children outpatient and residential	21,177	23,355
Outpatient clinics	18,032	34,768
Forensic and legal	11,687	16,338
Emergency mobile response	3,375	6,500
Other treatment	2,856	9,808
Administration and support	7,705	20,467
Total, Mental Health	113,684	183,407
TOTAL, PERSONAL HEALTH CARE	*608,700*	*1,115,992*
TOTAL HEALTH SERVICES	**623,077**	**1,136,387**

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
EDUCATION AND TRAINING		
PUBLIC SCHOOLS		
General educational services	254,134	
Special education	55,837	
Vocational and career education	12,183	
Language minority education	8,728	
Other educational services	10,633	
Total, educational services	341,515	
Physical facilities	85,089	
Instructional support	6,932	
Transportation	17,124	
Food services	10,860	
Management	24,725	
Other support	7,119	
Total, support services	151,849	
Teacher retirement	87,109	88,100
Total, K-12	580,473	
Early childhood and Headstart	27,250	
Total, all students	607,723	
Adult education	5,957	
TOTAL, PUBLIC SCHOOLS	*613,680*	*681,412*
HIGHER EDUCATION		
UDC	49,966	83,095
Law School	3,928	5,546
Defaulted student loan collection	919	1,766
TOTAL, HIGHER EDUCATION	*54,813*	*90,407*
TRAINING		
Summer Youth	6,413	8,531
Other youth training	1,769	1,994
Other DOES training	2,603	16,938
Management and support	3,354	14,092
TOTAL, TRAINING	*14,139*	*41,555*
TOTAL, EDUCATION	**682,632**	**813,374**

Table 1. cont.
FY 1995 ($ Thousands)

SERVICES:	LOCAL	TOTAL
POLICE		
Patrol and investigation	159,414	161,170
Special operations	10,322	12,341
Personnel and training	9,698	9,743
Communications	7,915	7,928
Medical	3,059	3,280
Retirement contributions for police officers	143,443	143,443
Administration, planning, and other	32,996	35,216
TOTAL, POLICE	**366,847**	**373,120**
CORRECTIONS		
ADULT CORRECTIONS		
Adult detention	29,297	29,297
Adult corrections:		
Prison	136,421	135,530
Halfway houses	10,104	10,104
Medical services	23,737	23,704
Adult corrections administration and operations	10,004	10,433
Other corrections services	9,731	12,005
Facility maintenance	19,539	19,752
TOTAL, ADULT CORRECTIONS	*238,832*	*240,826*
JUVENILE CORRECTIONS		
Juvenile community-based supervision	11,273	12,161
Juvenile institutions	22,086	22,198
Administration and support	1,943	1,943
TOTAL, JUVENILE CORRECTIONS	*35,302*	*36,302*
PAROLE	5,378	5,569
TOTAL, CORRECTIONS	**279,512**	**282,697**

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
TRANSPORTATION		
MASS TRANSIT		
Rail transit subsidy	93,124	93,124
Bus transit subsidy	30,023	30,023
Mass transit subsidy oversight	473	595
TOTAL, MASS TRANSIT	*123,620*	*123,742*
STREETS AND HIGHWAYS		
Street services, lighting, signals and signs	13,086	15,654
Street cleaning	8,036	9,502
Street and bridge maintenance	2,480	5,077
Street trees and landscaping	2,003	2,862
Transportation construction engineering	1,809	6,369
Snow removal	1,245	1,162
Administration and support	8,348	20,640
TOTAL, STREETS AND HIGHWAYS	*37,007*	*61,266*
PARKING ENFORCEMENT	*9,238*	*9,238*
DRIVERS' LICENSES AND VEHICLE REGIS.	*5,667*	*6,124*
TOTAL, TRANSPORTATION	**175,532**	**200,370**
FIRE AND EMERGENCY MEDICAL		
Fire suppression	56,840	56,840
Ambulance	15,756	15,756
Fire prevention	2,367	2,367
Retirement contributions for firefighters	61,475	61,475
Administration and support	13,965	14,615
TOTAL, FIRE AND EMERGENCY MEDICAL	**150,404**	**151,054**

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
JUDICIAL AND LEGAL		
COURT		
Court of Appeals	5,929	5,929
Superior Court:		
Social Services Division	17,504	18,041
Judicial Staff	12,703	12,703
Management and general operations	12,429	12,854
Family Division	4,841	5,211
Criminal Division	4,786	4,786
Data Processing	4,094	4,094
Civil Division	3,415	3,415
Probate Division	2,965	2,965
Hearing Commisioners' staff	2,024	2,024
Mediation	705	705
Clerk of the Court	597	597
Unallocated nonpersonal services	2,027	2,199
Total, Superior Court	68,090	69,594
Court system management:		
Executive Office and court operations	5,180	5,180
Court reporters	2,826	2,826
Total, Court system management	8,006	8,006
Judges' retirement	5,100	5,100
Judicial nomination and review	142	142
TOTAL, COURTS	87,267	88,771
LEGAL		
Pretrial drug testing and release determination	3,200	4,791
Indigent representation:		
Public Defender	7,638	7,638
Criminal Justice Act fees (Superior Court)	25,271	25,271
Child Abuse and Neglect fees (Superior Court)	4,777	4,777
Guardianship and adult protection	263	263
Subtotal, indigent representation	37,949	37,949
TOTAL, LEGAL	*41,149*	*42,740*
TOTAL, JUDICIAL AND LEGAL	**128,416**	**131,511**

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
RECREATION AND CULTURAL SERVICES		
PARKS AND RECREATION		
Recreation centers and playgrounds	8,308	8,604
Special programs	4,442	8,152
Mayor's Youth Initiative	2,836	2,922
Roving Leaders	1,095	1,095
Management and support (Dept. of Recreation)	8,543	8,673
TOTAL, RECREATION	*25,224*	*29,446*
CULTURAL		
Library	19,755	21,045
Arts and humanities	1,653	2,233
TOTAL, CULTURAL	*21,408*	*23,278*
TOTAL, RECREATION AND CULTURAL	**46,632**	**52,724**
REGULATION		
Inspections and enforcement	12,781	18,032
Utility regulation	7,856	7,894
Licenses and permits (incl. education licensing)	5,555	10,235
Wage and occupational safety enforcement	1,417	2,593
Taxicab regulation	1,174	1,501
Human rights	730	826
Regulation of financial institutions	518	518
Management and support (DCRA and part DOES)	4,887	9,854
TOTAL, REGULATION	**34,918**	**51,454**

Table 1. EXPENDITURES ON DISTRICT SERVICES Cont.
FY 1995 ($ Thousands)

SERVICES:	LOCAL	TOTAL
HOUSING AND COMMUNITY DEVELOPMENT		
Public housing (including Fund 104)	0	105,525
Rent subsidies	10,365	10,365
Housing rehabilitation	64	3,029
Homeownership assistance	2,344	3,465
Unidentified responsibility centers		3,537
Management and support (DHCD only)	2,649	6,982
TOTAL, HOUSING & COMMUNITY DEVELOPMENT	**15,422**	**121,691**
ECONOMIC DEVELOPMENT		
Promotion	5,538	5,698
Labor market information		581
Minority business opportunity	529	530
Contract appeals	147	147
Administration and support	1,625	3,296
TOTAL, ECONOMIC DEVELOPMENT	**7,839**	**10,252**
OTHER SERVICES		
OTHER PUBLIC SAFETY		
National Guard	1,032	1,032
Disaster planning	1,396	2,341
TOTAL, OTHER PUBLIC SAFETY	*2,428*	*3,373*
SETTLEMENTS AND JUDGMENTS	*14,469*	*14,469*
SOLID WASTE COLLECTION & DISPOSAL	*20,969*	*25,922*
CITY PLANNING	*3,196*	*3,432*

Table 1. cont.
FY 1995 ($ Thousands)

SERVICES:	LOCAL	TOTAL
OTHER SERVICES Cont'd.		
ADVOCACY		
Latino affairs	822	822
Women's interests	117	117
TOTAL, ADVOCACY	*939*	*939*
TOTAL, OTHER SERVICES	**42,001**	**48,135**
UNALLOCATED EMPLOYEE COMPENSATION		
Unemployment compensation	7,455	7,455
Disability compensation	28,045	28,056
Optical and dental benefits	2,776	2,776
TOTAL, UNALLOC. EMPLOYEE COMPENS.	**38,276**	**38,287**
GENERAL GOVERNMENT		
LEADERSHIP	*43,353*	*48,904*
FINANCE	*36,485*	*44,990*
ADMINISTRATION	*42,947*	*75,061*
TOTAL, GENERAL GOVERNMENT	**122,785**	**168,955**
DETAILS OF GENERAL GOVERNMENT:		
LEADERSHIP		
Council	7,693	7,697
Auditor	992	992
Advisory Neighborhood Commissions	562	562
Office of the Mayor	1,190	1,751
Office of the Executive Secretary	1,682	2,053
Inspector General	1,06[illegible]	1,114
Corporation Counsel	13,631	15,692

Table 1. cont.
FY 1995 Actual ($ Thousands)

SERVICES:	LOCAL	TOTAL
GENERAL GOVERNMENT LEADERSHIP Cont'd.		
Office of Communications	85	319
Intergovernmental Relations	659	937
Office of Personnel (part)	9,593	11,572
Office of Personnel - Labor Relations	628	640
Public Employee Relations Board	457	457
Office of Employee Appeals	1,617	1,617
Board of Elections and Ethics	2,546	2,546
Office of Campaign Finance	955	955
TOTAL, LEADERSHIP	*43,353*	*48,904*
FINANCE		
Central financial direction	120	310
Tax collection and enforcement	20,839	20,934
Property assessment appeals	185	185
Cash and debt management	1,623	2,417
Accounting and control	3,492	5,053
Budget	857	2,399
Payroll	1,899	2,486
Financial information systems	6,268	6,601
Grants management	1,202	4,605
TOTAL, FINANCE	*36,485*	*44,990*
ADMINISTRATION		
Department of Human Services administration	11,432	30,872
Operating and maintaining vehicles and facilities	9,072	18,517
Rent for multiple-agency buildings	931	931
Facility energy	7,710	8,200
Facility maintenance and operation	5,409	4,906
City Administrator	3,196	3,955
Procurement	2,010	2,107
Administration and support (DAS)	1,166	1,496
Real property management	803	2,831
Telecommunications	688	716
Contract dispute resolution	530	530
Management information systems	577	577
Printing	185	2,501
Building construction engineering	0	2,250
TOTAL, ADMINISTRATION	*42,947*	*75,061*

Table 1. cont.
FY 1995 ($ Thousands)

SERVICES:	LOCAL	TOTAL
DEBT SERVICE		
Debt service on capital borrowing	309,403	309,403
Debt service on deficit financing	36,695	36,695
Certificates of participation	7,926	7,926
Interest on short-term borrowing	12,412	12,412
TOTAL, DEBT SERVICE	**366,436**	**366,436**

Part 2 ANALYSIS OF SERVICES

I. Summary of Specific Service Conclusions

Service	1995 Local Funds (in millions)	Conclusions
AFDC	$62.8	AFDC is an essential service provided by all states. The District's eligibility requirements and benefits are slightly more generous than Maryland's and Virginia's. The District's caseload is about three times that of Maryland relative to population. Because of a relatively higher caseload and, to a lesser extent, higher payment levels, the District's total AFDC expenditures are much higher than Maryland's relative to population. The proposed reduction in District benefits will reduce the difference only slightly. The District's administrative costs for AFDC are substantially higher than Maryland's and Virginia's for reasons that could not be identified.
SSI Supplements	$5.2	The SSI supplement paid to individuals in community residential care is a basic service. The District's supplements are comparable to those in Maryland and Virginia. The District's SSI supplement to individuals who live independently or who are placed in Medicaid-eligible long-term care facilities is mandated by the federal government. The District spends three times as much as Maryland relative to population, mostly because of a higher workload.
General Relief	$7.5	The District's general public assistance is basic and is comparable in terms of eligibility and benefits to the Virginia program in Arlington, but more generous than in Maryland. A detailed cost comparison is not possible.

Need Determination **$23.3**

The District's determination of eligibility for income and medical support programs is an essential service and is the same as Maryland's. The District also provides training and job placement for AFDC-JOBS recipients, a basic service similar to Maryland's, but with relatively fewer participants.

The District has almost four times Maryland's relative workload for determining and recertifying eligibility and for enrolling recipients in the JOBS program.

The District's local expenditures for determining eligibility and operating the JOBS programs are three and one-half times Maryland's relative to population. While its workload is four times Maryland's, the District spends relatively less on its training program for welfare recipients.

FosterCare **$59.5**

The District's foster care and other child welfare services are essential, and the eligibility requirements and benefits are comparable to those services provided in other jurisdictions.

The workload of foster care and related services is at least one and one-half times that of Maryland's relative to population. The District's expenditures are relatively higher than Maryland's because of its higher workload and higher unit costs. The reasons for higher unit costs could not be determined.

Developmental Disabilities **$27.0**
All Local Costs **[$74.9]**

The District's residential and care services for the developmentally disabled are basic. Maryland's eligibility requirements are similar and it provides slightly more types of services than the District. The overall Maryland workload is comparable to the District's.

The District spends about two and one-half times as much per case as Maryland relative to population. The difference is attributable to more expensive forms of service.

Child Day Care **$23.8**

The District's day care related to AFDC families is an essential service and is provided by all states. District day care that is not AFDC-related is discretionary. Eligibility for AFDC-related day care are more generous than in Baltimore or Arlington County. Income eligibility for non-AFDC care is also higher than in Baltimore.

The daily District day care benefits for children over two are comparable to those in Baltimore, but District payments for infants are substantially lower. The District provides more low-income day care slots than the city and state provide in Baltimore, and the District provides for more children in pre-school programs. Overall, 10.5 percent of those under 18 population are in pre-school programs in the District compared to 5.9 percent in Baltimore and 1.5 percent for the State of Maryland.

Non-school day care expenditures in the District are comparable to the combined state and local expenditures in Baltimore. The costs per child are slightly lower in the District due to much lower infant care benefits. When school care expenditures are included, the District's expenditures are almost twice the amount spent in Baltimore.

Elderly Services $20.2 The District's protection for the elderly and promotion of elderly independence are basic and comparable to services in other governments. Eligibility requirements are the same as in Baltimore and Arlington County. Benefits for protective services are greater than in Arlington, but homemaker benefits are lower.

The District's workload for protective services and fully subsidized homemaker/chore services is lower than Arlington's, but in terms of usage is much higher for partially subsidized services. Both total expenditures and unit costs for protective service appear higher than in Baltimore and Arlington.

Homeless Services$12.7 The District's services to the homeless are basic and are provided on a basis comparable to those in Baltimore and Arlington. No conclusions are possible regarding comparative workloads.

The District's expenditures for services to the homeless are considerably more than Baltimore and Maryland's relative to population. However, some services in Maryland may be provided through other programs.

Rehabilitation $6.8 The District's rehabilitation and independent living services are basic and are supported by substantial federal grants. Eligibility for these services is the same as in Maryland and Virginia.

The number of persons receiving rehabilitation services in the District is almost double the number in Maryland relative to the adult population. The District's expenditures are substantially greater than Maryland's because of a greater workload and because of high per recipient costs.

Child Support	**$2.9**	The District's enforcement of child support laws is required by federal law and is an essential service. Maryland provides slightly more extensive services. The District has a workload higher than Maryland, relative to population. The District's expenditures are high relative to Maryland because of workload and because of higher per unit costs. No reason for the higher unit costs could be determined.
Disease Prevention	**$5.7**	The District's disease prevention and control services are essential and are comparable to those provided by other governments. It is not possible to make a meaningful comparison of workloads or expenditures.
Medical Examiner	**$1.9**	The District's medical examiner services are essential and are comparable to the services provided by other governments. It is not possible to compare workloads or expenditures.
School Health	**$4.6**	The District's school health services are basic and are comparable to those provided by other governments. The District's expenditures for these services are comparable to Baltimore's.
Health Labs	**$1.4**	The District's health laboratory services are basic and comparable to those of other governments. The District's expenditures for these services are comparable to Maryland's.
Medicaid, Appr. **All Local Costs**	**$377.9** **[$419.3]**	Medicaid is an essential service provided by all states. There are no significant differences in the District's eligibility requirements from those in Maryland and Virginia. Coverage for an undetermined number of recipients in the District, as well as in Maryland and Virginia, is discretionary and not required by federal law. The benefits provided by the District are almost exactly the same as those provided in Maryland and very close to those in Virginia. Some benefits in the District, as well as in Maryland and Virginia, are discretionary and not required by federal law. The District's caseload is about three times as high as Maryland's relative to population.

		The District's total Medicaid expenditures far exceed those in Maryland relative to population. The District's higher expenditures are attributable to the higher relative caseload and to a higher cost per recipient. The reason why there are higher costs per recipient cannot be determined, but some part of them is attributable to higher hospital costs.
D.C. General	**$56.7**	The operation of an acute care hospital is a discretionary service, although it may be an essential state service when operated as part of a state medical school. The provision of some form of financial assistance for hospitalization of uninsured and indigent residents is generally provided by states. In Maryland, this assistance is provided through the rate structure for private providers. In Virginia, assistance is provided directly, but the eligibility for assistance is limited and the expenditures are relatively low compared to the District's expenditures for operating a hospital.
Health Clinics	**$20.2**	The District's provision of primary medical and dental care for indigents at health clinics and through home care is basic, and the services are comparable to those provided by other governments. The District's expenditures are comparable to those provided in Baltimore by the city and by Maryland.
Long-Term Care	**$4.0**	Most District long-term care costs for elderly and handicapped are incurred as part of Medicaid. With the closing of D.C. Village, all future costs are expected to be through that program.
HIV/AIDS	**$6.1**	The District's AIDS program is basic and, in addition, leverages substantial federal funds. The workload in the District is about five times higher than in Maryland relative to population and is also higher than Baltimore's relative to population. The District's expenditures are substantially higher than Maryland's because of differences in workload and of higher per recipient costs. The reason for higher recipient costs could not be determined.
Alcohol and Drugs	**$23.0**	The District's programs to prevent and treat drug and alcohol abuse are basic and are comparable to those provided by Baltimore and Maryland. Comparable workloads are not available. District expenditures appear to exceed those incurred in Baltimore by the

city and by Maryland. The reasons for higher expenditures could not be determined.

Mental Health	**$113.7**	The mental health services received by District residents are essential and are similar to those received by Maryland and Virginia residents, but in Maryland, acute care mental health services are provided primarily by private providers. The District's workload is at least double that of Maryland relative to population. After adjusting for differences in delivery of services and accounting, the District spends about double the amount spent by Maryland relative to population. These higher expenditures are attributable to higher workloads and to the high facilities support costs, principally related to maintaining buildings and grounds at St. Elizabeths.
Public Schools	**$613.7**	The District provides essential educational services and special education services required by federal law. The District also provides a more extensive range of other discretionary educational services than Baltimore, especially for kindergarten, pre-kindergarten, adult education, and specialized programs. The City of Alexandria provides discretionary services that are similar to the District's, except for pre-kindergarten. The District has a somewhat smaller student workload than Baltimore relative to population, but a much higher relative workload compared to Alexandria. The District's public education expenditures are substantially higher than Baltimore's because of discretionary spending on pre-school education, food services, and specialized education services, and because of mandatory high spending on teacher retirement. The District also spends more on basic educational programs, physical facilities, and management for reasons that could not be determined. The District's relative expenditures are lower than Alexandria's.
Higher Ed	**$53.9**	The District's operation of a land grant university is a basic service provided by every state. The District provides substantially fewer services than Maryland and Virginia.

District higher education enrollments relative to population are substantially lower than those in Maryland and Virginia. With fewer services and lower enrollments, District expenditures are lower relative to population than in Maryland and Virginia.

