# THE DISTRICT OF COLUMBIA'S FISCAL YEAR 2010 BUDGET: ENSURING FISCAL SUSTAINABILITY

## HEARING

BEFORE THE

SUBCOMMITTEE ON HEALTH CARE, DISTRICT OF COLUMBIA, CENSUS AND THE NATIONAL ARCHIVES

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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# CONTENTS

# THE DISTRICT OF COLUMBIA'S FISCAL YEAR 2010 BUDGET: ENSURING FISCAL SUSTAINABILITY

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**THURSDAY, MAY 12, 2011**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HEALTH CARE, DISTRICT OF COLUMBIA, CENSUS AND THE NATIONAL ARCHIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 8:50 a.m., in room 2154, Rayburn House Office Building, Hon. Trey Gowdy (chairman of the subcommittee) presiding.

Present: Representatives Gowdy, Gosar, McHenry, Davis, Norton, and Clay.

Staff present: Ali Ahmad, deputy press secretary; Robert Borden, general counsel; Molly Boyl, parliamentarian; Lawrence J. Brady, staff director; Benjamin Stroud Cole, policy advisor and investigative analyst; John Cuaderes, deputy staff director; Howard A. Denis and Peter Haller, senior counsels; Adam P. Fromm, director of Member liaison and floor operations; Linda Good, chief clerk; Frederick Hill, director of communications and senior policy advisor; Christopher Hixon, deputy chief counsel, oversight; Jim Lewis, senior policy advisor; Mark D. Marin, senior professional staff member; James Robertson, professional staff member; Laura L. Rush, deputy chief clerk; Matthew Tallmer, staff investigator; Peter Warren, policy director; Ronald Allen, minority staff assistant; Jaron Bourke, minority director of administration; Yvette Cravins, minority counsel; Ashley Etienne, minority director of communications; Jennifer Hoffman, minority press secretary; and Mark Stephenson, minority senior policy advisor/legislative director.

Mr. GOWDY. The committee will come to order.

Mr. Mayor, Chairman Brown, thank you for being with us today.

It is my understanding, Mr. Mayor, you have city business to tend to, which we understand and appreciate, and we want to be very good stewards of your time. So my friend Mr. Davis and I are going to waive our opening statements so we can spend more time with you and Chairman Brown. And again, on behalf of all of us, thank you for being with us.

It is the policy of the committee to swear in all witnesses, so I would ask both Mayor Gray and Chairman Brown to rise with me and raise your right hands.

[Witnesses sworn.]

Mr. GOWDY. May the record reflect both witnesses answered in the affirmative.

It is my pleasure to introduce Mayor Vincent Gray, the mayor of the District of Columbia, and recognize him for his 5-minute opening remarks.

**STATEMENTS OF VINCENT GRAY, MAYOR, DISTRICT OF COLUMBIA; AND KWAME BROWN, CHAIRMAN, D.C. CITY COUNCIL**

**STATEMENT OF VINCENT GRAY**

Mayor GRAY. Thank you very much, Chairman Gowdy, and to the other members of the committee.

Mr. GOWDY. Could you turn your mic on, please?

Mayor GRAY. Thank you very much, Chairman Gowdy and other members of the committee.

I am Vincent C. Gray, mayor of the District of Columbia, and I am here today to talk about our proposed fiscal year 1912 District of Columbia budget.

I have had to make tough choices in submitting this budget, choices that, frankly, I wish I didn't have to make. But the reality is that the financial health and backbone of our city could be imperiled unless thoughtful, balanced, and measured choices are made and honored.

This budget was the product of three very intense months of scrubbing agency budgets and exploring every reasonable option for additional revenue. I participated in over 100 hours of intensive meetings focused exclusively on the budget with the city administrator, our deputy mayors, agency directors, and our Office of Budget and Finance. This budget meets and addresses the reality we face, a reality that I've discussed in town hall meetings with District residents in all eight wards during the past several weeks.

In order to close a $322.1 million structural budget gap, I employed a balanced approach of expenditure reductions and revenue increases. My budget focuses on four key priorities of my administration: physical stability, high-quality public education, jobs and economic opportunities, and safe communities.

My goal is to ensure a structurally balanced budget. The fiscal year 2012 gross funds budget for the District of Columbia is $8,986,000,000, representing an increase of $164,690,000, or a 1.9 percent increase above the fiscal year 2011 approved budget. The majority of the 1.9 percent growth occurred in two areas. $96 plus million occurred in public education largely due to enrollment increases in D.C. public schools and D.C. public charter schools, and $67.76 million occurred in our financing and other appropriation titles due largely to mandatory increases in debt service for capital borrowing under the previous administration. This budget has been certified as balanced by the independent chief financial officer, who you will hear from later.