Training	**$14.1**	The District's locally funded training services are mostly discretionary. Although Maryland's federally funded programs are comparable, it provides little nonfederal funding. Comparable workload information is not available. The District's expenditures from its local funds are many times higher than Maryland's.
Police	**$366.8**	The District's police services are essential and are comparable to those provided by other cities. No comparable overall workload comparisons can be made, but the District's arrests relative to population are lower than Baltimore's. The District spends far more on police services than Baltimore and Philadelphia, not adjusting for population differences. Retirement accounted for a significant portion of the higher costs, but even exclusive of those costs, the District spends much more than both cities relative to population. Workload factors do not appear to account for the higher expenditures.
Adult Corrections	**$238.8**	The District's detention, imprisonment, and community corrections for adults are essential services and are comparable to those provided by other state and local governments. The District's correctional workload relative to population is more than two and one-half times as large as Maryland's. Its workload is also higher in terms of length of prisoner stay and inmates requiring higher levels of security. The District's expenditures are higher than Maryland's because of differences in workload and because of higher costs per inmate. The reasons for higher inmate costs could not be identified.
Juvenile Corrections	**$35.3**	The District's supervision and treatment of adjudicated, detained, and wayward youths through both day and residential treatment are essential services. Maryland and Virginia provide comparable or increased services for youths.

The District's workload, as measured by committed youths, is four times higher than in Maryland and almost ten times higher than in Virginia relative to population. Other measures of workload, such as detainees and youths needing supervision, are not available.

The District's expenditures for juvenile corrections are almost three times higher than Maryland's. Workload differences are a key cause of higher expenditures. It could not be determined whether higher District costs of individual services also contribute.

Parole Services **$5.4** The District's determination of parole eligibility and supervision of parolees is a basic service and is comparable to Maryland's. Because of its urban characteristics, the District's workload is over three and one-half times Maryland's and seven and one-half times Virginia's. No expenditure comparison was possible.

Mass Transit **$123.1** The District's provision of subsidized bus and rail service is basic, but the level of service and the fare structure are discretionary. Rail services can be changed only by joint action of participating governments.

Workload information specifically attributable to the District is not available. The District has very high mass transit expenditures, especially for bus services, relative to comparable spending in Maryland.

Streets **$37.0** The District provides a range of street, highway, and bridge services that are essential and that are provided by other state and local governments. Comparative workload information is not available.

The District expenditures for street services are less than in Baltimore and Arlington relative to population. Except for a small reduction in workload because of the federal provision of some services, the reason District expenditures are lower could not be determined.

Parking **$9.2** The District's management of parking and enforcement of parking is essential and is revenue producing. The District's spending on parking enforcement is comparable to Baltimore's.

Vehicle Registration	**$5.7**	The District's registration of motor vehicles, issuance of driver's licenses, and related activities are essential services provided by all states. The District's expenditures for these services are lower than Maryland's relative to population, apparently because the state must maintain regional offices to service a large geographical area.
Fire and EMS	**$150.4**	The District's fire services are an essential city service, and emergency medical services are a basic service provided by most city governments. The fire and emergency medical service workloads in the District are comparable or lower than those in Baltimore relative to population, but are higher than Arlington's. The District's expenditures for these services far exceed those in Baltimore and Arlington County. The principal cause is the District's high retirement costs, but the city also has high EMS and administrative costs compared to the other governments.
Courts	**$87.3**	The District provides the essential judicial and related services that are provided by state and local courts in other states. In addition, the court provides a variety of other services through its Social Services Division. The extent to which these services are provided by courts or other government agencies in other states could not be determined. No conclusion regarding comparative workloads can be made without further analysis. The District's expenditures for courts are substantially higher than Maryland's relative to population, but the lack of ability to compare services and workloads makes it impossible to determine the cause of the difference.
Pretrial Services	**$3.2**	The District's determination of eligibility for pretrial release and monitoring of conditions of release is a basic service and is the same as that of Maryland. The workload in the District is slightly higher than in Baltimore, and the expenditures are slightly higher relative to population.
Indigent Representation	**$37.9**	The District's legal representation for indigents facing incarceration and for children being abused or neglected is basic and is comparable to those provided by Maryland. The District provides more generous benefits in terms of hourly legal service rates and total expenditures per case.

Comparable workload data are not available. The District's expenditures are almost nine times higher than Maryland's relative to population. In addition to high hourly costs and per-case maximums, the causes are a greater percentage of low-income population, less efficient discovery procedures, easier access to the service, and more attorneys per case.

Parks and Recreation	**$25.2**	The District's park maintenance and recreation programs are basic. They are less extensive and diverse than the combined state and local services in Maryland and Virginia. Because of the diversity of services, no workload information is available on a comparable basis. The District spends relatively less on parks and recreation than do governments in neighboring states. In part, this may be because of extensive federal government spending on park and recreation activities in the District.
Public Library	**$19.8**	The District's library services are basic and are comparable to those in Baltimore and Arlington County. The District has a low workload judged by national circulation averages and by Arlington's circulation, but has a higher workload than Baltimore. The District spends more in total than Baltimore despite a smaller population, but spends less relative to circulation. Arlington spends more than the District relative to population, but less relative to circulation.
Arts and Humanities	**$1.7**	The District's support for arts and cultural activities is basic and is similar to services provided by neighboring governments. The District's spending on arts and humanities is substantially lower than other governments on a relative basis.
Regulation	**$34.9**	The District's regulatory activities are basic and, except for banks, race tracks, and Bay pollution, are the same as those provided by Maryland and Baltimore. No comparable workload data is available. Because of the diversity of regulatory services and their providers, expenditure comparisons were not feasible, except that the expenditures for regulating utilities and taxis are high in the District relative to Maryland.

Housing and Community Development	**$15.4**	The District's housing services are comparable to Maryland's but with a greater emphasis on rent subsidies. The District's community development program is weaker and less varied than Baltimore's. Some housing and community services are basic, but most are discretionary. No comparable workload data are available. District expenditures are comparable to nonfederal expenditures in Baltimore.
Economic Development	**$7.8**	The District's economic development activities are basic services and are comparable to those in Baltimore and Maryland. The District spends relatively less than the city and state combined in Baltimore.
Settlements	**$14.5**	The District's disposal of claims is an essential service, but it is not comparable to Baltimore and Maryland because the District does not have tort claim limits. Payments by the District in excess of a limit are discretionary. No comparable workload data are available. The District's settlement and judgment expenditures are almost four times Baltimore's and 18 times Maryland's after adjusting for population. The lack of tort claim limits probably accounts for most of the difference.
Solid Waste	**$21.0**	The District's collection and disposal of residential solid waste and street waste cans is an essential central city service. The District also provides a recycling program that is increasingly considered a basic service, but is, nevertheless, discretionary. Comparative workload information is not available. The District's solid waste expenditures are comparable to, or lower than, those of Baltimore, Arlington, and Fairfax County.
City Planning	**$3.2**	City planning is a basic city service, and is similar to the services provided in other local governments. The District's spending on city planning is comparable to that of Baltimore and Arlington County.
Legislative	**$7.7**	The District's legislative services are essential and are similar to Maryland's, except that the District does less fiscal and audit analysis. Comparable workload data are not available. The

District's legislative expenditures are comparable to the local and pro-rata state expenditures in Baltimore.

Elections	**$2.5**	The District's provision of election services is essential. The District spends relatively more than Baltimore and Arlington on elections, but a higher percentage of its population is registered.
Financial Management	**$36.5**	The District's financial management services are essential and similar to those typically provided by other governments. Comparable workloads are not available for most activities. The District's expenditures appear to be higher than the combined state and local services in Baltimore, but a comparison is difficult because of the complex interrelationship between city and state responsibilities.
Debt Service	**$366.4**	The District's debt service expenditures are very high relative to Baltimore and Maryland combined. A variety of possible causes would require substantial additional analysis to determine the exact reasons.

***Table 8.* Services not Analyzed**

Emergency Assistance	$2.7	Discontinued
Energy Assistance	.4	Discontinued
Social Services Administration	.4	
Health Administration	3.4	
Medical Charities	1.7	Discontinued
Nutritional Programs	.5	
Medical Services, youth	2.2	
Defaulted Student Loans	.9	
Transit Oversight	.5	
Leadership, except Council and Elections	33.1	
General Administration	42.9	
National Guard	1.0	
Disaster Planning	1.4	
Latino Affairs	.8	
Women's Interests	.1	Discontinued
Unemploy Compensation	7.5	
Disability Compensation	28.0	
Optical and Dental	2.8	Discontinued

II. Individual Reports

AID TO FAMILIES WITH DEPENDENT CHILDREN

SERVICES

Aid to Families with Dependent Children is a joint federal-state program which provides cash payments for food, shelter, and other basic needs of dependent children who have been deprived of parental support because one parent is absent from the home continuously, or is incapacitated, deceased, or unemployed. An unemployed parent component (AFDC-UP) is available to needy two-parent families with a recent work history.

All states operate AFDC and AFDC-UP. They set their own benefit levels and income eligibility limits within federal guidelines. Based on per capita income, the federal government pays part of the benefits, ranging from 50 percent to 80 percent. The federal share for the District and Maryland is 50 percent; for Virginia, it is 51.37 percent.

Conclusion

AFDC and AFDC-UP are essential services.

ELIGIBILITY/BENEFITS

Income and asset limits apply in determining AFDC eligibility. Given the way a family's benefits are calculated, the state's payment levels effectively determine the income limits for eligibility. For a one-parent family of three, current payment levels are:

District–$415 monthly, as of June 1, 1996, for a one-parent family of three (down from $420). A proposal is pending to reduce this amount to $398 starting October 1. Because of federal law requiring maintenance of effort, the benefits cannot go below $379. The current benefit is 38.8 percent of the 1996 poverty threshold; the proposed decrease will lower this to 36.8 percent.

Baltimore–$383 monthly, 35.4 percent of the poverty threshold.

Arlington County–$354 monthly, 32.7 percent of the poverty threshold. Until the FY 1997 budget, Arlington County provided a 10 percent local AFDC supplement.

The states must disregard certain items when they measure income:

- Certain unearned income, such as the first $50 in child support payments and educational loans and grants;
- Portions of earned income, such as certain self-employment costs and the initial $30 of monthly

earnings plus one-third of the remaining earnings for 4 consecutive months and $30 for the next 5-12 months consecutive months. *To reduce the average payment the District will ask for federal approval to expand this disregard on a demonstration basis and without time limit to $100 plus 50 cents of each dollar of earned income not disregarded.*

- Work expenses of $90 a month and child care costs up to $175 a month ($200 for a child under 2).

If the monthly income net of the disregards exceeds the AFDC payment level, the family is not eligible for AFDC. AFDC benefits are limited to the difference between a lower net monthly income and the payment level. *Since only about 2 percent of the District's AFDC caseloads have any earned income, most cases receive benefits equal to the payment level.*

AFDC recipients also may not have assets worth more than $1,000, excluding the home, a car (valued at not more than $1,500), and basic items essential to day-to-day living. *The District is also seeking federal approval to expand this threshold to $4,550 on a demonstration basis.*

Other **District** AFDC eligibility requirements include:

- Benefits end on a child's 18th birthday unless the child will graduate before the 19th birthday.
- Childless women in their third trimester of pregnancy are eligible for assistance.
- Two-parent families are eligible if they are needy because of the unemployment of one parent as long as the principal wage earner has a history of work.

The District will seek approval to for these requirements:

- Teen parents receiving benefits must live at home or in another approved arrangement, and must attend school or forgo $50 a month.
- Children conceived while the mother is on AFDC do not receive assistance.

Maryland has similar limitations, and started denying assistance to children conceived while the mother is on AFDC on April 1, 1996.

Virginia has similar limitations, but does not give AFDC to childless pregnant women or assistance for children conceived while the mother is on AFDC.

It is becoming increasingly difficult to compare District eligibility and benefits since both Maryland and Virginia are experimenting with different program designs.

Conclusion

Because of higher payment levels which act as income limits, the District's AFDC eligibility requirements and benefits are slightly more generous than Maryland's and Virginia's.

WORKLOAD

District–73,021 average annual recipients in 1995, or about 12.8 percent of the estimated population.

Maryland–224,938 average recipients, or about 4.5 percent of population.

Baltimore–106,129 average recipients, or 15.4 percent of population.

Arlington–3,399 average cases, or 2.0 percent of population.

Baltimore's greater workload is probably attributable to differences in the incidence of poverty, average case size, and a greater participation by the city in training and employment programs.

The far greater difference in relative workloads between the District and Maryland underscores the difference in their populations. The District's AFDC workload reflects the poverty concentration typical of a city, while the much lower state workload reflects a workload spread out over a generally wealthier population mix of urban, suburban and rural residents.

Conclusion

While the District's AFDC workload is not as high as Baltimore's relative to population, it is three times as high as Maryland's, also adjusted for population.

COSTS

District–$62.8 million benefit payments in local funds for 1995.
Maryland–$157.1 million in state funds for 1995.

Adjusting for population differences, the District's AFDC benefit payments were over three and one-half times Maryland's. Workload differences account for most, but not all, of the cost differences. The District has higher benefit levels as well as higher per unit (or per recipient) costs–$862, compared to $698 in Maryland, $712 in Baltimore, and $748 in Arlington County. (Costs per case were not readily available for Virginia.)

The District also has considerably higher administrative costs than Maryland or Virginia. In 1993, the latest year for which there are comparable data, administrative expenditures reported to HHS were:

District–$27.9 million gross (federal and local) funds or $1,125 per case.
Maryland–$895 per case.
Virginia–$607 per case (excluding costs to administer the local supplement)

In FY 1995, the District spent about 42 percent of the Income Maintenance Administration's administrative budget on AFDC. This amounted to about $14.5 million in gross (federal and local) funds. Without the same economies of scale, the District would be expected to have higher per case overhead. It is unlikely, however, that the costs for rent, utilities, information systems, financial control, investigations, and compliance that could be reasonably associated with AFDC would account for the $13 million difference between the IMA costs and the reported costs. It appears that other central DHS costs are being inexplicably allocated to AFDC administration.

Conclusion

We conclude that, as could be expected from primarily the relative workloads and, to a lesser extent, the higher AFDC payment levels, the District's AFDC benefit costs are three and one-half times Maryland's relative to population. As the District's payment level decreases, the relative difference will decline slightly. The District's administrative costs are substantially higher than Maryland's and Virginia's and cannot be fully explained by the District's strictly urban characteristics.

GENERAL RELIEF

The District makes payments for Supplemental Security Income and General Public Assistance. Three other general welfare programs have been terminated in the last 18 months: assistance for emergencies, utility costs, and burials.

SUPPLEMENTAL SECURITY INCOME

Service
Supplemental Security Income (SSI) is a federal program that provides monthly cash assistance to low-income elderly, blind, and disabled individuals. The disabled are those who are unable to engage in any substantial gainful employment because of a mental or physical impairment expected to result in death or that has lasted, or is expected to last, for 12 months. Federal maximum monthly payments are currently $470 per individual and $705 per couple.

The District supplements SSI for individuals and couples living independently or in residential care facilities.

Eligibility/Benefits
Eligibility standards for the basic federal SSI are uniform nationwide. States, however, can decide which participants will receive the supplements.

District–The supplement applies to all persons who receive the basic federal SSI. Elderly SSI beneficiaries must be 65 and older. A child under age 18 who has an impairment of comparable severity is considered disabled by the District.

If a parent or child is eligible under both AFDC and SSI, the parent must choose the best-suited program. Generally, the District encourages individuals to apply for SSI. Once SSI payments start, an individual is removed from AFDC. Persons disabled because of drug addition or alcoholism must accept treatment to be eligible.

Under the federal SSI and the District supplement:
Maximum annual incomes: those on Social Security only–$5,592 (individual) and $8,268 (couple); those with wage income only–$11,724 (individual) and $17,076 (couple).
Value of assets must not exceed $2,000 for an individual and $3,000 for a couple.
Exclusions: *from countable monthly income*–$20 of income from any source, the first $65 of earned income, and ½ of remaining earnings (in-kind assistance is counted as income); *from assets*–the home, reasonable amounts of household goods, personal effects, a car, and burial space.

The District is required to pay supplements for those living independently–$4.70 per individual; $9.40 per couple (required federal minimum). Before May 1, 1995, the District supplements were $15 and $30, respectively.

Payments to those in residential care facilities are offset by the individual's countable income, including federal SSI:

- 667 persons in smaller facilities (under 50 beds)–$617.20 monthly maximum plus a $55 personal needs allowance
- 33 persons in larger facilities–$727.20 maximum plus the $55 allowance.
- 963 persons in Medicaid-eligible, long-term care facilities: $40 monthly personal-needs allowance

The CRF rates are set by District law.

Maryland–Eligibility requirements are the same, except that the state is not bound by a maintenance-of-effort requirement to offer benefits to couples. The state pays supplements only for those in protected living and supplements are offset by countable income:

- five levels of certified care homes (1-3 beds): $434 monthly maximum to $1,034 plus an $82 personal needs allowance
- licensed domiciliary care facilities–$552 monthly maximum plus an $82 personal needs allowance

Virginia pays supplements only for those in protected living, and the rates are based on the facility's allowable costs:

- $775 monthly maximum in Northern Virginia plus a $40 personal needs allowance
- the state pays 80 percent of the costs and the local governments, 20 percent.

Unlike the District, Maryland and Virginia are not bound by a maintenance-of-effort requirement to pay, and do not pay, a special needs allowance to persons in Medicaid-eligible facilities.

Workload

District–20,380 recipients (3.6 percent of 1995 estimated population); 3,520 elderly, 16,680 disabled, and 180 blind; 14 percent children.

Maryland–1.6 percent of state population, with similar client mix.

Baltimore–4.8 percent of city population, with similar client mix.

The District's relative workload for SSI is more than twice that of Maryland.

Costs

District–$5.2 million in local funds in FY 1995, in addition to Medicaid match for some CRF residents ($4.4 million went for the $40 special allowance for those in Medicaid-eligible facilities and to individuals in CRFs)

Maryland–$15.3 million in non-Medicaid funds.

It is not clear that comparing expenditures per SSI recipient provides useful information.

Conclusion

The District's SSI supplement to individuals who live independently or who are placed in Medicaid-eligible long-term care facilities is an essential service, because it is mandated by the federal government. The SSI supplement paid to individuals in community residential care is a basic service; the District's supplements are not significantly different from the mid-range of supplements in Maryland but are lower than supplements in Nothern Virginia. Compared to population, the District spends three times as much as Maryland on SSI supplements mostly because its workload is more than twice as high.

GENERAL PUBLIC ASSISTANCE

Service
General Public Assistance (GPA) for children (GC) and for adults is essentially interim assistance until an individual is approved for SSI or SSDI (Social Security Disability Income). The recipient must have a physical or mental disability as defined by SSI criteria. GPA benefits are provided until final determination of disability. Both programs are funded entirely with local funds, with federal reimbursement if the recipients are subsequently determined to be eligible for federal SSI or SSDI.

Eligibility/Benefits
District–
Children–An unattached child living with non-relatives is eligible for GC if the income available to the child is below AFDC maximums. Benefits are the same as AFDC payments for a child living with his or her family.
Adults–To receive GPA, income must be below AFDC payment levels of $262 for an individual and $326 for a couple ($265 for an individual and $300 for a couple until June 1, 1996). Assets must be under $300 for an individual and $500 for a couple (excluding a house and a car valued at $1,500).

Maryland–Disabled adults applying for (or appealing) SSI or SSDI; pregnant women during the first two trimesters (they then qualify for AFDC). There is no general relief for unattached children. Income ceiling is essentially the payment level; asset limit is $1,500.

Payments in FY 1995–
- $157 monthly loans for those with short-term (3 to 12 months) disabilities (discontinued as of July 1, 1995).
- $157 monthly grants (less any income) to those permanently and totally disabled who were applying for SSI or SSDI ($100 monthly after July 1, 1995)
- $209 per month for pregnant women.

Virginia has a program similar to the District's for unattached children. The state also provides relief for adults with short-term disability. Income ceiling is essentially the payment level; asset limit is $1,000.

- Maximum monthly benefits per adult or child–$220 for one person; $294 for two.

- 34.5 percent of the recipients are 50 years of age or older.

Workload
District–702 children and 2,893 adults in FY 1995 (0.6 percent of the 1995 population)

The Income Maintenance Administration estimates that:
- 37 percent of GPA clients receive aid for less than one year, and 27 percent for more than one

year;

- 97 percent of the recipients are single individuals;
- 56.6 percent of the recipients are between the ages of 31 and 49;

Maryland–20,931 adult grants and loans, and 583 pregnant women (0.43 percent of population).

Costs

District–$7.5 million in local funds in FY 1995: $2.1 million on the children's program and $5.4 million on the adult program; average grant, $395.

Maryland–average grant, $135 (1995 was a transition year for the state programs, so a total cost comparison is not meaningful.

Virginia–individual program costs were not readily available.

Conclusion

General public assistance is a basic service. In terms of eligibility and benefits, the District's general public assistance is comparable to or slightly higher than the Virginia program in Arlington County. The District's eligibility and benefits are significantly higher than Maryland's for children and adults. The District has no benefits for pregnant women. While the District's SSI workload is twice Maryland's relative to population, it is less than Baltimore's. A cost comparison is not meaningful because the Maryland program was in transition in 1995.

EMERGENCY ASSISTANCE

District–Emergency Assistance to Families with Children provided limited grants to families experiencing crises in paying rent and utilities. The federal government paid half of the program costs. In FY 1995, the District spent $2.7 million in local funds and served 9,570 clients. **The service was discontinued as of May 1, 1996.**

Maryland–provides grants for families with minor children experiencing crises such as eviction, disaster, and breakdown of essential appliances. The annual grant limits are $130 for utilities and $250 for all other necessities. In 1995, the average grant was $193. **Baltimore** supplements the state emergency assistance by an insignificant amount.

Arlington County–provides grants to needy people for emergency shelter, clothing, and food utility, medical, and transportation needs through a network of nonprofit organizations..

Conclusion

While emergency assistance is a basic service, the District no longer provides it.

BURIAL ASSISTANCE

The **District** paid a maximum of $450 for funeral expenses of AFDC, SSI, and GPA recipients, children receiving foster care, and Medicaid recipients. **The service was eliminated as of June 1, 1996.**

Arlington County provides up to $800 in burial costs. **Maryland** provides a maximum of $650 and spent an average of $645 per burial in FY 1995.

Conclusion

While burial assistance is a basic service, the District no longer provides it.

ENERGY ASSISTANCE

The **District's** supplement to the federal program assisting low-income households in paying home energy bills ended in 1995. Neither **Maryland** or **Virginia** has substituted state funds for decreases in federal aid for this program.

Conclusion

Energy assistance is not a basic service in that neither Maryland or Virginia spends local funds on it.

NEED DETERMINATION FOR INCOME SUPPORT

SERVICES

The District determines the financial need and eligibility for persons requesting or receiving AFDC, federally funded Food Stamps and refugee assistance, and Medicaid. As part of the need-determination process, the District also assesses the employability of AFDC recipients and offers those recipients education, training, and job placement.

As required by federal law, eligibility determination involves:
- Verification of application information through data exchange with other agencies;
- Periodic redetermination of eligibility;
- Management of data base and records; and
- Investigation of fraud and abuse.

Federal law requires the states to assess the education, child care, and other support needs of program participants and develop an employability plan. Under this AFDC-JOBS program (known as "A Real Chance" or "ARC" in the District) states must require at least 20 percent of AFDC recipients (except for the elderly, disabled, and parents with children under 3) to participate in the program in FY 1995.

States must offer basic and remedial education, job skills training and readiness activities, job development and job placement, and support services such as child care and transportation reimbursement. Moreover, the states must offer two of the following activities:
- Group and individual job search;
- On-the-job training;
- Work supplementation program; and
- Community work experience.

Maryland, following the same federal mandates, provides the same eligibility determination and JOBS services as the District. Both jurisdictions assign case managers to JOBS participants and allow postsecondary education to meet the training requirement. In recent years, Maryland has allocated more resources to the JOBS program, and in 1995 appears to have surpassed the District in trying to meet the federally required 20 percent JOBS participation rate. While the District placed relatively more of its AFDC recipients (1,100) in employment in FY 1995 compared to Maryland (3,428), only 3,790 parents and children received training compared to the 36,608 trainees reported by Maryland.

Conclusion

The determination of eligibility for income and medical support programs is an essential service, and the District's program was the same as Maryland's in 1995. Providing training and job placement for AFDC recipients is a basic service, and the

District offers a program similar to Maryland's, but with relatively fewer training participants.

WORKLOAD

District–26,819 average monthly AFDC caseload
Maryland–61,248 average monthly AFDC caseload

Conclusion

Relative to population, the District has almost four times Maryland's workload for determining and recertifying AFDC and Medicaid eligibility, and for determining and enrolling recipients in the JOBS program.

COSTS

Income Maintenance Administration:
District–$23.3 million
Maryland–$60.5 million

As would be expected from its relatively higher workload, the District spends three and one-half as much as Maryland on its Income Maintenance Administration relative to population size.1 The District's 1995 per case costs were less than Maryland's–$869 compared to $987. Part of this difference stems from Maryland's more aggressive JOBS program, which cost the state an average of $132 per total AFDC case, compared to the District's $81.

Conclusion

The District's local costs of determining AFDC, Medicaid, and Food Stamp eligibility and operating the AFDC-JOBS programs are three and one-half times Maryland's relative to population. While its workload is four times Maryland's, the District spends relatively less on its training program for welfare recipients.

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[1]See the report on Aid to Families With Dependent Children for a discussion of additional costs associated with central DHS overhead that are reported to the federal government as part of AFDC administrative costs.

FOSTER CARE AND CHILD WELFARE

SERVICES

The District

- Responds to reports of child abuse and neglect;
- Provides appropriate services such as shelter, medical care, specialized education, and counseling and other protective services to enable the children to either remain safely with their families, be reunited with their families after temporary placement, or be removed from their families and placed in foster care
- Places children in traditional family foster homes, specialized therapeutic group foster homes, institutional placement, and subsidized and unsubsidized adoption.

Foster care service is provided by:

- A receiver appointed by the court as a result of the LeShawn case;
- DHS manages payments to foster care providers, adoptive parents, and other vendors; and
- Family Division of the D.C. Superior Court pays for indigent counsel, coordinates with the Executive Branch, and adjudicates abuse and neglect filings. The Social Services Division provides counseling for abused children and their families.

Maryland and Virginia have similar programs for abused, neglected and dependent children, Maryland finances the program in Baltimore; Arlington County funds most of its services..

Conclusion

> **Foster care and other child welfare services are essential, and the District's program offers the same array of services available in adjoining jurisdictions.**

ELIGIBILITY

Services in the District as in adjoining jurisdictions are provided primarily to low-income families. Protective services and services required to reunite families or to prevent out-of-home placements of children may be provided to any individuals who need them.

Conclusion

> **The District's eligibility for foster care and child welfare services is comparable to eligibility standards elsewhere.**

WORKLOAD

District-4.6 percent of the 1990 population were children living in poverty.
Maryland-2.9 percent were children living in poverty.

Caseload data are not available from the court receiver. However, the courts reported 390 cases of abuse under their supervision in 1995. Some 5,319 child abuse and neglect cases were pending, including 1,512 new filings.

Conclusion

> **Relative to total population, the potential workload or demand for foster care and other child welfare services is at least one and one-half times as high in the District as in Maryland.**

COSTS

District-$59.5 million in local funds on the administration of and services (many foster care placements are outside of the District, requiring payments for board and care, transportation, and education):

- $30.5 million was for the board and care of foster care children;
- $7.1 million for their education;
- $1.1 million for medical costs for both foster care and adoption subsidy;
- $5.3 million for transportation and legal and other fees; and
- $15.5 million for social workers and administration and support services.

$2,136 per child living in poverty

Maryland-$98.4 million; $709 per child living in poverty.

Without further program and caseload information, the causes of the District's apparently high costs per child living in poverty cannot be determined. Possible explanations are the greater reliance on (more expensive) out-of-state placements and lack of payment schedules for foster family homes, group homes, and special-needs children placed for adoption.

Conclusion

> **Compared to Maryland, the District spends more for foster care and child welfare relative to population because of its higher relative workload and apparently higher unit costs.**

DEVELOPMENTAL DISABILITIES SERVICES

SERVICES

The District provides residential services and care to individuals who are developmentally disabled. A developmental disability is a severe chronic disability which results in substantial functional limitations in major life activities and which is likely to continue indefinitely. Some examples of developmental disabilities are mental retardation, cerebral palsy, multiple sclerosis, autism, deafness, and head injury.

By law, the District provides the care with the least restrictive and most normal living conditions possible, including:

- Individual habilitation plans;
- Day treatment;
- Foster care and respite care; and
- More intensive, 24-hour treatment in intermediate care facilities for the mentally retarded. (ICF/MRs). Consistent with the Pratt Decree, the District has closed Forest Haven and now uses mainly ICF/MRs.

Medicaid reimburses about 38 percent of total costs. The District also provides supported employment services to the same clients (see the Rehabilitation Services report).

Maryland offers essentially the same array of services but still operates several large institutions for about 6 percent of its habilitation clients. Maryland offers in-home services and a 2-week summer program, neither of which is provided by the District..

Conclusions

Residential and care services for the developmentally disabled are basic. The District service level is slightly less than in Maryland.

ELIGIBILITY

District-Subject to the appropriations limit, all mentally retarded persons and developmentally disabled persons are eligible for habilitation and services suited to their needs, regardless of age, degree of retardation, or handicapping condition.

The individual must have been documented to be mentally retarded prior to age 18, and the developmentally disabled, prior to age 22. A pending regulation will require the client, parent, spouse, or adult child to pay some or all of the cost of the services based on financial means.

Maryland has similar eligibility standards, but rather than capping entitlements, limits the number of slots that are Medicaid eligible. Providers can bill the client for a contribution based on a sliding scale.

Conclusion

The District and Maryland have similar eligibility requirements for services to the developmentally disabled.

WORKLOAD

District–
- 1,850 cases in FY 1995 (0.3 percent of the 1990 adult population)
- 1,132 residential placements: 734 in intermediate care facilities, 175 in group homes for the mentally retarded and developmentally disabled, 97 in supervised apartments, 95 in specialized home care, and 31 in out of state homes.
- Remainder is mainly day treatment and use of transportation.

The Pratt Consent Decree mandates case manager ratios of 1:60 and annual assessment and habilitation plan development for every customer. D.C. Law 2-137, as amended by D.C. Law 11-52, modifies the annual assessment requirement and allows reevaluations based on customer need. The case manager/customer ratio was 1:93 in FY 1995 but with recent hirings is now 1:68.

Conclusion

While it has the same overall workload as Maryland, the District uses relatively more expensive forms of service such as ICF/MRs rather than less costly day treatment and in-home and family support services.

COSTS

District–$72.6 million in local funds ($40,486 per service case, $59,368 per residential case):
- **$27.0 million in administration and services;**
- $45.6 million for the local Medicaid match charged to the Medicaid control center ($32.3 million for intermediate care facilities, $12.6 million for day treatment programs);
- Remainder for transportation, medical treatment, etc.

Residential services account for 53 percent of nonMedicaid service payments to vendors--$11.3 million, including $2.8 million for out-of-state residential placements and $2.6 million for supervised apartments.

Maryland– $267.0 million in nonfederal funds ($18,461 per case; $35,970 per residential case).

Some factors that may account for these differences are Maryland's heavier reliance on less expensive in-home and family support programs and the state's lower operating costs of community facilities located throughout the state. The District's costs should reflect the savings from closing Forest Haven, while Maryland still operates expensive residential centers.

A more thorough analysis of provider rates, wage differences, and workloads is necessary before the cost differentials can be satisfactorily explained.

Conclusion

> **The District spends about two and one-half times Maryland's expenditures relative to population. Most of this difference is attributable to more expensive forms of service and consequently higher per case costs. Compared to Maryland's per case costs, the District's range from one and one-half to over two times higher.**

CHILD DAY CARE

SERVICES

States are required to provide day care for AFDC recipients (1) if needed to accept employment or remain employed or (2) if the recipient is enrolled in a state-approved education or training activity. Every state provides day care and receives federal assistance based on its Medicaid matching formula.

The **District** provides:

- Year-round full-day care for children under 13 in low-income families designed to enable parents to participate in training programs, seek work, or work. Operated by DHS, these programs can be classified as:
  - *AFDC-related programs*--including transitional day care for families that lose eligibility because of increased income and day care for employed families that without day care would risk becoming AFDC recipients; and
  - *Programs for families with slightly higher incomes*--this local program supplements the day care offered under the federal Child Care and Development Block Grant program.
- Pre-kindergarten program and locally supplemented Head Start programs in various settings, including an extended day or "wraparound" program (see report on Public Schools).
- Partial-day summer programs and preschool cooperative play (Department of Recreation and Parks).
- Training of child development workers (DHS)

The City of Baltimore and Arlington County also provide full-day care under the AFDC-related programs and programs serving higher-income families. In the District, day care programs for the higher-income families account for 75 percent of the total nonschool day care services provided, but only 20 to 25 percent in Baltimore and Arlington County. Both Baltimore and Arlington provide pre-kindergarten programs and Head Start. As the discussion on costs shows, those programs also are operated on a smaller scale than the District's.

Conclusion

Day care for AFDC families is an essential service mandated by the federal government and provided by all states. At the low levels provided in Baltimore and Arlington County, day-care for higher-income families and pre-kindergarten is a basic service. District services beyond those levels are discretionary.

ELIGIBILITY

AFDC-Related. Free child day care is guaranteed for all AFDC recipients meeting employment-related requirements, and for 12 months for families that lose AFDC eligibility because of increased income (contributions based on a sliding scale are required). As a result of differences in AFDC payment levels, which are effectively the maximum income for eligibility, families in the District may receive more day care assistance from the AFDC-related funding streams than families in Maryland or Virginia.

Monthly payment level for a one-parent family of three:
- **District**-$420
- **Baltimore**-$389
- **Arlington County**-$354

Day care provided to employed families at risk of otherwise becoming AFDC recipients has the same income maximums but the funding is capped and family contributions are required.

The Supplement to the federal Child Care and Development Block Grant program is for families not qualifying for AFDC who are either (1) employed, (2) receive vocational rehabilitation services or treatment for physical or mental problems, or (3) have children with special needs. Families contribute according to a sliding scale, unless the children need protective services or the foster parents are employed or in training. Maximum income for a one-parent family of three:

District–$21,921
Maryland–$18,409

Pre-kindergarten and cooperative play programs. In the District and Baltimore, all children may participate in both programs, regardless of income. Arlington's limited pre-kindergarten programs are restricted to lower-income families.

Head Start programs operated by the Public Schools. Maximum District family incomes were $12,500 in FY 1995 for a one-parent family of three. The program is also offered in Baltimore and Arlington County.

Conclusion

Eligibility standards for AFDC-related day care services are more generous in the District than in Baltimore or Arlington County because of the higher AFDC payment/income levels in the District. Non-AFDC day care programs are also more generous in the District because they are available to families with higher incomes than in Baltimore.

Benefits

District-Reimbursement rates for vendors in the DHS programs vary according to the age of child, time in care, type of care, and administering agency.

Full-time day care at a center:
- $21.10 for an infant (under 2)
- $18.55 for pre-school (2 to 5)
- $14.85 for a school-age child (5 to 12)
  - -Providers who have contracts are paid at their non-DHS rates for similar services up to the DHS rates
  - -Providers who charge by voucher remove the parent portion of the DHS fee

Maryland reimbursement rates for full-time centers in Baltimore:
- $30.80 for an infant
- $16.18 for other children

Conclusion

The per day dollar value of District day care benefits for children over 2 is about the same as the benefit value in Baltimore but substantially lower for infants.

Workload

The main clients for subsidized day care programs are children in low-income families. Though now seven years old, 1990 census data on age distribution and the number of children living in poverty with one parent are the only comparable measures of this demand. For programs with capped funding, the number of children served is not an independent or exogenous workload measure but a measure of the response to demand for services.

District:
- 24,063 children living in poverty with one parent, or 4.0 percent of the 1990 population

- 12,201 children served by locally funded day care programs, or 10.5 percent of the 1990 population under 18:
  - –6,526 in DHS programs
  - –5,675 in pre-kindergarten and Head Start

Maryland
- Children in poverty comprised 2.0 percent of the 1990 population

- 17,124 children served by state-funded day care programs or 1.4 percent of the population under 18.

Baltimore:

- 49,511 children in poverty, or 6.7 percent of the 1990 population

- 10,686 children served by state and locally funded day care programs (excluding children with non-subsidized care), or 5.9 percent of the population under 18:
  - -5,573 in nonschool programs (including 217 in city operated centers)
  - -5,113 in the Schools' pre-kindergarten

Arlington County:

- 1,223 children in poverty, or 0.7 percent of the 1990 population

- 505 children in nonschool programs

Conclusion

In terms of potential demand for day care for low-income families the District has double Maryland's workload relative to population but only 60 percent of Baltimore's. The District has responded to the demand by providing more low-income day care slots than provided in Baltimore by the state and city governments. The District also has more children in the Schools' prekindergarten and Head Start. Including the school programs, the District provides some kind of subsidized day care for much more of its population under 18—10.5 percent of that population compared with 5.9 percent in Baltimore and only 1.5 percent in Maryland.

COSTS

Spending on Day Care in Neighboring Jurisdictions ($ Millions):

Services	D.C.	Baltimore	Maryland	Arlington Co.
NonSchool Programs:				
Administration	1.4	1.4	10.4	.4
AFDC-related subsidies	4.4	18.2	24.2	1.3
Non-AFDC subsidies	18.2*	3.8	7.9	.4
Total NonSchool	**24.0**	23.6	42.5	2.1
School Programs	27.9	5.4		.9
Total, Day Care	51.9	29.0	42.5	3.0
Subsidies Per Child Served ($'s only):				
Nonschool programs	3,441	3,935	2,485	4,176
School programs	5,191	955		

*Includes .2 for Dept. of Parks and Recreation

Conclusion

Nonschool day care expenditures in the District equal state and local expenditure in Baltimore's but District expenditures for prekindergarten and other pre-school programs are four and one-half times Baltimore's school day care spending. Including the Schools' programs, total District expenditures for day care are almost twice the amount spent on subsidized care in Baltimore. More District children receive subsidized nonschool day care at lower unit costs in part due to the District's much lower infant care reimbursement rates.

SERVICES FOR THE ELDERLY

SERVICES

The District provides the following services to persons age 60 and over to protect them and to promote the maximum level of independence:

DHS Family Services Administration:
- Investigates, intervenes, and initiates appropriate protective services in situations of reported abuse, neglect (including self-neglect), and/or exploitation of mentally or physically impaired adults;
- Investigates, counsels, and provides linkages to medical, financial, social, and in-home support;
- Provides legal services for petitioning the court and establishing guardianship;
- Provides fully subsidized homemaker and chore services to low-income, frail elderly and disabled adults, and families with children in order to prevent premature or unnecessary institutionalization (most of the clients are elderly):
  Basic services–grocery shopping, meal preparation, assisting with bathing and personal hygiene, light housekeeping, and laundry.
  Supporting services–determining eligibility, developing service plans, reviewing and monitoring cases, and providing respite care to relieve family and other caregivers.

Office on Aging:
The District also offers partially subsidized services to the elderly who have somewhat higher incomes and who share in the costs based on a sliding scale. *This is a discretionary program, operated by the Office on Aging, that was established under the federal Older Americans Act and requires the participating states to match at least 15 percent of the federal grant.* A limited number of services is Medicaid-eligible.

This program:
- Provides information and referral, counseling, and case management;
- Trains volunteer advocates to link the clients to appropriate programs;
- Assists those recently discharged from hospitals to obtain needed services;
- Arranges personal care and homemaker services; meal delivery and congregate meals; geriatric day care; transportation for personal business, grocery shopping, and medical appointments; legal assistance and a long-term care ombudsman; and
- Assists with part-time employment.