I would like to take this opportunity to detail each one of my four key priorities in this budget.

The first is to introduce a budget that reestablishes fiscal stability in the District of Columbia. When we met with the bond rating agencies in February, all three agencies highlighted three recommendations for ensuring the District's reputation on Wall Street after the last 4 years in which our fund balance was spent down by 41 percent, from $1½ billion to $890 million. They underscored the need to have a structurally balanced budget, meaning we would not spend more than we take in; to live within the debt cap of 12 percent, which we have established; and rebuild a fund balance. My fiscal year 1912 budget achieves those goals.

High-quality education is the second of my four key priorities. Providing high-quality education for all district residents is critical to our long-term prosperity. This budget provides the resources necessary to continue the pace of school reform and to provide an educational continuum from ages 3 to 24. My ultimate goal will be to extend this continuum to ages 1 to 2 as the economy rebounds and more funding becomes available.

The increases in the budget for D.C. public schools and D.C. public charter schools are due principally to increased enrollment. We're now beginning to witness the success of the universal prekindergarten program. We're retaining students who enter the pre-K programs at its inception through a growth of enrollment in grades K through 2.

We also have included increases for the first time in years for the University of the District of Columbia, especially our community college, including $4 million.

And, also, this budget focuses on beginning to solve a long-standing problem of spending tens of millions of dollars to educate children with disabilities in nonpublic schools.

Job creation and economic opportunities for all District residents is a third of my key priorities. Despite reductions to Federal and special purpose revenue, I'm continuing to fund adult job training by adding $2.6 million to the fiscal year 1912 budget.

As everyone knows, I've been a major proponent of the concept of "one city." However, the current disparity between areas of our city is particularly pronounced in the area of jobs, with a number of communities experiencing chronic unemployment. In ward 7, 17 percent; ward 8, 25 percent.

The fourth priority is sustaining safe communities so that residents feel safe in their neighborhoods. Most of the agency budgets in the public safety and justice cluster were held constant at their fiscal year 2011 level, but we're providing funding to hire 140 police officers to reopen the police academy which essentially had been shut off.

Mr. Chairman and the members of the committee, the District of Columbia raises over $5½ billion per year in local funds from our residents in property taxes, sales taxes, and income taxes. A majority of the functions of the District Government, including all the services provided by any other State, are funded through those locally raised dollars. Nevertheless, it is the lengthy and complicated Federal appropriations process that has severe effects on the District Government.

As you know, in order to comply with the Federal process, the District must develop its budget months in advance of the timeframe needed by the city. In fact, the District has had to adopt the Federal fiscal year of October 1st to September 30th, when another fiscal year may be more appropriate for the city.

The congressional appropriation schedule prevents the District from being able to make better and more current revenue estimates and expenditure needs that lead to a budget based on better and more complete data.

Further, the dual nature of the Federal appropriations process requires two affirmative actions by Congress. The District's appropriations are often caught up in national policy disputes that typically delay our local budget enactment and have nothing to do with the District of Columbia. This flaw was made abundantly clear a month ago when the District was forced to spend its very limited funds preparing for a potential shutdown. Our chief financial officer in an assessment indicated we could have lost between $1 million and $6 million a week as a result of the shutdown.

Mr. Chairman, the District of Columbia's overall fiscal health is strong. For more than a decade, we have presented a balanced budget; and we have received clean audits in each of those years. As have been noted by Members of Congress, we have clearly demonstrated our fiscal responsibility.

I believe strongly, Mr. Chairman, that the financial rigor the District exhibits proves that we are more than capable of managing our own resources. It is time for Congress to adopt legislation that would remove the approval of the District's local budget from the Federal appropriation process. This request does not remove the oversight authority of Congress, of course, as provided for in the Constitution. It will simply allow the District to spend its local funds in the same way other States and local jurisdictions do. I've detailed reasons why I believe budget autonomy will facilitate the ability to run the city, and we hope that the Congress and this committee will consider that.

Again, thank you very much for your time in having me here today to talk about the fiscal year 1912 budget, and we will be happy to try to answer any questions you may have today and as we move forward.