Similar services are provided in **Baltimore** and **Arlington County** by the state and local governments. Arlington also has a program to provide companions for the frail elderly and disabled.

Conclusion

District services to provide protection for the elderly and to promote independence are basic. They are comparable to the services in adjacent local jurisdictions.

ELIGIBILITY/BENEFITS

District–

Protective services–any physically or mentally impaired adult aged 18 and over who is a resident, without regard to income (the participants are mainly elderly). District social workers intervene in emergencies on a 24-hour basis, including weekends.

Fully subsidized homemaker and chore services–frail elderly and disabled persons with monthly income under $883 (individual) and under $1,155 (couple). Confirmation of medical disability or frailty and a determination that services are needed to maintain the client at home are required. Maximum service is 6 hours per week, provided by trained and supervised workers paid according to federal guidelines (some lower cost traditional chore aides are used but are being phased out).

Partially subsidized services–those 60 years old and over, without regard to income, but with a client contribution according to a sliding scale. This effectively results in serving clients with monthly incomes above $883 but below about $3,000. Those with higher incomes receive no effective benefit and tend to rely on the private sector to meet their needs.

Baltimore–

Protective services–any physically or mentally impaired adult aged 18 and over who is a resident, without regard to income (participants are mainly elderly).

Fully subsidized homemaker and chore services–monthly income limit is $1,300 (individual) and $1,800 (couple). Confirmation of medical disability or frailty, and a determination that services are needed to maintain the client at home are required. Service is 12 or more hours per week.

Partially subsidized services–persons with slightly higher incomes.

Arlington County–

Protective services–any physically or mentally impaired adult aged 18 and over who is a resident, without regard to income (participants are mainly elderly). On evenings and weekends, the police have responsibility for this service.

Fully subsidized homemaker and chore services–monthly income limit is $1,054 (individual) and $1,352 (couple). Confirmation of medical disability or frailty, and a determination that services are needed to maintain the client at home are required. Service is 12 or more hours per week, provided by lower cost, lower skilled individual vendors.

Partially subsidized services–persons with slightly higher incomes; clients with monthly incomes above $3,800 pay full costs.

Conclusion

District eligibility requirements for protective services are the same as in Baltimore and Arlington. Because of evening and weekend service, the District's maximum income levels for subsidized homemaker and other social services are lower. District adult protective service benefits appear to be greater than those in Arlington County, but Arlington's homemaker benefits are more generous. Further analysis is needed to determine whether the benefits from other services to the elderly are different in the District than elsewhere.

WORKLOAD

District–

Adult protective cases in 1995: 1,151 intake and 284 continuing services (1.9 percent of estimated 1995 population over age 65); 164 intake cases per social worker.

Fully subsidized homemaker/chore services in 1995: 2,073 adults (2.2 percent of 1990 population over 60; virtually none of the elderly are institutionalized) and 56 families with children.

Partially subsidized services in 1995: 35,146 elderly (46 percent of estimated 1995 population over 65)–nearly 10,000 participated in meal programs (3,997 in-home; 6,602 congregate); 10,159 in counseling; 8,069 in transportation; and 4,968 in personal care.

Arlington County–

Adult protective cases in 1995: 450 intake and 184 continuing services (3.2 percent of estimated 1995 population over age 65); 113 intake cases per social worker (Baltimore had 94).

Fully subsidized homemaker/chore services in 1995: adults comprising 2.8 percent of the 1990 population over 60 (10 percent of elderly are institutionalized).

Partially subsidized services in 1995: a service pattern similar to the District's served 19 percent of the estimated elderly population.

Because of the way services are organized in Maryland and its local governments, no further comparison of workloads is possible.

Conclusion

The District's workload as a percentage of population is smaller than Arlington's for adult protective services and fully subsidized homemaker/chore services. For the partially subsidized services to the elderly, the District's workload in terms of service usage is far greater than Arlington County's

Costs

District–

$20.2million of local funds:

–$1.1million on adult protective services

–$5.6 million on fully subsidized homemaker/chore services

–$13.4 million on partially subsidized services; $383 per person

–$247 per intake case for adult protective services

–$14.98 to $17.55 hourly for fully subsidized homemaker contracts

–$12.66 to $12.93 hourly for chore contracts

–$5.47 hourly for traditional chore aides

43 percent of services to elderly are financed with federal funds; 29 percent for Office on Aging and 33 percent for Family Services Administration

Arlington County–

$409 per intake case for adult protective services (a relatively lower workload and higher pay for experienced social workers)

$280 per person for partially subsidized services

Baltimore–

$4.3 million in state and local funds in 1995 on a combination of fully and partially subsidized services (Baltimore Commission on Aging); 58 percent of Commission spending supported by federal grants

$360 per intake case for adult protective services

Maryland–$23.2 million in state funds (excluding payments to local governments) on protective and other services; 64 percent of state spending supported by federal grants

Differences in state and local service organization make meaningful total cost comparisons between Baltimore and Maryland and the District impossible.

Conclusion

Organizational differences in services to the elderly prevent meaningful total expenditure comparisons, and the comparison of per unit costs presents a mixed picture. The costs of the District's adult protective services, at intake, are substantially lower than Arlington County's and Baltimore's because of more cases per social worker and lower District salaries for experienced social workers. The per unit costs of the District's fully subsidized homemaker/chore programs are higher than Arlington's because of the reliance on more skilled labor. The per unit costs of the partially subsidized services to the elderly per person served are higher in the District than in Arlington County.

The District relies much more on local funds for its nonprotective services to the less-poor elderly population than Baltimore and Maryland.

SERVICES FOR THE HOMELESS

SERVICES

The District–through the D.C. Initiative–provides emergency and transitional shelter and a continuum of services to homeless single adults and families, including:

- Outreach services;
- Individual plans and case management
- Coordination of providers;
- Assistance in finding permanent housing, training, and employment;
- Development and operation of housing for persons with AIDS and substance abuse problems; and
- Operation of shelters and support services for battered women.

Based on a memorandum of understanding with HUD and the D.C. Community Partnership for the Prevention of Homelessness, during FY 1995 the District changed the nature of its services from an emergency shelter program, characterized as a response to crisis, to the service continuum approach. The District also gradually shifted remaining local funds and program control to the D.C. Community Partnership, completing the transfer May 1, 1995. According to the memorandum of understanding, the new program, the D.C. Initiative, was to receive $7 million in federal grants and $14.8 million in District funds in FY 1995.

Maryland provides what appears to be the same service continuum through its local governments. The state also provides an eviction prevention and housing counseling, and a women's services program.

Arlington County services are for the most part funded locally and involve emergency and transitional housing and a variety of support services, including women's services.

Conclusion

> **Services to the homeless that are configured in a continuum of care are basic. The District's services are comparable to those provided in Baltimore and Arlington.**

WORKLOAD

Comparable workloads that are free of policy influence are not available. To our knowledge there is no reliable estimate of the number of homeless. Using the number and type of beds provided is problematical; the District's count and mix of beds not only changed substantially during FY 1995 with the shift in program focus and unit counts can measure program output. Nevertheless, the number and type of beds still suggest the relative magnitude of workload facing the District.

Before the D.C. Initiative began, the District provided mostly emergency shelter:
- 1,169 12-hour beds for single adults;
- 764 24-hour beds with case management for singles, families, and youth; and
- 125 transitional bèds and 94 units of single-room permanent housing with some services.

By the end of FY 1995, there were:
- 2,683 emergency beds
- 358 transitional beds; and
- 1,349 permanent housing with services.

Comparable Maryland and Virginia data are not readily available.

Conclusion

No conclusions were reached regarding the District's workload as compared to other jurisdictions.

COSTS

District–$12.7 million in local funds in FY 1995, all but $6.9 million on the emergency shelter program before transition to the Community Partnership.

Maryland–$6.6 million in state funds in FY 1995, $4.7 million mainly on homeless services and an additional $1.9 million for services to women who have been victims of violence.

Baltimore–spent very little of its own funds on shelter and transitional housing services.

Arlington County–$1.1 million.

Conclusion

The District spends considerably more than Maryland on providing services to the homeless. This comparison is made, however, without taking into account the other services provided to the homeless from other programs. Those can include health care, training, and housing subsidies after the transition to permanent housing.

REHABILITATION

SERVICES

The **District** provides:

- Vocational rehabilitation for disabled persons and
- Supported employment and independent living services to persons with severe disabilities.

Specific services include:

- Medical and vocational evaluation of the disability;
- Establishing a vocational goal;
- Developing a plan of services and providing the vocational rehabilitation services to achieve that goal;
- Developing the job;
- Placing the individual;
- Providing transportation when necessary;
- Helping maintain the job through coaching, followup, and further training; and
- Encouraging the purchase of workshop products.

Federal funding under the Rehabilitation Act of 1973 predominates:

- Vocational rehabilitation–79.7 percent
- Supported employment–100 percent
- Independent living–90 percent.

Another rehabilitation program, authorized under the Randolph-Sheppard Act, provides training, licensure and placement of the legally blind as operators of gift stores, snack shops, and cafeterias located on federal, District, and private properties. The local share of this program's costs are only 10 percent. Vendors share in the administrative costs.

The District also determines the extent of disability for claims made to the Social Security Administration for benefits under SSI and SSDI. Once approved for those benefits, a client is Medicaid or Medicare eligible. Less severely disabled individuals who are declared ineligible are referred to vocational rehabilitation. The eligibility determination program is 100 percent federally funded.

Maryland and **Virginia** also offer all of these services.

Conclusion

> **Vocational rehabilitation and independent living services are basic services and are supported by substantial federal grants.**

ELIGIBILITY

All disabled persons, regardless of age or income are entitled to an assessment to determine eligibility for vocational rehabilitation. Once eligible, a person shares the services costs based on a sliding fee scale. The disabilities must be such that:

- The impairment constitutes or results in a substantial impediment to employment; and
- Vocational rehabilitation is required to enter or retain gainful employment.

Those disabilities can involve all bodily systems and include, but are not limited to, legally blind, visually impaired, deaf, hard of hearing, mental retardation, persistent mental illness, and alcohol and drug abuse.

The supported employment services are reserved for the most severely disabled who are unable to work or work unassisted and who require long-term support from another agency or entity to maintain employment. Independent living services are also for the most severely disabled.

The programs follow federal law and uniform nationwide regulations. Eligibility is the same in the District, Maryland, and Virginia.

Conclusion

Eligibility for rehabilitation services is the same in the District, Maryland and Virginia.

WORKLOAD

District–7,006 persons, or 1.4 percent of the 1990 population over 18, received vocational rehabilitation services in 1995 (not including blind vendors or persons in independent living). Some 3,923 persons, 56 percent of the rehabilitation workload, were severely handicapped.

Maryland–2,605 clients were served by the state rehabilitation center, and 27,027 by regional rehabilitation offices, or 0.8 percent of the 1990 population over 18. The severely handicapped served by the state totaled 17,434, or 65 percent of the total served in the regional offices.

Baltimore–8,750 persons, or 1.6 percent of the 1990 population over 18.

Conclusion

Relative to adult population, the District's vocational rehabilitation workload is almost twice that of Maryland.

Costs

District-$6.8 million in local funds in 1995 on administrative and operating costs of its vocational rehabilitation, employment services, independent living, and blind vendor programs; $964 per person served.

Maryland-$11.9 million; $439 per person served.

Part of the higher District cost per client stems from the federal government requirement that the District at least match vocational rehabilitation spending from local funds for the second preceding year (in FY 1995, the District could not spend less than it did in FY 1993 without losing federal grant revenue). Without this maintenance-of-effort requirement, the District's cost share would be 21.3 percent, instead of about 30 to 40 percent.

While other factors causing costs differences between the District and Maryland are beyond the scope of this study, those factors probably include the higher incidence of poverty in the District and .

Conclusion

> **The District's costs are substantially higher than Maryland's because of the greater workload relative to population and higher per unit costs. The federal maintenance-of-effort mandate helps keep the per unit costs high.**

CHILD SUPPORT ENFORCEMENT

SERVICES

The District locates absent parents, establishes paternity and a support obligation, enforces the support obligation, and periodically reviews the individual awards. Child support court orders are issued and enforced for those families receiving AFDC and those not receiving such assistance.

Child support programs are required in every state that has an AFDC program or receives federal foster care maintenance payments (Title IV-D, Social Security Act). The federal government reimburses 66 percent of the costs of the program and pays an incentive based on total collections and cost-effectiveness of the program. The remainder of a given collection is divided between the state and the federal government in accordance with the AFDC matching rate. Collections directly offset AFDC benefit costs (except the first $50 of current monthly support goes directly to the family) and are disregarded as income for AFDC purposes.

In the District, responsibility for Title IV-D enforcement resides with the DHS Bureau of Paternity and Child Support. That office pays the Paternity and Child Support Branch of the D.C. Superior Court's Family Division for selected services and the Office Corporation Counsel to represent DHS clients before the Court. The Metropolitan Police Department issues bench warrants for absent parents.

DHS–
- Conducts the initial interview of the custodial IV-D parent;
- Locates the absent parent and the assets;
- Establishes paternity;
- Prepares the petition for a court order;
- Certifies tax refund and unemployment benefit interceptions;
- Conducts periodic case reviews and proposes adjustments to court orders; and
- Manages the accounts.

Superior Court–
- For other than IV-D cases, decides which parent will have custody of the children
- Decides the amount of the child support obligation of the noncustodial parent, and how the support obligation will be enforced;
- Issues support orders, and collects child support including wage withholding for all cases not involving income subsidies. (In 1995, the court collected $51.4 million in court-order payments for AFDC and non-AFDC cases.)
- Disburses support payments to custodial parents or to DHS for offsetting AFDC and foster care benefit costs.

Maryland and Virginia operate similar child support enforcement programs, but in some cases, they use an administrative rather than a judicial system for establishing custody and support. While both the District and Maryland conduct unannounced roundups of parents whose support payments are in arrears, the District does not have a criminal nonsupport statute. Therefore, when a noncustodial parent is brought before the District court on a one-year bench warrant, child support can be collected only if the court requires the bond to cover it.

Conclusion

Child support enforcement is a basic service, and the District offers slightly less service than Maryland.

ELIGIBILITY

In the District as elsewhere, any parent who needs help in locating an absent parent or enforcing a support obligation may apply for such services. Parents receiving AFDC benefits, the federally assisted foster care, or the Medicaid program automatically receive services. The District charges non-AFDC parents a $5 fee, while Maryland charges $20.

WORKLOAD

The D.C. Superior Court reports during 1995–

- 5,950 pending paternity cases;
- 6,224 child support cases, including 3,634 new child support filings; and
- 4,291 interstate reciprocal support cases.

No comparable workload data were readily available for Maryland.

Relative to estimated population, the District had twice the workload as the State of Maryland. In FY 1995, there were 80,252 support cases outstanding in the District of which 45 percent were AFDC cases. Maryland had only 368,770 of which 51 percent were AFDC cases.

Conclusion

The District faces a higher relative workload than Maryland in enforcing child support.

COSTS

District–$2.9 million in local funds spent by DHS on child support enforcement. Per case costs, $36 in FY 1995. Court expenditure data for non-AFDC enforcement were not available.

Maryland–$8.6 million in nonfederal funds spent by executive agencies, including state-funded departments in local governments. Per case costs, $23 in FY 1995. Court expenditure data for child support enforcement were not available.

A rough cost comparison is still possible because both jurisdictions split responsibilities between the court and executive branches more or less in the same way. Much of the difference in executive enforcement costs can be attributed to the District's higher relative workload. If the District had Maryland's relative workload and costs it would spend $1.9 million. It is not clear what causes the unit cost differences, but possible reasons include the economies of scale Maryland enjoys plus the difficulty of locating absent parents and enforcing collection in the middle of a multistate region.

Conclusion

Compared to Maryland, the District has relatively high executive branch costs for enforcing child support in part because of relative high workload. We cannot explain the high per unit costs without further analysis and detailed cost and process information particularly from the judicial branch.

COMMUNITY-BASED HEALTH SERVICES

DISEASE PREVENTION AND CONTROL

The **District** administers or provides services for: immunization; detection and control of tuberculosis, venereal diseases, and other contagious diseases; cancer detection and registry; preventive health activities; and animal control. Other state and local governments typically provide protection to residents against preventable disease and premature loss of life, although sometimes in organizational structures different than the District's.

While individuals receive services under this program, the service is generally seen as a benefit for the entire community and no eligibility requirements for participation are usually imposed.

No meaningful workload comparisons were available.

The District identified $5.7 million as expenditures for this service in 1995, but many activities conducted in city clinics and other facilities also contribute to this service. It also does not include AIDS prevention activities that are classified as part of the overall AIDS program. The State of Maryland provides several services that are similar to the District's through its Community Health Surveillance programs that cost $19.0 million in 1995. The City of Baltimore is responsible for animal control expenditures that cost $1.3 million in 1995.

Conclusion

> **The District's Disease Prevention and Control services are essential and are comparable to other governments. Detailed comparisons of workloads or expenditures were not possible.**

MEDICAL EXAMINER

The medical examiner investigates and prepares reports on violent or suspicious deaths and those unattended by a physician, conducts autopsies when necessary, determines cause and manner of deaths, and completes death certificates when required to do so. This is a government service that is universally provided by either state or local governments.

The State of Maryland Medical Examiner provides services throughout the state, and performed 8,018 investigations and 3,048 autopsies in 1995. No comparable workload data were available for the District.

The District medical examiner expenditures were $1.9 million in 1995. In Maryland, the medical examiner expenditures were $4.5 million in 1995. Because a comparison of workloads is not available no determination of comparability of expenditures can be made.

Conclusion

Medical examiner services are essential and are provided by other governments. Workloads and expenditures could not be compared.

SCHOOL HEALTH SERVICES

School health provides health assessment to school children and services to those lacking primary medical care providers. It assists schools in providing immunization and screens children for hearing and vision problems.

School health service expenditures were $4.6 million in the District and $7.7 million in Baltimore in 1995. Baltimore schools have an enrollment of 114,500 or about 45 percent more than District schools. Thus, the District spent slightly less than Baltimore considering differences in enrollments.

Conclusion

School health services are basic and the District's expenditures are comparable to Baltimore's.

HEALTH LABORATORIES

Laboratories assist physicians and health officials in the prevention, diagnosis, and control of human disease by performing a variety of tests. No workload information is available for the District's laboratories, but over 3 million tests were performed by the State of Maryland laboratories. The District's expenditure for laboratories was $1.4 million in 1995 compared to $16.1 million in Maryland.

Conclusion

Health laboratory services are basic and the District's expenditure is comparable to Maryland's.

MEDICAID

SERVICES

Medicaid is a joint federal-state program that pays for medical and long-term care for certain poor, elderly, blind, and disabled persons. Every state provides Medicaid services. In the District, Maryland, and Virginia, the federal government pays half the cost of the services. (The federal share is based on state per capita income, and can be as high as 80 percent.)

Conclusion

Medicaid is an essential service provided by all states.

ELIGIBILITY

Mandatory–Federal law requires that states provide benefits for all residents who receive Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and some children and pregnant women who meet poverty criteria.

Discretionary–States may extend eligibility to:

Some other children, pregnant women, aged, blind, and disabled residents, even if they have slightly higher incomes than the mandatory eligible participants; and

The "medically needy" whose incomes are too high to automatically qualify them, but who meet eligibility requirements when they incur Medicaid eligible costs high enough to offset their excess income. *This group is the most costly of discretionary eligible recipients.* (Thirty-seven states provide services to the medically needy.)

The District, Virginia, and Maryland, provide services to all mandatory and discretionary eligible residents. However, because the eligibility requirements for AFDC are not required to be uniform for all states, there is indirect state discretion as to who qualifies for Medicaid under mandatory AFDC eligibility. In the District, a one-parent family of three with gross monthly income as high as $1,317 in January 1994 could be eligible for AFDC and, therefore, Medicaid. The Maryland ceiling on gross income is $938, and Virginia's is $727.

As a result of differing AFDC standards, families with the same income and other requirements may be eligible for Medicaid in the District, but not in Maryland and Virginia. *Because only about 2 percent of the District's AFDC recipients have any earned income, the effect of this difference, if any, is negligible.*

Conclusion

There are no significant differences between the District's eligibility requirements and those in Maryland and Virginia. However, coverage for an undetermined number of

recipients in the District, as well as in Maryland and Virginia, is not required by federal law. The cost of the discretionary recipients could not be determined.

BENEFITS

Basic benefits are mandated by federal law. These include costly services such as hospital care; physician, laboratory, and X-ray services; and skilled nursing home and home health care services for adults.

States also may provide up to 31 optional services, such as prescription drugs, dentures, eyeglasses, occupational therapy, and private duty nurses. *The District provides 23 optional services, Maryland provides 22, and Virginia provides 21–making little difference in the services available to Medicaid recipients in the three jurisdictions.*

Small deductibles, coinsurance, or copayments may be imposed on some recipients for some services. These may reduce utilization and costs of benefits. Medicare recipients with incomes below the poverty line must be assisted in making their coinsurance and deductible payments. *The District and Maryland do not impose these fees.*

Conclusion

The services provided by the District are almost exactly the same as in Maryland and very close to those in Virginia. All three jurisdictions provide discretionary services. We were not able to determine the District cost for those services.

WORKLOAD

During 1995, the District had 158,224 average annual Medicaid recipients, about 26.9 percent of the estimated population.

Comparable workload information was found for:
Maryland–465,951 average recipients, about 9.3 percent of population.
Baltimore–187,346 recipients, about 26.8 percent of population, almost identical to the District.

These workload numbers highlight a significant difference between the District and state Medicaid burdens. While Maryland has to service a high workload in Baltimore, that burden can be offset by very low workloads in other parts of the state, such as Howard County with only 3.4 percent of its population as recipients.

Conclusion

The District's workload based on average recipients relative to population is about three times that of Maryland.

Costs

District–$838.7 million estimated total in 1995, of which approximately $419.3 million was from local appropriated funds, including amounts paid to outside vendors and services provided through District facilities that were not specifically identified as Medicaid expenditures. Excluding District expenditures for patients treated at St. Elizabeths and city health clinics for which the District claims federal reimbursement, the District spent $377.9 million in local funds.

Maryland–$2,063.8 million for 1995.

Taking into account population differences, the District spent about three and one-half times more than Maryland on Medicaid. Workload differences account for most, but not all of the difference.

Total Maryland Medicaid expenditures in Baltimore City were estimated at $839.0 million. There were 29,121 more average recipients in Baltimore than in the District, making the average state cost per recipient in Baltimore only $4,479 compared to $5,301 in the District.

For AFDC recipients, the average DC costs are substantially higher at $2,183 (100,509 recipients) compared to $1,638 (135,506 recipients)for Baltimore. For non-AFDC recipients, the reverse is true, $10,731 for the District (57,715 recipients) and $11,775 for Baltimore (51,839 recipients). The overall average for all recipients is higher in the District.

The District's AFDC-related costs may be higher because those recipients receive mainly medical care, while non-AFDC recipients receive more nursing home care. This means the costs per AFDC-related recipient will be more directly affected by the higher medical care costs in the Washington area than in Baltimore. For example, the 1993 hospital wage index used to calculate a hospital's base payment amount for Medicare reimbursement was 1.08 in the District, while in Baltimore it was 1.00 (in rural Maryland it was 0.86), or about 8 percent less. Assuming this explains part of the cost difference, there would still remain about an average $350 per recipient difference for AFDC related recipients.

Conclusion

> **District Medicaid expenditures far exceed those in Maryland relative to population. This reflects both a higher relative workload and a higher average cost per recipient. We are unable to find sufficient comparable cost information to explain fully why AFDC related costs per recipient are higher in the District, but some part of the higher costs is attributable to generally higher hospital costs.**

D.C. GENERAL HOSPITAL

SERVICES

D.C. General Hospital (DCGH) is a general acute care hospital with 325 operating beds (licensed for 410 beds). It provides inpatient, outpatient, emergency, diagnostic, preventive, and rehabilitative services. Over half its services are provided to uninsured residents and visitors, undocumented aliens, and incarcerated or other residents of city institutions. About 43 percent of admissions had Medicaid or Medicare coverage in 1994, but usage by patients with these coverages is declining. In 1995, DCGH had an occupancy rate of 65 percent, down from 77 percent in 1994.

No facility comparable to DCGH is operated by state or local governments in either Maryland or Virginia, although Virginia has 4 hospitals operated by special districts. Nationally, 9 states, including Maryland, do not have any acute care hospitals operated by local governments. There are 262 cities in other states that operate city acute care hospitals, but only 21 have expenditures exceeding $10 million annually.

At the state level, three acute care hospitals in Virginia and one in Maryland are operated as a part of state university medical schools and typically provide some hospital services to indigent patients. The extent of this care and costs cannot be determined because the operation of the facilities is treated as an integral part of the education program and only incidentally as assistance to indigent patients.

In Virginia, free hospital care is provided for those who are not eligible for Medicaid and whose income is below 200 percent of the poverty level and whose assets do not exceed the SSI limits. This service is provided only until the amount budgeted by the state is used up, in Fairfax County, about a half year. When these funds are exhausted, the private hospitals assume financial responsibility through an Indigent Health Care Trust Fund. In Maryland, care for those unable to pay is provided by private hospitals through rates established by the Maryland Health Services Cost Review Commission.

Conclusion

> **Operating an acute care hospital is not an essential or basic city or state service and is a state service only as ancillary to the operation of medical schools. However, the provision of some form of financial assistance for hospitalization of uninsured and indigent residents is generally provided either directly or through rate structures for private providers.**

Eligibility

DCGH accepts all patients needing medical help, regardless of income, whether residents or non-residents, insured or uninsured. It also accepts patients transferred from other hospitals in the city and from public and private health clinics. Virginia, while its appropriated allocations permit, provides care for those with incomes below 200 percent of the poverty level, and with assets below the SSI maximum. Eligibility is not applicable in Maryland, because there is no comparable state program.

Conclusion

The District's open eligibility policy for hospital care far exceeds Virginia's very limited eligibility for such care.

Workload

DCGH had 11,915 inpatient admissions and 157,394 emergency room and outpatient visits in 1995. An undetermined number of these patients had Medicaid, Medicare, or other means of payment and were not users of a District provided service, at least from the perspective of the city paying the full cost of the service from local funds. From another workload perspective, the District had an estimated 98,000 uninsured residents in 1994, all of whom were potential users of DCGH services for free or reduced rates. Fairfax County reports that it had 1,348 recipients of inpatient aid under the Virginia plan in 1995.

Costs

The District subsidy for DCGH from local funds was $56.7 million in 1996. In addition, the city made Medicaid matching payments of $11.2 million from city funds and made $5.6 million of intra-District payments for prisoners and other city wards. These payments are reflected as costs of Medicaid, Corrections, and other programs. They are not considered a city subsidy because they would be made to private hospitals if DCGH did not exist.

The State of Virginia appropriated a total of $25.8 million for its state programs, with local governments providing additional matching amounts to a maximum of 25 percent of the costs. The State of Maryland and its local governments do not budget any funds for provision of hospital care for uninsured indigents. No estimates of cost are available for patients treated at hospitals associated with state medical schools.

Conclusion

The District spends much more on hospital care for the needy than Virginia and Maryland.

PERSONAL HEALTH CARE SERVICES

PUBLIC HEALTH CLINICS, MATERNAL AND CHILD HEALTH, AND HOME CARE

The **District** provides primary medical and dental health care to uninsured indigent residents and visitors through public clinics and home visits, and on an outpatient basis at D.C. General Hospital. Some care is provided to insured and self-pay patients on a reimbursable basis. The clinics also provide some preventive and educational services. Similar services, including dental treatment, are provided in both **Baltimore and Arlington County**. For example, Arlington's service goal is "to prevent complications from chronic disease and long-term effects of acute disease by providing increased access to health care for medically indigent Arlington residents."

Because of the diverse nature of the services provided, it is difficult to identify a single workload measure. However, the services are primarily directed to low-income uninsured residents which are estimated to be 98,000 in the District by the Mayor's Task Force on Health Care Reform. No comparable estimates are available for Baltimore or Arlington.

The District's 1995 expenditure for these programs was $20.2 million. Expenditure comparisons with Baltimore are difficult because the services are provided by both the city and the state, and the descriptions of the services are not the same as in the District. Using what appear to be comparable services, Baltimore City spent $9.7 million and the State of Maryland spent $36.5 million in 1995. Assuming that a substantial portion of state expenditures were attributable to the large low-income population in Baltimore, the expenditures in the District and Baltimore seem comparable.

Conclusion

The clinical and home health services in the District are basic and expenditures are comparable to those in Baltimore.

LONG-TERM CARE FOR ELDERLY AND HANDICAPPED

The **District** provides nursing home care for indigent elderly and handicapped residents and also provides home care in the resident's own home. When this care is provided by outside vendors the costs are reflected in the Medicaid program. When the services are provided by D.C. Village and J.B. Johnson Nursing homes, both operated by the District Government, the costs are shown as city expenditures attributable to those facilities and not to Medicaid.

In the future, the District plans to close D.C. Village and treat J.B. Johnson as an outside vendor. Consequently most expenditures for this care will then be reflected as expenditures in the Medicaid program. For purposes of this analysis, the service and costs are included in the Medicaid discussion, although there may be a small amount of non-Medicaid city funding for the services.

HIV/AIDS

The AIDS program provides scientific and public health leadership to combat the spread of HIV, and to provide consultation, referral, and limited medical care services. The services generally consist of testing and counseling, community education and outreach, and medical case management. Both Arlington County and the State of Maryland have programs with activities similar to the District's. The services financed by the local and state governments are supplemented by federal funds.

Workload statistics for 1995 in Maryland show 13,082 cumulative reported AIDS cases in the state, of which 6,731 were in Baltimore City. The District reported 9,264 cumulative AIDS cases in 1995. The AIDS cases in D.C. are the equivalent of 1.60 percent of its population in contrast to .3 percent for Maryland and 1.0 percent in Baltimore. The Maryland rate of new cases was 59 per 100,000 in 1995, while the Baltimore rate was 84 per 100,000.

The District expenditures for this program were $6.1 million in 1995, with much of it being required to provide matching for the $15.5 million in federal aid received. The State of Maryland spent $4.4 million in 1995 and received $10.4 million in federal aid. Local funding ($1 million +) for AIDS in clinical services was identified in the Baltimore city budget, but the exact amount could not be determined separate from other spending. Arlington spent $.5 million and received a $.1 million federal grant.

Conclusion

The District's AIDS program is basic and leverages substantial federal funding. The relative workload in the District is about five times higher than in Maryland and also relatively higher than in Baltimore. Therefore, the relative expenditures compared to Maryland should be five times as high. On a per recipient cost basis, however, the District spends more than Maryland.

ALCOHOL AND DRUG ABUSE

Addiction treatment programs include prevention activities, primary and emergency care, outpatient care, detoxification and 28 day residential treatment, and aftercare. The State of Maryland, jointly with the City of Baltimore provides similar services.

Because a variety of different services are provided to different types of patients, it is not possible to get comparable workload statistics.

The District spent $23.0 million of local funds on its program in 1995. The comparable spending in Baltimore, including state and federal funds was less than $16.5 million. Because an undetermined amount of the Baltimore spending was from federal funds, the net amount of state and local expenditures could not be determined.

Conclusion

The treatment of drug and alcohol abuse is a basic government service. Because comparable workload data is not available, it is difficult to judge comparative expenditures, but it appears that the District's expenditures exceed comparable expenditures in Baltimore by the city and the State of Maryland.

MENTAL HEALTH

SERVICES

The **District** provides treatment for mental health problems for insured and uninsured residents through a public system of acute hospital care, long-term institutional care and community based care.

All of the acute care and most of the long-term care is provided by St. Elizabeths Hospital. However, as a result of the *Dixon* court order, adult patients are also housed in community-based residential facilities. Forensic services are provided for mental health evaluations and treatment of persons referred by the criminal justice system.

Maryland provides long-term care for adults through 6 regional hospitals and for children and adolescents at 3 regional hospitals.

Most acute care, except for a small amount at two state centers, is provided at independent non-governmental general hospitals which recover their costs through reimbursement rates for Medicaid, Medicare, and other insurers. One state hospital provides forensic services. Community mental health services are financed by the state through grants to local providers and through state operation of a mental health center in Baltimore.

Conclusion

> **The District mental health services are essential and similar to those provided by Maryland. In Maryland, however, most acute care services are provided privately and not directly by the government.**

WORKLOAD

District-
800 inpatient cases (about 140 acute care and about 250 forensic). About 20 percent of inpatient admissions are reported to be non-residents.
6,500 additional outpatients treated through various community-based programs. These patients received 283,762 services in 1995.
7.2 patients per 10,000 population were in long-term care in 1995.
498 per 1,000 population were outpatients

Maryland
1,741 average reported inpatients in 1995 (71 acute care and 188 forensic).

3.0 patients per 10,000 population were in long-term care in 1995.
282 per 1,000 population were outpatients.

Comparing workloads is difficult because of differences in the way services are provided and because workload information separating insured patients from uninsured patients is not available. For example, although the District has 25 times as many acute care inpatients as Maryland relative to population, this difference results from Maryland's use of private hospitals for acute care. In the District a substantial portion of acute care patients are probably also eligible for Medicare, Medicaid, or other insurance coverage and not as burdensome as other patients.

The workload may also be influenced by differences in laws. The District has almost 10 times as many forensic patients relative to population as Maryland, even after adjusting out those patients related to federal actions and subject to federal cost reimbursement. One reported cause of the high number of forensic patients is District laws that made it relatively easy to use insanity as a plea in criminal cases. In both long-term inpatient and outpatient workloads, the District far exceeds Maryland.

Taken together, all of the workload numbers confirm a much higher intensity of workload in a central city setting compared to a state. This pattern is substantiated in national literature that finds a high correlation of mental health needs to SSI recipients. Both the District and Baltimore have SSI rates about two and one-half times greater than Maryland. Therefore, if mental health statistics for Baltimore were available separately from Maryland, they would likely show a disproportionate number of state cases originating in the city.

Conclusion

The District's mental health workload is at least double the comparable workload of Maryland.

COSTS

District-over $200 million in 1995; only $113.7 million was from appropriated funds (about $200 per capita) and the balance was from the federal share of Medicaid, Medicare, and other private payers.

Maryland-$334.5 million from general funds (about $67 per capita), including local community-based services.

In addition to the difference in workloads, there are some other less obvious reasons for the large difference in per capita costs:

(1) The District provides acute hospital care, which added $10 million to expenditures. Maryland leaves all but a small portion of this care to the private sector to provide, so there is no equivalent expenditure.

(2) The District reports its share of Medicaid expenditures for mental health services as mental health expenditures. Maryland reports the corresponding expenditures as Medicaid expenditures. This adds about $34.3 million to District spending for which there was not a corresponding Maryland expenditure.

(3) A disproportionately large portion of District mental health spending goes for St. Elizabeths facilities and grounds, and for support services to other human services programs. The facilities support services cost $26.4 million in 1995, or about 23 percent of appropriated expenditures. We were not able to identify the comparable spending in Maryland, but we believe it would be substantially less.

We were not able to adjust exactly for the acute care and Medicaid accounting contributions to high per capita spending, but a reasonable adjustment would probably reduce the $200 per capita to $124, or a little less than double the Maryland per capita spending.

Conclusion

After adjusting for comparability, the District spends about double the per capita amount spent in Maryland. We attribute the higher expenditures to the relatively higher workload in the District caused by its urban characteristics and by a high forensic population. In addition, there are high facilities support costs, principally maintaining St. Elizabeths.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

SERVICES

The District provides:
Full-day educational instruction for all students from pre-kindergarten through grade 12;
Special educational and attendant services for learning disabled, emotionally disturbed, physically disabled, language and speech impaired, and mentally retarded students aged 3 to 21;
Full-day early childhood and Head Start programs for pre-kindergarten children;
Adult education services to achieve basic education, G.E.D., and high school diplomas;
Ancillary services, including school lunches and breakfasts, career and vocational programs, transportation for special education students, athletics, and a variety of relatively small specialized programs for students with specific interests or problems.

Baltimore provides:
Similar basic K-12 educational programs;
School food services, career and vocational services, and student athletics;
Half-day kindergarten and pre-kindergarten;
Special education programs, including transportation, as required by federal law;
Adult education.

Alexandria provides:
Similar basic K-12 educational programs
Special education programs, including transportation, as required by federal law;
Adult education;
Supplemental education programs.

Baltimore and Alexandria are urban school systems that have student enrollments with similar economic and demographic diversity to the District's. Baltimore provides fewer specialized programs than the District, such as minority language education. Alexandria's supplemental programs appear comparable to the District's, but Alexandria has no pre-school program for most children.

Conclusion

District educational services are essential. Special education services are required by federal law. The District also provides a range of discretionary services, that are more extensive than those provided by Baltimore, especially for kindergarten, pre-kindergarten, and specialized educational programs. Alexandria provides discretionary services that are similar to those in the District, except for pre-kindergarten.

WORKLOAD

District-
78,591 in 1995 (including 5,375 aged 3 and 4 in pre-kindergarten).
K-12 enrollment 73,216, about 12.8 percent of population.
About 7,500 special education students, about 10 percent of students

Baltimore-114,530 in 1995 (including 5,113 aged 3 and 4 in pre-kindergarten).
K-12 enrollment 109,425, about 15.6 percent of population.

Alexandria-10,043 in 1995, about 8.7 percent of population.
About 1,612 special education students, about 16 percent of students.

Conclusion

> **The District has a somewhat smaller relative workload as measured by students than Baltimore, but a much higher relative workload than Alexandria.**

COSTS

District-
$613.7 million from local appropriated funds in 1995 ($7,733 per student)
$58.8 million for special education
$24.7 million for management ($338 per pupil)
$1,190 per pupil for teacher retirement
$148 per pupil for food services

Baltimore-
$611.6 million including state payments in 1995 ($5,340 per student).
$117.8 million for special education
$17.8 million for management ($163 per pupil)
$494 per pupil for teacher retirement
$14 per pupil for food services

Alexandria-$81.9 million in 1995 ($8,164 per student).

While each of these cities has different socio-economic characteristics, there is no evidence that these differences are the principal causes of differences in relative expenditures.
There are several apparent reasons, however, for Baltimore's lower relative expenditures, including: half-day pre-school and kindergarten, lower physical facilities costs, lower retirement costs, limited supplemental food services, and fewer specialized educational programs. For example, the District spends over four times as much as Baltimore on pre-kindergarten; retirement cost for teachers is more

than double on a per pupil basis; physical facility costs are almost $500 per pupil higher in the District than in Baltimore; and food costs per pupil in the District are more than 10 times higher than in Baltimore. District expenditures for special education, however, are substantially lower than Baltimore's. Some of this difference may have been caused by a higher workload.

Alexandria's spending equaled or exceeded the District's in most areas, except physical facilities, food services, retirement, and pre-kindergarten. In some cases, such as general education services and minority language education, Alexandria's spent much more. These two services alone totaled almost $800 per pupil of higher spending in Alexandria.

Management costs in the District appear to exceed those in Baltimore, both in total and as a cost per pupil. Some of this difference may be attributable to differences in costs that are identified as management. Nevertheless, the District's management costs seem high relative to Baltimore's. While Alexandria's management costs appear relatively higher than the District's on a per pupil basis, this difference probably reflects the relatively small student enrollment that the costs must be spread over.