As a final point, Mr. Chairman, I want to thank you for coming over to meet with us a few weeks ago at the Wilson Building. It's most appreciated. I think it has established a constructive working environment, and we look forward to continuing to work with you.

[The prepared statement of Mayor Gray follows:]

**COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM**

**Hearing on the Mayor's Fiscal Year 2012 Proposed Budget and Financial Plan**

**Testimony of Mayor Vincent C. Gray**

GOOD MORNING CHAIRMAN GOWDY, AND MEMBERS OF THE COMMITTEE, I AM VINCENT C. GRAY, MAYOR OF THE DISTRICT OF COLUMBIA. I AM HERE TODAY TO DISCUSS THE PROPOSED FY12 BUDGET FOR THE DISTRICT OF COLUMBIA.

I'VE HAD TO MAKE TOUGH CHOICES IN SUBMITTING THIS BUDGET. CHOICES THAT I WISH I DID NOT HAVE TO MAKE. THE REALITY IS THAT THE FINANCIAL HEALTH AND BACKBONE OF OUR CITY COULD BE IMPERILED UNLESS THOUGHTFUL, BALANCED AND MEASURED CHOICES ARE MADE AND HONORED. THIS BUDGET WAS THE PRODUCT OF THREE VERY INTENSE MONTHS OF SCRUBBING AGENCY BUDGETS AND EXPLORING EVERY REASONABLE OPTION FOR ADDITIONAL REVENUE. I PARTICIPATED IN OVER ONE HUNDRED HOURS OF INTENSIVE MEETINGS FOCUSED EXCLUSIVELY ON THE BUDGET WITH THE CITY ADMINISTRATOR, OUR DEPUTY MAYORS, AGENCY DIRECTORS, AND OUR OFFICE OF BUDGET AND FINANCE. THIS BUDGET MEETS AND ADDRESSES THE REALITY WE FACE: A REALITY THAT I HAVE DISCUSSED IN TOWN HALL MEETINGS WITH DISTRICT RESIDENTS IN ALL EIGHT WARDS DURING THE PAST SEVERAL WEEKS.

IN ORDER TO CLOSE A $322.1 MILLION STRUCTURAL BUDGET GAP, I EMPLOYED A BALANCED APPROACH OF EXPENDITURE REDUCTIONS AND REVENUE INCREASES. MY BUDGET FOCUSES ON THE FOUR KEY PRIORITIES OF MY ADMINISTRATION:

(1) FISCAL STABILITY;

(2) HIGH QUALITY PUBLIC EDUCATION;

(3) JOBS AND ECONOMIC OPPORTUNITIES; AND

(4) SAFE COMMUNITIES.

OUR GOAL IS TO ENSURE A STRUCTURALLY BALANCED BUDGET.

**FISCAL YEAR 2012 BUDGET OVERVIEW**

THE FISCAL YEAR 2012 GROSS FUNDS BUDGET FOR THE DISTRICT OF COLUMBIA IS $8.986 BILLION, REPRESENTING AN INCREASE OF $164.69 MILLION OR A 1.9% INCREASE ABOVE THE FISCAL YEAR 2011 APPROVED BUDGET.

THE MAJORITY OF THE 1.9% GROWTH OCCURRED IN TWO AREAS. $96.38 MILLION OCCURRED IN THE PUBLIC EDUCATION CLUSTER, LARGELY DUE TO ENROLLMENT INCREASES IN BOTH OUR DC PUBLIC SCHOOLS AND DC PUBLIC CHARTER SCHOOLS AND $67.76 MILLION OCCURRED IN OUR FINANCING AND OTHER APPROPRIATION TITLES DUE LARGELY TO MANDATORY INCREASES IN DEBT SERVICE FOR CAPITAL BORROWING UNDER THE PRIOR ADMINISTRATION. THIS BUDGET HAS BEEN CERTIFIED AS BALANCED BY THE INDEPENDENT CHIEF FINANCIAL OFFICER.