Conclusion

> **The District's public education expenditures are higher than Baltimore's because of discretionary spending on pre-school education, food services, and specialized education services, and because of mandatory spending on teacher retirement. The District also spends more on general education, physical facilities, and management. We were unable to determine the exact causes of the higher spending. The District spends less per pupil than Alexandria, but Alexandria's expenditures may be affected by a relative enrollment workload only about two-thirds as high as the District.**

HIGHER EDUCATION

SERVICES

The University of the District of Columbia (UDC) is a federally recognized land-grant institution of higher education comprised of two colleges, a law school, and a continuing education program. All states have land-grant universities. UDC also conducts research and provides extension services. The District subsidizes UDC so that it can provide reduced tuition for residents. All higher education services financed by the city are provided through UDC.

Maryland higher education facilities include a land grant university, 12 other four-year state operated colleges and universities, a state-operated community college in Baltimore, assistance to 17 local community colleges, financial aid to 15 independent colleges and universities, and scholarships to Maryland residents.

Virginia operates two land grant universities, 15 other colleges and universities, and 23 community colleges.

Both state systems provide education to state residents at reduced cost, and their degree and other programs are very diverse. Some higher education services are financed by local governments in Maryland and Virginia.

ELIGIBILITY

There are no substantial differences in eligibility between the District, Maryland, and Virginia. All residents who graduate from high school may enter some type of higher education facility at reduced tuition. Non-residents are admitted at full tuition when capacity exists.

WORKLOAD

District–UDC total enrollment of 10,599 (1.8 percent of population); full-time equivalent 6,476 (1.1 percent).

Maryland–combined total of 158,977 full time equivalent students (about 3.2 percent of population).

Virginia–total enrollment of 293,359 (4.5 percent of population).

No information is available on the numbers of students who are residents of the three jurisdictions, but the proportion of residents is undoubtedly lower in Virginia and Maryland than at UDC.

A better measure of workload may be to compare enrollments to school-age population:

District–full time-equivalent enrollment is 8.1 percent of school-age population.
Maryland–full-time equivalent enrollment is 19.8 percent of school-age population.

Workloads are clearly higher in Maryland and Virginia, probably because of greater numbers of non-resident students and greater diversity in educational programs.

Costs

District–$53.9 million from general fund in 1995; $8,323 per full-time equivalent student; $5,085 per total student; $93 per capita.

Maryland–$789.0 million from general fund in 1995; $4,963 per full-time equivalent student; $159 per capita.

Virginia–$981.1 million from general funds in 1995; $3,344.0 per total student; $153 per capita.

These per student comparisons are misleading because they do not adjust for the larger numbers of non-resident students who pay higher tuition in Maryland and Virginia. This reduces the apparent cost to the government on a per student basis. The lower District per capita cost is attributable to workloads, as measured by enrollments, that are less than half those in adjoining states.

Conclusion

> **The operation of a land grant university by the District of Columbia is a basic state service. Maryland and Virginia provide a wide diversity of higher education services that substantially exceed those available to District residents. District higher education workloads, as measured by relative enrollments, are substantially lower than those in adjoining states. As a consequence, the higher education costs are also relatively lower in the District when measured on a per capita basis.**

TRAINING

SERVICES

The District provides job training for both youths and adults. Most of the training funds spent by the District come from federal grants. The main grant, the Job Training Partnership Act (JTPA), requires no local match and provides funds to establish training programs to prepare economically disadvantaged adults and youth for entry into the labor force and to address the retraining needs for adults who are unemployed as a result of dislocation. Adult programs include literacy training and academic remediation to enable participants to pass the General Equivalency Diploma or just enter the labor force. In addition, adult programs provide occupational skills training in the areas of hospitality, building services, secretarial and general clerical work as well as in telecommunications, allied health services and office automation. On-the-job training and pre-apprenticeship programs, benefiting more youths than adults, are also provided.

The District supplements federal funds with local funds. The largest locally funded program is the summer youth employment program. The District also offers training for youth in school, out of school, and with potential for leadership, and training and retraining for adults.

Maryland also offers the programs financed by JTPA but spends a relatively small amount of its own funds for other programs such as training for older workers and training allowance payments to JTPA participation in classroom training. Apparently Maryland does not offer a summer youth employment program.

Conclusion

Most locally funded training services are discretionary. While the District's federal grant-funded training services are comparable to Maryland's, its locally funded services are more extensive.

WORKLOAD

(Program Year 1994)

District:

-JPTA adult and youth participants–1,091

-JPTA dislocated worker participants–1,282

Maryland:
- -JPTA adult and youth participants–16,675
- -JPTA Dislocated worker participants–6,595

Conclusion

No comparable workload measures were available for the locally funded training programs.

Costs

District–$14.1 million
- –Summer youth employment–$6.4 million
- –Other youth training–$1.8 million
- –Adult training–$2.6 million
- –Related management and support, skills testing, and job development–$3.4 million

Maryland–$2.6 million

While 61 percent of the District's total FY 1995 training expenditures were financed from the federal grants, 97 percent of Maryland's were so financed.

Conclusion

In FY 1995 the District's training and associated costs in local funds were over 48 times Maryland's costs relative to population because Maryland relies almost exclusively on federal grants.

POLICE

SERVICES

The **District** protects persons and property in the city through police enforcement of criminal and traffic laws. The police act to: prevent violations; investigate and apprehend those who break laws; and generally maintain order. In addition, they direct traffic and control crowds; work with communities to relieve problems; provide special services for protecting government officials, foreign embassies, and international dignitaries.

The District is assisted by a variety of federal government law enforcement agencies. The District also has some administrative duties that it performs to assist the federal agencies.

Baltimore provides comparable services (as do all cities). While ceremonial and protective duties are less in Baltimore, it receives less assistance from federal law enforcement agencies in support of its police services.

Conclusion

Police services are essential and are provided by all cities.

WORKLOAD

There are no accepted ways of measuring police workload because of the varied duties and responsibilities. Workloads for regulating traffic and crowd control have little relationship to workloads involved in investigating homicides. However, it is possible to measure arrests.

District-49,586 arrests in 1994; 10,781 for serious crimes.
Baltimore-73,123 arrests in 1994; 21,867 for serious crimes.

Because Baltimore is larger both geographically and in population, the larger number of arrests is expected. Size alone does not fully account for the difference. It is likely that the District's lower arrests may result from arrests made by federal police forces.

Conclusion

We are not able to evaluate the District's workload for police services, but its activities, as judged only by arrests, is relatively lower than Baltimore's.

COSTS

District-$366.8 million in 1995 ($223.4 million after retirement costs of $142.4 million).

Baltimore-$194.4 million in 1995 ($171.5 million after retirement costs of $22.9 million).
Philadelphia-$344.2 million in 1995 ($308 million after retirement costs of $36.2 million).

It appear that District spending was higher than Baltimore's in all categories, except perhaps general administration and support, as shown below:

($ Thousands)

Police Activities	District	Baltimore
Patrol	131,482	100,616
Criminal Investigations	24,480	13,140
Traffic and Special Operations	10,322	8,473
Youth Services	3,437	2,724
Personnel and Training	10,628	3,504
Communications	7,916	7,663
Medical	3,058	961
Administration and Support	32,081	34,378
Total	223,404	171,459

This comparison with Baltimore suggests that the higher spending is not attributable to any one cause, such as the federal presence that directly affects traffic and crowd control activities. Philadelphia, with two and one-half times the population, spent less in total than the District. Exclusive of retirement costs, Philadelphia's spending was only about a third higher than the District's.

Conclusion

The District spends far more on police services than Baltimore and Philadelphia. While retirement costs account for a significant portion of the differences, other costs are still much higher on a relative basis for reasons we were not able to determine. We do not find evidence that workload factors account for the higher expenditures.

ADULT CORRECTIONS

SERVICES

The District provides the following services:

- Confines in jail adults awaiting indictment, trial, and sentencing.
- Confines in prison sentenced adult offenders.
- Assesses incoming detainees and prisoners.
- Feeds, clothes, and transports inmates.
- Tests for substance abuse.
- Provides health care and treats substance abuse.
- Provides safety and security.
- Operates work details.
- Provides rehabilitation and teaches work skills.

In September 1995, the District had jurisdiction over approximately 10,500 offenders, including about 1,300 pretrial detainees. An additional 780 offenders are assigned to community release programs.

The District operates a detention facility, a treatment center, seven prisons (one prison was closed in FY 1996), seven community corrections centers (halfway houses), and an electronic monitoring program. The District court operates an urban boot camp that is grant-funded.

The District also pays the federal Bureau of Prisons and out-of-state private vendors for housing approximately 480 DC prisoners.

Maryland and its subdivisions perform essentially the same services. The state Department of Education spends about $10 million on inmate education programs, and the state operates a boot camp for young adults. Maryland also operates the jail in Baltimore.[2] Compared to the District, Maryland relies more on regional pre-release facilities rather than community halfway houses

Virginia has essentially the same services, but also operates a boot camp and has several work crew units

Conclusion

> **Detention, imprisonment, and provision of community corrections for adults are essential services and are similar to those services provided by Maryland and Virginia.**

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[2] In most states, jails are operated by county governments or other local jurisdictions.

Workload

Prisons
District–9,220 sentenced adult inmates (1.9 percent of the 1990 adult population) in October 1995.

Maryland–23,996 sentenced inmates (0.7 percent of the adult population).

Virginia–23,919 inmates sentenced for more than two years (0.4 percent of the adult population).

The 1995 survey results reported in the 1996 American Correctional Association Directory indicated that 48 percent of the District's prison population were in maximum and close security, compared to only 14 percent in Maryland and 31 percent in Virginia.

Detention
Relative to total population, the District (0.27 percent) has more detainees than Maryland (0.09 percent). By another workload measure, length of stay, the District's burden current 48-day length of stay is more than twice the national average of 22 days and twice that of Maryland.

Pre-Release and Halfway Houses
The District and Maryland both have about 8.5 percent of total prisoners in pre-release centers or halfway houses. The 1995 survey results reported in the 1996 American Correctional Association Directory use a different classification and showed that 71 percent of the District's total prison population was in prison, compared to 81 percent in Maryland and 84 percent in Virginia.

Conclusion

> **The District's correctional workload as a percentage of adult population is more than two and one-half times the size of Maryland's. The District's workload in terms of length of prisoner stay and security level is greater than Maryland's.**

Costs

District
Prisons–$238.8 million in FY 1995 (prisons and detention); $22,674 per inmate in 1994.
Detention–$19,258 per inmate in 1995.
Maryland
Prisons–approximately $450 million; $18,257 per inmate in 1994.
Detention (Baltimore)–$13,870 per inmate in 1995.
Virginia–approximately $450 million; $17,013 per inmate in 1994 (prisons).
Arlington County–$23,756 per inmate in 1994 (detention).

Although the District population is only one-eighth the size of Maryland's and one-ninth of Virginia's, District relative correctional costs are much higher because of the much higher workload and because the District spends more per inmate. As an urban area, the District has a higher incidence of crime and a higher population of prisoners than Maryland and Virginia with their mix of urban, suburban, and rural characteristics. This comparison may understate the difference because the District includes both detention and prison costs while Maryland includes only prison costs (except for Baltimore) and Virginia includes only prison costs.[3]

The District's spent $23.7 million on medical care and $21.3 million on plant operations and management. This is about 60 percent of Maryland's expenditures on those items. On an inmate basis, however, these costs were 30 to 35 percent higher in the District. Food costs per inmate were the same in both jurisdictions.

National Council Review

A review of the relative costs of the District's correctional system by the National Council on Crime and Delinquency concluded that while the per inmate costs were not out of line with other systems, the services were inadequate. The study points specifically to the poor condition of the correctional facilities, overcrowding and the need for 2,000 additional beds, and inadequate institutional staff. While service levels are inadequate, the Council concluded that the District's costs are kept high because of inefficient and inadequate facilities. Further, there are 11 outstanding court orders governing space, staffing levels, rehabilitation, and medical services, as well as cumbersome personnel and procurement policies and procedures that result in high costs. By contrast, Maryland has only one outstanding consolidated court order, and the state is nearly in compliance.

Conclusion

> **The District's adult correctional costs are higher than Maryland's because they include detention costs, do not benefit from economies of scale, and reflect a much higher workload and a variety of factors relating primarily to the relative inefficiency of the District system.**

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[3] Per inmate costs in the six states that combine local detention and state prison functions were generally equal to or higher than the District's (Alaska, Connecticut, Delaware, Hawaii, Rhode Island, and Vermont). National Council on Crime and Delinquency, District of Columbia, *Department of Corrections Study: Final Report*, January 30, 1996, p. 167.

JUVENILE CORRECTIONS

SERVICES

The **District**, if mandated by the courts, must care for, treat, and confine, up to age 21, juveniles who are:

- Committed to its custody as delinquents;
- Detained pending trial; and
- Not convicted of a law violation but may be truants, runaways or beyond parental control.

District services can include:

- Behavior management or modification;
- Drug treatment;
- Family counseling; and
- Educational support.

Services are rendered in day treatment programs. Residential care is provided in three types of settings:

- 18 community-based group homes for short-term, out-of-home placement;
- 3 staff-secure residential care programs with a higher staff-to-resident ratio for youths more difficult to supervise.
- 3 institutional care facilities, including one out of state, for youth who have been detained or adjudicated for serious or violent offenses.[4]

The Youth Services Administration in the Department of Human Services operates most of the District's juvenile corrections programs. The Social Services Division in the D.C. Court System, in addition to probationary services, investigates complaints dealing with delinquent youths; tests and treats for drug use; and provides counseling, education and job training, and intensive supervision of non-violent felony offenders. Probationary and related services are executive functions in Maryland and Virginia.

Maryland provides the same services, but its more extensive system includes separate diagnostic and reception, detention, and long-term commitment centers that offer separate treatment programs for the different populations. Maryland operates or pays for 3 institutional care facilities, 9 community-based centers, 6 detention centers, 1 boot camp, and 80 group homes.

Virginia–provides the same services, and also includes separate diagnostic and reception, detention, and long-term commitment centers that offer separate treatment programs The state operates 7

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[4]To a large extent, the District's services to detained, adjudicated, or delinquent youth are dictated by the Jerry M. consent decree (1096), which requires that the District achieve industry standards and place youth in the least restrictive setting.

residential facilities, 4 community based centers, and a boot camp. The state also gives money to localities to construct and operate detention centers, group homes, and other facilities; to establish offices on youths; and to operate delinquency prevention programs.

Arlington County–with state and local funds, runs 8 residential facilities and maintains an in-home service program for youth who are at risk for more serious court placements.

Conclusion

> **The supervision and treatment of adjudicated, detained, and wayward youth are essential services and are provided in Maryland and Virginia.**

WORKLOAD

District–

- an estimated 880 committed youth in FY 1995 (a duplicated count);
- 2,600 detained or alleged delinquents; and
- 300 youth in need of supervision.
- 465 youths under the Jerry M. consent decree and 269 under high-intensity treatment; and 673 juvenile social investigations (Court Social Services Division).

While representing only part of the workload, the committed population data are the only readily available statistics that can be compared by jurisdiction. According to the American Correctional Association 's 1996 Directory, in 1995:

- The D.C. Youth Services Administration supervised 693 committed juveniles in residential facilities (0.87 percent of the 1990 population age 5 to 18).
- Maryland supervised 1,734 committed juveniles in residential facilities (0.22 percent of the population age 5 to 18).
- Virginia's relative workload was even lower, 0.09 percent of the 1990 youth population.

No other comparison of workloads is possible, however, because of definitional differences.

Conclusion

> **The District's juvenile corrections workload as measured by committed population is four times that of Maryland and almost ten times as high as Virginia. Because key comparable data about detainees and persons in need of supervision are not readily available, we do not know if this difference represents the entire workload.**

COSTS

District–

- $35.3 million in local funds in FY 1995 (not including expenditures by the DC Court System which are not separately reported).
- $51,726 known per unit costs for all services (including day programs) for committed juveniles in 1995.

Maryland–

- $105.9 million in FY 1995.
- $61,096 per unit costs for committed juveniles in 1995.

The District costs were about 34 percent of Maryland's but its population is only about 12 percent of Maryland's. The higher costs reflect a relative workload that is four times greater than Maryland's. Because the District supervises more detained youth awaiting final case disposition and relies more on out-of-state placements because of limited institutional facilities, the District's unit costs would be expected to be higher.

Possible explanations for the lower District per unit costs might be found in differences in mixes and intensity of institutionalized and day treatments, staff/youth ratios, and maintenance and repair costs. Further, the Maryland costs include the juvenile probation program which is operated in the District by the D.C. Superior Court. Though a relatively small cost, the District 's administrative expenditures were only 26 percent of Maryland's, even though the D.C. committed youth population was 34 percent as high as the state's.

Conclusion

The District's costs for providing juvenile corrections services are relatively higher than Maryland's because of a much greater workload. Without a further examination of cost and workload differences between the District and Maryland, our evaluation of per unit costs is inconclusive.

PAROLE SERVICES

SERVICES

The **District** (1) determines eligibility for parole from correctional institutions, (2) verifies parole release plans, (3) supervises and monitors persons on parole, and (4) requests warrants to arrest parole violators. The quasi-judicial Parole Board develops the District's parole policies.

Parole services include:
- Reviewing information on prisoners who are eligible to be considered for parole;
- Preparing responses to writs of habeas corpus related to parole denials;
- Collecting information from victims to use in making parole decisions;
- Conducting release and revocation hearings; and
- By interstate compact, supervising parolees from other states who are residing in the District.

Maryland provides the same services.

Conclusion

Determining parole eligibility and supervising parolees are basic services, and the District's services are comparable to Maryland's.

WORKLOAD

Active parole population, December 31, 1995:
District–6,696
Maryland–15,748
Virginia–10,188

Conclusion

Because of its urban characteristics, the District's parole services workload relative to total population is over three and one-half times Maryland's and almost seven and one-half times Virginia's.

COSTS

District–$5.4 million

In **Maryland,** the same staff investigates and supervises parolees and probationers, and parole costs are not separately reported.

Conclusion

While Maryland's costs of parole services cannot be isolated, the District's costs must be higher relative to population because of its higher relative workload.

TRANSPORTATION

MASS TRANSIT

SERVICE

The District provides bus and rail transit services through participation in the Washington Metropolitan Area Transit Authority, an agency created by interstate compact between the District, Maryland and Virginia.

The District's share of the cost is determined by a formula that takes into account measures of the regional services provided in the city, the federal contribution, and the fares that are attributable to services used in the city. The District can control its costs by changing bus services or by changing the bus and rail fares charged in the city. Changes in rail service can be made only by all participating governments.

All major suburban jurisdictions provide rail services similar to those in the District, and all the governments provide subsidized bus service. Suburban bus services are not all provided through the Authority, and they are generally not as extensive as those in the District. Fares for bus and rail services vary by jurisdiction and are generally higher in the suburbs.

Baltimore has bus, rail, and light rail services provided by the state. These services are generally comparable to those in the District.

Conclusion

> **The provision of bus and rail services is basic, but the level of bus service and the fare structure for bus and rail services are discretionary. Rail services can only be changed by joint action of participating governments.**

WORKLOAD

Workload information attributable specifically to the District is not available because of the regional nature of the bus and rail systems.

COSTS

District-$123.1 million from appropriated funds in 1995: $93.1 million or $163 per capita for bus service; $30.0 million or $53 per capita for rail transit.
Arlington-$79 per capita for bus service: $55 per capita for rail service.
Maryland-$55 per capita for bus and rail services (Washington suburbs, Baltimore region, other parts of the state).

These expenditures do not include capital costs that are included in general debt service. The District's expenditures are high when compared to those in adjoining suburbs because of the extensive bus route system. The District's total mass transit expenditures also are high when compared to Maryland's adjusted for population.

The District's high cost of bus services on both an absolute and relative basis to rail service is significant because the city has direct control over bus service levels and fares. Whereas, without regional agreement, any substantial rail cost reduction will probably have to come mostly from fare increases and not service reductions.

Conclusion

The District has very high mass transit expenditures, especially for bus services.

STREET, HIGHWAY, AND BRIDGE SERVICES

SERVICES

The District maintains road and bridge surfaces and structures, sidewalks, and gutters in a safe condition;
Maintains street trees and landscaping adjacent to streets;
Cleans streets;
Provides street and traffic lighting, signs, markings and signals;
Removes snow and ice from roads; and
Provides traffic and other engineering support.

Together, these are basic transportation services universally provided by local or state governments.

Some or all of these services are typically financed from highway user taxes and fees. In the District, these services were financed from the general appropriated funds in 1995, but some of these costs in future years will be paid from a highway trust fund. Maryland provides full funding for Baltimore's transportation costs, including all of the above services, from half of state collected highway related taxes. Arlington County provides these services from a combination of local and state revenues.

Conclusion

The provision of a range of street, highway, and bridge services is an essential government service.

WORKLOAD

District-street services are provided to an estimated 1,040 miles of roadway and 237 bridges (about 60 percent of the workload reported by Baltimore).

Qualitative workloads are difficult to compare. We also were not able to determine the exact extent to which the District's workload is reduced by federal street services through the U.S. Park Service and other federal agencies, but available information suggests it is probably less than 10 percent.

COSTS

(in 000s)

	District	Baltimore	Arlington
Street Markings and Signs	$3,962	$4,048	$ 771
Traffic Signals	$2,418	$4,518	$1,494
Street Lights	$6,706	$15,588	$1,867
Street Cleaning	$8,036	$17,110	$ 435
Street and Bridge Maint.	$2,480	$21,780	$3,698
Street Trees & Landscaping	$2,003	$2,929	$1,439
Engineering	$1,809	$3,241	$ 655
Snow Removal	$1,245	$1,374	$ 470
Administration and Support	$8,348	$9,728	$ 658
Total	$37,007	$80,316	$11,487

Baltimore outspent the District in every category of street services and in lighting, cleaning, and maintenance, by more than double. Arlington County total spending on street services exceeds the District relative to population.

Conclusion

The District spends proportionately less on street services than Baltimore and Arlington County. Except for the somewhat reduced workload caused by federal provision of services, we are unable to determine why District expenditures are less.

PARKING ENFORCEMENT

SERVICES

The District regulates and manages parking, enforces parking regulations, and adjudicates infractions. The cost was $9.2 million in 1995. These services generate offsetting revenues.

Parking enforcement services are provided also by Baltimore ($13.1 million in 1995), Arlington County, and most urban local governments.

Conclusion

> **Parking enforcement is a necessary service and is revenue generating. The District's expenditure is generally comparable to the amount spent by Baltimore.**

DRIVER'S LICENSES, MOTOR VEHICLE REGISTRATIONS, AND RELATED SERVICES

SERVICES

The District tests and licenses drivers, oversees vehicle testing and emission inspections, registers and titles vehicles, and maintains a variety of records. All states provide similar services.

The District has a slightly higher workload than Maryland, as measured by driver's licenses issued and motor vehicles registered relative to population. However, the District's $5.7 million expenditure for these services is less than the state pro-rata $15.1 million expenditure for providing those services in Baltimore. The apparent much higher expenditures for these services in Maryland is apparently caused by the need to maintain a large number of regional offices because of the state's geographic area.

Conclusion

> **The issuance of Driver's licenses, registering of motor vehicles, and related activities is an essential state service. The District's expenditures for these services are relatively lower than the comparable expenditures in Maryland.**

FIRE AND EMERGENCY MEDICAL SERVICES

SERVICES

The **District's** fire services consist of: preventing fires, and when fires do occur, rescuing people involved, protecting adjacent properties, and extinguishing the fire. Fire services also respond and provide assistance and protection in a variety of non-fire emergencies, such as chemical spills, tornadoes, and floods.

Emergency medical services (EMS) consist of: pre-hospital patient care by trained providers and transportation to appropriate medical facilities.

Baltimore and **Arlington County** provide the same services with only slight differences. The District and Baltimore provide marine protection, but Arlington County does not. The District provides some additional federal government protective services, such as when the President leaves by helicopter, Baltimore and Arlington do not generally have to provide these services.

Fire and emergency medical services are provided by local governments across the country, although a few governments provide emergency medical services through private firms that charge a fee.

Conclusion

Fire services are an essential city service. Emergency medical services are a basic service provided by most city governments.

WORKLOAD

District-
41,462 fire and general emergency services in 1995 (about 73 per 1,000 population). 103,599 EMS services (182 per 1,000 population).

Baltimore-
63,709 fire and general emergency services (91 per 1,000 population).
149,044 EMS services (213 per 1,000 population).

Arlington County-
6,789 fire and general emergency services (39 per 1,000 population).
7,514 EMS services (43 per 1,000 population).

Measuring workload by gross services and in relation to total population may not fully reflect other factors. These include a high tourist population and special federal government requirements in the

District. However, Baltimore includes substantial industrial, chemical, and other difficult commercial exposures, as well as an active port facility. Overall, while there are differences, the District and Baltimore workloads relative to population should not be greatly different.

Conclusion

The fire and emergency medical service workloads in the District are no heavier, and may be less on a relative basis, than those in Baltimore. The District's workload is substantially higher than Arlington County's.

COSTS

District-$150.4 million for fire and EMS in 1995 ($88.9 million after retirement costs of $61.5 million, or about 41 percent of the total).

Baltimore-$94.3 million for fire and EMS ($85.9 million after retirement costs of $8.3 million, or 9 percent of the total).

The District's non-retirement expenditures of $88.9 million exceeded Baltimore's $85.9 despite Baltimore's larger population and greater workload. District suppression and prevention costs closely paralleled Baltimore's in proportion to population. However, the District's EMS and administrative expenditures were at least double those of Baltimore on a comparable population basis. We were unable to determine why these expenditures were higher. Arlington County's expenditures were substantially less than the District in all categories of service both relative to population and relative to workload.

Conclusion

The District expenditures for fire and emergency medical services far exceed those in Baltimore and Arlington County. The principal reason is the District's high retirement costs, but the city also has very high EMS and administrative costs on both an absolute and relative basis.

COURTS

SERVICES

The District provides the following services:

The D.C. Court of Appeals reviews appeals of Superior Court judgments as well as decisions and orders of D.C. government administrative agencies (final appeal judgments are reviewable by the U.S. Supreme Court). That court also oversees the practice of law.

The D.C. Superior Court (the District's court of general jurisdiction):

- Adjudicates all local legal matters. Local litigation includes criminal, civil, juvenile, domestic relations, probate, civil and criminal tax suits brought by or against the District, landlord and tenant, and traffic cases.

- Operates probation for adults and juveniles. The court's Social Services Division conducts case management, operates electronic home monitoring, and provides comprehensive drug treatment and tracking for offenders.

- Counsels batterers and victims of domestic violence and child abuse, determines and enforces child support (see Child Support report), and places abused and neglected children (see Foster Care and Child Welfare report).

- Manages and pays fees to private attorneys who represent indigents in criminal cases, and matters related to child abuse and neglect, guardianship, and adult protection services.

- Trains volunteers and conducts a civil conciliation and mediation program to help relieve the court workload.

- Operates several grant-funded programs: (1) intense supervision for offenders ages 14-26, which consists of a boot camp and intensive probation, or supervised jobs or training; (2) a multiservice community center providing counseling, drug testing, employment services, and intensive and electronic monitoring of probationers; and (3) testing, tracking, treatment, and graduated sanctions for adult drug offenders under court supervision.

Maryland operates a system of state and local courts, and appears to provide the same kind of services. The Maryland orphans', district, and circuit courts taken together are comparable to the D.C. Superior Court. To a limited extent, the circuit courts monitor adult probationers and test and treat for drug abuse. They also conduct voluntary pretrial settlement programs. Maryland executive agencies perform the bulk of probationary services. It is not possible, however, to determine if through both branches of government Maryland's probationary, mediation, and family services are as extensive and intensive as the District's.

Several organizational differences between the District and Maryland make comparisons difficult without a detailed cost allocation. For example:

- Land instruments are recorded by the Recorder of Deeds in the District's executive branch and by the circuit court clerks in Maryland.

- The District and Maryland both use the judicial approach to child support enforcement, but DHS has fewer responsibilities than some Maryland local administrative agencies.

- Juvenile probation is handled by the court in the District, but largely by the executive branch in Maryland (the costs in Maryland also are combined with other costs of supervising and housing juvenile offenders).

Conclusion

The District provides the same kinds of judicial and related services as Maryland. Those kinds of services are essential. Further study is required to determine whether the scope and number of the District's judicial and related services go beyond a basic level.

WORKLOAD

District–New case filings constitute a workload measure that is fairly free of institutional influences, such as backlogs and scheduling. The following new filings were recorded in calendar year 1995:
- 99,411 civil cases;
- 39,651 criminal cases (including felony pre-indictments, misdemeanors, and traffic violations);
- 20,482 adults and juveniles under court supervision;
- 18,348 Family Division cases (including abuse and neglect, juvenile, paternity and child support, and divorce, custody, and intra-family cases);
- 3,025 Probate Division cases; and
- 429 tax cases.

There also were:
- 1,832 cases filed with the Appeals Court;
- 7,142 cases referred to court-based alternative dispute resolution (4,760 civil cases, 1,827 small claims cases, and 555 family mediation cases)
- 3,200 adult offenders reporting monthly for drug testing.

Maryland–For 1995, combined filings from the circuit and district courts were 330,751 civil filings and 317,446 criminal filings.

Comparing the District's workload with Maryland's produces some anomalous results. In 1995, the District, with less than one-eighth the estimated population of Maryland, had almost one-third of the state's combined civil filings. That the District has a large number of civil filings relative to population is not surprising given its urban characteristics and the amount of commercial activity. However, the District's criminal filings were only one-eighth of Maryland's, an unexpected result given the greater incidence of crime in urban areas. Definitional obstacles prevented other workload comparisons.

Conclusion

No conclusion regarding the workload facing the District court is possible without further analysis.

COSTS

District–$87.3 million in local funds in FY 1995, excluding fees paid for indigent representation, but including the contribution for judges' retirement.

Maryland–$153.8 million in nonfederal funds on courts and related administrative and support agencies; $216.4 million state and local nonfederal costs combined. The costs would be slightly higher if the orphans' courts and law-practice oversight costs were included.

To put the District and Maryland court costs on a comparable basis, we removed the Social Services Division and judges' retirement from District totals. Relative to estimated population, District adjusted court costs were then $113 and Maryland's, $43.

Several factors might explain this large a difference. As an urban area, the District would be expected to have a much higher criminal and civil court caseload compared to population. The workload measures above do not substantiate this conclusion. In addition, although electronic recording and processing have transformed many court functions, judicial services everywhere remain labor intensive. Therefore, the higher District compensation level greatly increases the cost differential. District general trial court judges, for example, earn 43 percent more than their Maryland counterparts. On the other hand, the District's unified court system should offer some efficiencies in overhead not possible in the layered Maryland system.

Conclusion

District court expenditures are substantially higher relative to its population than Maryland's. The differences are probably largely attributable to the District's urban characteristics and higher judicial compensation, but a more conclusive finding would require more analysis.

PRETRIAL SERVICES

SERVICES

The **District** assists federal and local trial and appellate courts by (1) providing background information on persons charged with felonies to determine eligibility and conditions for pretrial release and (2) monitoring compliance with court-ordered conditions of pre-trial release. Thus the District:

- Interviews detainees;
- Verifies information provided in the interviews;
- Checks criminal histories;
- Tests for drug use (including parents charged with child abuse);
- Identifies cases eligible for pretrial detention;
- Makes conditional release recommendations;
- Supervises released persons; and
- Reports on compliance and violations of release conditions to the court.

Release conditions include:

- Regular drug testing;
- Enrollment in a drug treatment program;
- Curfew restrictions;
- Release to a custody organization; or
- Other regular contact.

In FY 1995, the District Pretrial Services Agency also maintained a criminal justice information system which collects, stores, and disseminates criminal history information and management information.

The Maryland Department of Public Safety and Correctional Services provides the same services for the City of Baltimore. The Division of Pretrial Detention and Services operates the pretrial program, while the Office of the Secretary Data Services Program maintains the criminal justice information system for the entire state.

Conclusion

Pretrial services and criminal justice information systems are basic services, and the District's services are comparable to those provided in Baltimore.

Workload

District–26,495 pretrial interviews
Baltimore–29,741 pretrial interviews

Conclusion

In terms of incoming arrestees, the District's pretrial program has a slightly higher workload than Baltimore's relative to population. No comparable workload measures were available for the information systems.

Costs

District–$3.2 million
Baltimore–$2.6 million

Baltimore costs do not include the share of administrative costs in the Maryland Division of Pretrial Detention and Services or the costs of maintaining a criminal justice information system. Removing an estimated $0.4 to $0.5 million for those costs from the District's Pretrial Services Agency total makes the District spending equal to the Pretrial Release Services Program in Baltimore.

Conclusion

The District's costs of pretrial services appear to be slightly higher than Baltimore's relative to population.

INDIGENT REPRESENTATION

SERVICES

The **District** provides for legal representation for any eligible indigent taken into custody under any proceedings in accordance with District laws involving possible incarceration. As required by the D.C. Criminal Justice Act (CJA), representation is provided in:

- Adult criminal matters, including custody interrogations, preliminary hearings and arraignments;
- Appeals;
- Juvenile cases;
- Post conviction proceedings and other collateral matters;
- Probation and parole revocations; and
- Mental health and mental retardation matters.

The District also provides for legal representation of children, parents, and families in child abuse and neglect proceedings (Counsel for Child Abuse and Neglect or "CCAN"). Representation is also provided for abused adults on an interim basis, and when necessary, on a permanent basis through court-appointed guardians in a separate program.

The D.C. Superior Court appoints and manages the attorneys and manages program fees. The Office of Public Defender interviews defendants for eligibility for CJA legal counsel, but the Court allocates cases between that office and the Bar. The more serious matters stay with the Public Defender. Appointed attorneys continue to handle a case from point of entry to final disposition.

Maryland provides indigent representation for the same matters. Legal defense assistance is provided primarily by staff attorneys in the state Office of the Public Defender, but also by private attorneys who are paid on a fee basis. While the Public Defender represents defendant parents in child abuse and neglect cases, the Maryland Department of Human Resources contracts with provider groups and individual private attorneys to represent the children.

Conclusion

The District's indigent representation services are basic and are comparable in kind to those provided in Maryland.

ELIGIBILITY/BENEFITS

District

- Defendant with no dependents, $803 gross monthly income (with medical expense allowance)
- Defendant with two dependents, $1,316 gross monthly income (with allowances for certain expenses)
- Felony case maximum, $2,450 (unless court grants exception)

- Misdemeanor case maximum, $1,300 (unless court grants exception)
- Child abuse and neglect case maximum, $1,100

Maryland
- Defendant with no dependents, $613 monthly income after taxes
- Defendant with two dependents, $790 monthly income after taxes
- Felony case maximum, $1,000
- Misdemeanor case maximum, $500
- Child abuse and neglect case maximum, $500

Conclusion

The District provides more generous benefits, both in terms of hourly legal services rates and total expenditures allowed per case.

WORKLOAD

Virtually all criminal and child abuse and neglect cases in the District courts involve indigent representation. In Maryland, 80 to 90 percent of those cases involve state-paid attorneys.

District
- 7,569 felony indictment dispositions (calendar 1995)
- 1,632 child abuse and neglect case dispositions
- 350 CCAN private attorneys

Conclusion

Comparable workload data are not available, but relative to population, the District's workload is at least double Maryland's because of the greater incidence of crime and poverty in the District..

COSTS

District–$38 million:
- Public Defender–$7.6 million
- Criminal Justice Act–$25.3 million
- Child Abuse and Neglect–$4.8 million
- Guardianship and adult protection–$0.3 million

Additional costs incurred by the court's Social Services Division for counseling abused children and their families are not measured and therefore are not included.

Maryland–$41.0 million

- Public Defender–$35.8 million
- Representation of children and guardianship–$5.2 million

In FY 1995, the District spent almost nine times as much as Maryland on indigent legal representation relative to population. While all of the factors causing this difference could not be identified, some facts are known:

- The District pays CJA and CCAN attorneys $50 per hour, but Maryland pays private defense attorneys $30 per hour for out-of-court work and $35 per hour for in-court work

- Apparently the District spends more on representing children in abuse and neglect cases relative to population. Those costs comprise most of the $4.8 million spent on CCAN in FY 1995. Maryland spent about $5.0 million on representing children, but its population was 8.8 times greater than the District's.

  Maryland, however, pays individual attorneys representing children in abuse cases $75 per hour on the average. Depending on the prevailing market, the rate varies among the local governments from $40 per hour for out-of-court work to $100 per hour. Most legal assistance for children in abuse cases is provided via contracts with legal firms with an annual $350 per child maximum.

- Maryland prosecutors prepare a complete open file discovery. This means that at the outset of the case, the Maryland staff and appointed attorneys have most of the information needed to defend their clients and do not have to spend considerable time on discovery.

  Recently, the U.S. Attorney's Office in the District liberalized the discovery process for misdemeanor cases and started providing more information except where the safety of witnesses might be affected. The more labor-intensive felony-case discovery process remains unchanged.

- The District would be expected to incur relatively higher costs than Maryland because of the greater concentration of poverty in the District.

Conclusion

The District's costs of providing indigent legal representation are almost nine times Maryland's relative to population. The reasons for the difference may be that in the District hourly costs and per-case maximums are higher, a greater percentage of the population is low-income, and felony case discovery is not as efficient in the District. Easier access, more attorneys per case, and better continuity of assistance throughout the case may also help explain the disparity.

PARKS AND RECREATION

SERVICES

The **District** protects and maintains parks and other open spaces and provides programs and facilities for leisure, fitness, and cultural activities. Its services include operating recreation centers, playgrounds, swimming pools, a residential camp, and four gardens.

Baltimore and Arlington County generally provide similar services. In addition the states of **Maryland and Virginia** have a variety of park and conservation programs that supplement the services provided by local governments. The state services are diverse and include maintaining state forests and parks, protecting wildlife, land and water conservation, policing waterways, and protecting Chesapeake Bay.

Conclusion

The District's park and recreational services are basic and are less extensive and diverse than the combined state and local services available to people in Maryland and Virginia.

WORKLOAD

The District operated 45 swimming pools in 1995, about 86 other leisure and educational facilities, and maintained 400 park areas. The U.S. Park Service and other federal agencies provide many services that would otherwise be required of the District, but it is not possible to quantify the amount of those services. Because of the diversity of services provided comparable workload data from other state and local governments is not available.

COSTS

District	\$25.2 million
Baltimore	\$34.2 million
State of Maryland	\$96.7 million
Arlington County	\$17.7 million
State of Virginia	\$50.5 million

Both Baltimore and Arlington spend more on parks and recreation relative to population than does the District, and when state spending is allocated to these local governments, over 50 percent more is spent in Baltimore and more than double the amount in Arlington.

Conclusion

The District spends relatively less on parks and recreation than do governments in neighboring states. In part, this may be because of extensive federal government spending on park and recreation activities in the District.

PUBLIC LIBRARY

SERVICES

The **District's** libraries provide free access to and professional assistance in the use of books and other informational material through a main library, 26 branches and 2 bookmobiles. Special services are provided to the deaf, homebound, blind, and others with special needs. Informational services are provided to businesses and visitors as well as residents.

The **City of Baltimore** library system provides similar services, and in addition, the Baltimore library is designated as the state library resource center. **Arlington County** provides library services similar to the District's.

Conclusion

The District's library services are basic and are comparable to those in Baltimore and Arlington.

WORKLOADS

The only comparable measure of workload available is circulation for 1995 as follows:

	Total	Per Capita
District	2,185,000	3.83
Baltimore	1,501,385	2.17
Arlington	1,969,482	11.28

The national average per capita circulation is 6.4. Other measures of workload, such as business inquiries for information are not available, but might show a greater utilization in the District and Baltimore than Arlington.

Conclusion

The District has a low workload when judged by the national circulation average and by Arlington's circulation, but nevertheless, has greater circulation workload than Baltimore.

COSTS

The total 1995 expenditures for each government's library system, including Baltimore's state supported expenditures were:

	Total	Per capita	Per item
District	$19.8 million	$34.56	$9.04
Baltimore	$19.0 million	$27.44	$12.63
Arlington	$7.8 million	$44.43	$3.94

The District's spending relative to population is substantially higher than Baltimore's, but relative to circulation is less. Arlington has much higher spending relative to its population, but is substantially lower relative to circulation. A problem with these circulation comparisons is that circulation of books is only a part of library services and may not be in proportion to other services provided.

Conclusion

> **The District spends more in absolute terms than Baltimore despite a smaller population, but its expenditures measured by circulation are less. Arlington County spends more relative to population, but because of very high circulation spends less relative to circulation.**

ARTS AND HUMANITIES

SERVICES

The **District** Commission on Arts and Humanities stimulates participation, understanding and enjoyment of the arts through grants to individuals and organizations that provide arts education to youths. It also supports accessibility to arts and provides operating assistance.

Similar services are provided by the **City of Baltimore**, through its Mayor's Advisory Commission on Art and Culture; **Arlington County**, through its Cultural Affair's Division; the **State of Maryland**, through its Maryland State Arts Council; and the **State of Virginia**, Commission for the Arts.

Conclusion

Providing support for arts and cultural activities is a basic District service that is similar to that provided by neighboring governments.

WORKLOAD

The **District** made 352 grants in 1995 involving 107,081 people. No comparable workload information is available for other governments.

COSTS

District	$1.7 million
Baltimore	$5.3 million
Arlington County	$1.1 million
Maryland	$8.0 million
Virginia	$2.2 million

The District spends substantially less than Baltimore or Arlington on support for arts. Including a pro-rata state allocation Baltimore spends about three times as much and Arlington twice as much relative to population.

Conclusion

The District spending on arts services is substantially lower than other comparable governments' spending.

REGULATION

SERVICES

The **District** regulates a wide range of businesses, professions, and activities in order to protect the health, safety, and appearance of the community and to enforce wage and employment laws. District regulatory activities include:

- Processing building, electrical, plumbing, elevator and related permits;
- Reviewing construction plans and inspecting buildings for code compliance;
- Inspecting and licensing food establishments, waste disposal sites, and health care facilities;
- Ensuring compliance with standards of air quality, occupational safety and health, industrial hygiene, and noise control;
- Determining wage rates and enforcing wage laws;
- Regulating the sale, storage, and distribution of retail alcoholic beverages and issuing liquor licenses;
- Licensing and regulating business professions and trades;
- Regulating District-chartered commercial banks, and securities dealers
- Historic preservation;
- Enforcement of human rights laws;
- Taxi regulation; and
- Utility regulation.

Baltimore and **Maryland** also provide those services. Maryland also administers the Maryland Deposit Insurance Fund Corporation and has a much broader mandate than the District to regulate financial businesses, such as safe deposit companies and providers of retail credit. Maryland also regulates the racetrack in Baltimore and devotes additional resources to controlling water pollution to protect the Chesapeake Bay.

Like Maryland, the District regulates the insurance industry, but District expenditures are charged against a trust (agency) fund, not the appropriations.

District regulatory activities not shown above are classified under other services. Those activities are fire inspection, motor vehicle regulation, parking regulation, animal control, zoning, day care, antitrust. and the practice of law.

Conclusion

> **Except for the regulation of banks, the racetrack, and Bay pollution, the District provides the same regulatory services as provided by the state and local governments for Baltimore. Regulation is a basic service.**

Workload

Conclusion

No comparable workload data were available.

Costs

District–$34.9 million
- –Licenses, permits, inspections, and environmental regulation–$16.0 million
- –Utility regulation–$7.8 million
- –Health facility regulation–$1.9 million
- –Environmental regulation–$1.4 million
- –Wage and occupational safety enforcement–$1.2 million
- –Taxi regulation–$1.2 million
- –Liquor control–$0.9 million
- –Human rights enforcement–$.7 million
- –Financial institutions–$.5 million
- –Historic preservation–$.4 million
- –Management and support (DCRA and DOES, part)–$4.9 million

Baltimore–$5.5 million
- –Construction and building inspection, and environmental regulation–$4.0 million
- –Liquor control–$1.1 million
- –Wage Commission–$.2 million
- –Historic preservation–$.2 million

Maryland–$95.3 million
- –Licenses, permits, inspections, and environmental regulation–$65.0 million
- –Utility regulation–$10.6 million
- –Health facility regulation–$10.3 million
- –Wage and occupational safety enforcement–$6.3 million
- –Human rights enforcement–$2.0 million
- –Financial institutions–$2.8 million
- –Management and support–$18.1 million

Maryland's costs exclude regulation of insurance, racing, agriculture, and plant industries.

Because of differences in budget classification and cost splitting between Maryland and Baltimore, direct cost comparisons between the District and Baltimore and Maryland are not possible for most regulatory services. A few services can be isolated, however.

District costs appear to be comparatively high in utility regulation. In FY 1995, utility regulation cost $7.7 million in the District, of which $5.3 million was for the Public Service Commission (excluding the costs of regulating securities dealers). The Maryland Public Service Commission spent $8.2 million. Not only did Maryland have more than just one electric company and one gas company to regulate and probably more telecommunications providers to oversee, but it spent $0.9 million regulating common carriers. While Maryland enjoys some economies of scale, there should be a greater cost difference between the District and Maryland PSC. The District's People's Counsel cost the same as its Maryland counterpart.

Regulation of taxis in the District costs more than the regulation of all common carriers in Maryland–$1.2 million compared with $.9 million.

Liquor control costs are slightly lower in the District than in Baltimore–$0.9 million compared with $1.1 million.

Conclusion

> **While the District's regulatory costs are one-third of the combined costs of Maryland and Baltimore, no conclusion is possible about most of the service costs without more details. The cost of regulating utilities and taxis in the District is high compared to Maryland.**

HOUSING AND COMMUNITY DEVELOPMENT

SERVICES

The District (1) purchases and rehabilitates housing units for sale to first-time low and moderate-income home buyers, (2) makes interest-free or low-interest loans to low and moderate-income District residents to purchase, repair, and renovate homes, and (3) subsidizes rent for lower income residents.

District public housing, operated by a receiver, is financed by federal grants and tenant rent, not local funds. Residential mortgage and rehabilitation loans are provided on a self-supporting basis and do not use local funds.

Maryland focuses on developing housing and subsidizing rents and home purchases. Residential mortgage insurance is provided through a self-supporting fund. Baltimore spends local funds mainly on various projects to promote neighborhood revitalization. The city also counsels home buyers and owners, weatherizes eligible homes, develops transitional and single-family housing sites, and assists minority businesses.

Conclusion

The District's housing services are comparable to Maryland's, but with a greater emphasis on rent subsidies. The District does not seem to have as strong and varied a community development program as Baltimore. Although some housing and community services may be basic, most appear discretionary.

WORKLOAD

Conclusion

No comparable workload data from other governments are available.

COSTS

District–$15.4 million:
- –$10.4 million rent subsidies
- –$.1 housing rehabilitation
- –$2.3 million housing assistance
- –$2.6 million management and support

Baltimore–$16.5 million total nonfederal
–$10.7 million local funds ($2.3 million administration)
–$5.8 million state funds

Maryland–$18.8 million

Conclusion

District spending on housing and community development, including administration, is comparable to nonfederal spending in Baltimore.

ECONOMIC DEVELOPMENT

SERVICES

The **District** promotes economic development to generate jobs, attract new businesses, encourage the expansion and retention of existing facilities, and encourage tourism and other visitors to the city. It performs these activities by marketing and business development, financing incentives, tourism promotion.

Both the **City of Baltimore and State of Maryland** engage in similar activities.

Conclusion

The District's economic development activities are basic services and are comparable to those in Baltimore and Maryland.

WORKLOAD

No relevant workload information is available.

COSTS

District	$7.8 million
Maryland	$35.4 million
Baltimore	$6.6 million
Baltimore, plus state allotted	$11.5 million

In addition to the District's general fund spending, the city also provides funding from special taxes on hotels to promote tourism.

Conclusion

The District spends relatively less than the combined economic development efforts provided by the city and state combined in Baltimore.

SETTLEMENTS AND JUDGMENTS

SERVICES

The **District** makes payments to settle claims and lawsuits and pay judgments in all types of tort cases entered against the District Government. Except for health care and life insurance benefits for employees, the District does not insure losses arising out of the ownership of property or other causes. The District does not restrict payments on claims.

Both **Baltimore** and **Maryland** make payments to settle claims and lawsuits, but have laws that restrict the amounts that can be paid. In Baltimore, the tort claims limit is $200,000 for an individual and $500,000 for a group. For automobile accident damages caused by the negligence of police officer responding to a crime emergency, the limit is $20,000 for an individual and $40,000 for a group. In FY 1995, Maryland's tort claims limits were $50,000 per case or $75,000 where there was a death. A person had 180 days to file a claim. Currently, the Maryland tort claims limit is $100,000 and the filing time is one year.

Conclusion

The District's disposal of claims is an essential service, but it is not comparable to Baltimore and Maryland because the District does not have tort claim limits. Payments by the District in excess of a limit are discretionary.

WORKLOAD

In FY 1995, the District settled 728 claims and lawsuits, and 64 judgments.

Conclusion

Although no comparable workload data are available, the lack of claim limits probably has resulted in a much greater number of claims and suits in the District relative to population.

COSTS

District–$14.5 million
Baltimore–$4.6 million
Maryland–$7.1 million

Conclusion

The District's settlement and judgment costs are almost four times Baltimore's and 18 times Maryland's after adjusting for population. The lack of tort claim limits probably accounts for most of the difference.

SOLID WASTE COLLECTION AND DISPOSAL

SERVICES

The District collects and disposes of household waste from all residential buildings with three or fewer dwelling units (not residential yard waste or leaves, but restoration of these services is requested in the 1997 budget).
Provides street waste receptacles and collects trash from them.
Conducts a recycling program.

Most central cities provide for collection and disposal of residential solid waste. Suburban and rural governments do not always provide this service. In recent years there has been widespread implementation of recycling programs. The large low-income populations in central cities make private collection service for a fee not generally feasible because the trash ends up in streets, alleys, and vacant lots where it still must be collected by the city government.

Baltimore provides similar but slightly more extensive services than the District (e.g., twice weekly collections and bulk trash). The city runs a recycling program.

Arlington County provides similar services, but charges residents a fee for collections. The county operates a recycling program.

Conclusion

The collection and disposal of residential solid waste and street waste cans are essential services for a central city. The recycling program is increasingly considered a basic service, but is, nevertheless, discretionary.

WORKLOAD

District-100,000 residential units (estimate), collecting 146,000 tons of waste in 1995. **Baltimore**-about 250,000 residential units (estimate); does not estimate tonnage collected.

Considering that Baltimore's population is only a little over 20 percent more than the District's, these workload numbers are not realistic. No comparable workload information is available for Arlington County.

Conclusion

We were not able to identify comparable workload information for Baltimore or Arlington.

Costs

District-$21.0 million in 1995: $37 per capita and $213 per residential unit.
Baltimore-$51 per capita.
Arlington County-$47 per capita; $128 fee per residential unit, designed to recover 50 percent of collection costs and 100 percent of disposal costs.
Fairfax County-fee of $270 per residential unit for solid waste collection.

Conclusion

The District's residential waste collection costs are comparable to or lower than Baltimore, Arlington County, and Fairfax County.

CITY PLANNING

SERVICES

The **District** formulates and updates plans for physical development, reviews proposals for subdivision of land, reviews and makes recommendations on development proposals, and makes recommendations to the Zoning Commission. In performing these services, it conducts studies of neighborhoods and small areas, as well as studies of the entire city. Recommendations are made for changes in the zoning ordinance to conform to adopted plans.

The **City of Baltimore and Arlington County** provide similar services.

Conclusion

City planning is a basic service, and is similar to the services provided in other local governments.

WORKLOAD

The District's reported workload for 1995:

Board of Zoning Adjustment cases	170
Development reviews	55
Zoning cases	30
Studies	1

No comparable information from other governments is available.

COSTS

District	$3.2 million
Baltimore	$3.7 million
Arlington County	$ .6 million

Conclusion

The District's spending on city planning is comparable to that of Baltimore and Arlington County.

LEGISLATIVE SERVICES

SERVICES

The **District** Council formulates and enacts the public policy of the city government by:
- Passing legislation;
- Passing annual appropriation requests for the operating and capital budgets;
- Providing revenue for the District by passing legislation;
- Approving the issuance of debt;
- Approving comprehensive land use plans; and
- Overseeing the operations of the District government and the needs for legislation by conducting inquiries and investigations.

As part of its services, the Council:
- Initiates legislation and holds legislative hearings;
- Confirms designated appointments by the Mayor;
- Reviews and approves regulations, large contracts, and real property sales proposed by the Mayor;
- Conducts legal and substantive research;
- Drafts, reviews, and processes legislation, amendments, and committee reports;
- Analyzes the fiscal impact of proposed legislation and proposed operating, capital, and revenue budgets;
- Maintains legislative documents and records;
- Prepares and updates the annotated District code; and
- Responds to constituents' requests for information and assistance with service delivery.

The **Maryland** General Assembly and its two supporting agencies responsible for legislative reference and fiscal review also provide the same kind of services.

Compared to the District Council, where substantive committees research and draft most legislation and conduct fiscal analysis, the Maryland legislature centralizes those activities.

With over ten percent of the legislature's total budget allocated to the Fiscal Services Unit, Maryland places much greater emphasis on the legislative conduct of government fiscal studies, budget and revenue analysis, and the fiscal impact of legislation. Unlike the D.C. Council, the Maryland legislature also performs biennial fiscal/compliance audits of all executive and judicial agencies as well as some financial audits. The other audit duties in Maryland's legislative support are similar to those of the D.C. Auditor or are not done by the District at all because they involve auditing the reports of local governments. In all, 27 percent of the total authorized Maryland legislative positions are devoted to fiscal and audit analysis. At most, five of the 147 positions at the District Council plus fractions of the time of eleven committee clerks and a few legislative assistants are involved in this work.

Conclusion

The District's legislative services are essential and are similar in kind to Maryland's. The District devotes far fewer resources to fiscal and audit analysis.

WORKLOAD

Conclusion

No comparable workload data are available.

COSTS

District–$7.7 million and 147 positions
Baltimore–$3.1 million and 68 positions
Maryland–$38.5 million and 657 positions

Relative to population, the District spends almost twice as much as Maryland on its legislature and support services and has twice as many legislative positions. The District Council, however, performs as both a state legislature and a local council. Whereas state legislatures and some of their staff are not full time, several local councils in this area and Baltimore are. In addition, state and local legislative levels deal with different matters. Therefore, the District Council cannot be compared to just a state or local legislature but must be compared to a composite.

To show roughly the total legislative costs for Baltimore, we therefore added pro rata shares of the General Assembly's costs and positions to the Baltimore Council costs. The resulting totals, $8.3 million and 158 positions, are comparable to the District's $7.7 million and 147 positions. On a per capita basis, the legislative branch cost $13.49 in the District and $12.07 in Baltimore. Staff per 1,000 population were .26 and .23, respectively. While these rough calculations ignore inter alia Maryland's scale economies and audit duties as well as the economies resulting from the District's unified government, they suggest that the cost of the District's legislative function is not out of line.

Conclusion

The District's legislative costs are roughly comparable to the local and pro rata state costs of legislative services in Baltimore.

ELECTIONS

SERVICES

The **District's** Board of Elections and Ethics registers voters, maintains a list of registered voters, conducts elections, and maintains the integrity of the electoral process.

Similar election services are provided by all governments.

Conclusion

The provision of election services is essential.

WORKLOAD

One measure of workload is the number of registered voters:

	Registered	Percent of Pop.
District	330,000	57.9%
Baltimore	324,580	47.0%
Arlington	95,354	54.6%

COSTS

	Costs (in 000s)	Per registered
District	$2,547	$7.72
Baltimore (includes state allotted)	$2,206	$6.80
Arlington (includes state allotted)	$ 446	$4.67

The District spends more than Baltimore and Arlington both relative to population and relative to registered voters. However, the District has achieved a higher percentage of its residents registered and this may account for a portion of the higher costs.

Conclusion

The District spends relatively more than Baltimore and Arlington on elections, but it has registered a higher percent of its population.

FINANCIAL MANAGEMENT

SERVICES

The **District's** financial management services include:

Levying and collecting real property taxes, sales taxes, personal and corporate income taxes and a variety of other taxes and revenues typically collected by both state and local governments.
- Accounting and payroll
- Managing debt
- Managing cash and banking
- Budgeting
- Providing and supporting automated systems to integrate various financial activities
- Overall direction and support of fiscal policies

Both the **City of Baltimore and State of Maryland** provide similar services, except that all major taxes, including property tax assessments, are administered by the state government.

Conclusion

The District's financial management services are essential and similar to those typically provided by other state and local governments.

WORKLOAD

The District had 168,623 parcels subject to assessment in 1995
Maryland had 1,854,941 parcels subject to assessment in 1995
There are no other available comparable workloads.

COSTS

The District spent $36.5 million on financial management in 1995 of which $21.0 million was on tax and revenue administration and $15.5 million was on accounting and other financial services. Because Baltimore and Maryland provide financial management services and some overlap, exact comparisons are difficult. One approach is to combine their expenditures ($204.0 million) and compare to the District. On this basis, the District spends slightly more than Baltimore with the state's per capita costs pro-rated to Baltimore.

Another approach is to compare the District's tax and revenue administration costs to those of the state which are roughly comparable, and compare the remaining city type costs to Baltimore's. On this basis, the District spends about 20 percent more on tax and revenue administration relative to population than does Maryland. The District also spends a little more than Baltimore on the remaining financial services.

Conclusion

> **The District's financial management services appear to be more expensive than comparable services in Baltimore and Maryland, but this comparison is made difficult by the interrelationship between city and state costs in Maryland.**

DEBT SERVICE

SERVICE

The District's expenditures for principal and interest (debt service) result from debt incurred in prior years for a variety of capital projects necessary to the provision of District services. Debt service provides no direct service to persons and should be incorporated in the costs of each service for which the debt is issued. For example, the cost of mass transit in the District, for which the city has borrowed over $600 million through 1995, should include the payment of interest and the repayment of principal. However, this is not feasible because the District does not attribute its debt service costs to specific projects or services. The only separate identification of District debt service is that issued for sewer and water improvements, lease-purchases, and deficit financing.

This lack of identification of debt service to individual programs is not unusual and is acceptable government accounting practice. Baltimore and the State of Maryland incur debt service costs. Neither government separately reports debt service expenditures by project or service.

WORKLOAD

There is no way to relate debt service to workloads when the debt service cannot be related to specific programs.

COSTS

Debt service expenditures in 1995 were as follows:

	(in millions)	Per capita
District	$366.4	$643
Maryland	$480.4	
Baltimore	$110.7	
Baltimore with state pro-rated	$176.5	$255

The District's debt service is extremely high compared to Maryland and Baltimore. Some of the apparent causes are:

The higher rates of interest paid by the District because of the city's comparatively low credit rating and its use of taxable U.S. Treasury loans.

The structure of the city's debt that relied heavily on level debt service with 30 year repayment prior to recent refinancings. This extended the life of the debt and reduced principal repayments.
Excessive workloads, such as those found for many other city services. However, because those workloads generally relate to social and health services that are not capital intensive, this does not appear to be a key factor.

The use of bonds to finance projects and heavy equipment purchases that are typically financed on a pay-as-you-go basis by other governments.

The financing of the 1990 deficit by bonds accounts for $36.7 million of the debt service costs.

Conclusion

The District's debt service expenditures are very high. A variety of possible causes can be identified, but additional analysis would be required to determine the amounts attributable to these causes.

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