**FISCAL STABILITY**

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO DETAIL EACH OF MY FOUR KEY PRIORITIES IN THIS BUDGET. THE FIRST IS TO INTRODUCE A BUDGET THAT RE-

ESTABLISHES FISCAL STABILITY IN THE DISTRICT OF COLUMBIA. WHEN WE MET WITH THE BOND RATING AGENCIES IN FEBRUARY, ALL THREE AGENCIES HIGHLIGHTED THREE GENERAL RECOMMENDATIONS FOR ENSURING THE DISTRICT'S REPUTATION ON WALL STREET AFTER THE LAST FOUR YEARS, IN WHICH OUR FUND BALANCE WAS SPENT DOWN BY 41% FROM $1.5 BILLION TO $890 MILLION. THEY UNDERSCORED THE NEED TO:

(1) HAVE A STRUCTURALLY BALANCED BUDGET, MEANING THE DISTRICT SHOULD NOT SPEND MORE THAN IT BRINGS IN FROM REVENUE;
(2) TO LIVE WITHIN THE DISTRICT'S 12% DEBT CAP AND GRADUALLY REDUCE LONG-TERM BORROWING THROUGH THE USE OF PAY-AS-YOU-GO CAPITAL; AND
(3) REBUILD THE FUND BALANCE.

MY FISCAL YEAR 2012 BUDGET ACHIEVES THESE GOALS AND ITS ADOPTION WILL PUT THE DISTRICT ON THE CORRECT COURSE TO LONG-TERM SUCCESS.

**HIGH QUALITY EDUCATION**

HIGH QUALITY EDUCATION IS THE SECOND OF MY FOUR KEY PRIORITIES. PROVIDING HIGH QUALITY EDUCATION FOR ALL DISTRICT RESIDENTS IS CRITICAL TO OUR LONG-TERM PROSPERITY. THIS BUDGET PROVIDES THE RESOURCES NECESSARY TO CONTINUE THE PACE OF SCHOOL REFORM AND TO PROVIDE AN EDUCATIONAL CONTINUUM FROM AGES 3-24. MY ULTIMATE GOAL WILL BE TO EXTEND THIS CONTINUUM TO AGES 1-2 AS THE ECONOMY REBOUNDS AND MORE FUNDING BECOMES AVAILABLE.

THE INCREASES IN THE BUDGET FOR DC PUBLIC SCHOOLS AND DC PUBLIC CHARTER SCHOOLS ARE DUE PRIMARILY TO INCREASED ENROLLMENT. WE ARE NOW BEGINNING TO WITNESS THE SUCCESS OF THE UNIVERSAL PRE-KINDERGARTEN PROGRAM. WE ARE RETAINING STUDENTS WHO ENTERED THE PRE-K PROGRAM AT ITS INCEPTION THROUGH A GROWTH OF ENROLLMENT IN GRADES K TO 2.

MY PROPOSED BUDGET ALSO FOCUSES ON CONTINUING TO EDUCATE ADULTS BY MAINTAINING FUNDING FOR ADULT LITERACY AND PROVIDING AN ADDITIONAL $4.5 MILLION FOR THE UNIVERSITY OF THE DISTRICT OF COLUMBIA, OF WHICH A MINIMUM OF $4 MILLION IS DIRECTED TO THE COMMUNITY COLLEGE OF THE DISTRICT OF COLUMBIA.

AND THIS BUDGET INCLUDES FUNDING TO BEGIN TO SOLVE THE LONGSTANDING PROBLEM OF THE DISTRICT PAYING TENS OF MILLIONS OF DOLLARS ANNUALLY TO EDUCATE CHILDREN WITH DISABILITIES IN NON-PUBLIC SCHOOLS.

**JOBS AND ECONOMIC OPPORTUNITIES**

JOB CREATION AND PROVIDING ECONOMIC OPPORTUNITIES FOR ALL DC RESIDENTS IS THE THIRD OF MY FOUR KEY PRIORITIES. DESPITE REDUCTIONS TO FEDERAL AND SPECIAL PURPOSE REVENUE FUNDING, I AM CONTINUING FUNDING FOR ADULT JOB TRAINING BY ADDING $2.6 MILLION TO THE FY 2012 BUDGET.

AS EVERYONE KNOWS, I HAVE BEEN A MAJOR PROPONENT OF THE CONCEPT OF "ONE CITY". HOWEVER, THE CURRENT DISPARITY BETWEEN AREAS IN OUR CITY IS PARTICULARLY PRONOUNCED IN THE AREA OF JOBS, WITH A NUMBER OF

COMMUNITIES EXPERIENCING CHRONIC UNEMPLOYMENT. IN WARD 7, THE UNEMPLOYMENT RATE IS OVER 17% AND, IN WARD 8, IT IS OVER 25%.

THIS IS NOT DUE COMPLETELY TO A SHORTAGE OF JOBS. THE WASHINGTON-METROPOLITAN AREA HAS LED THE NATION IN NEW JOB GROWTH. HOWEVER, THE SKILL SETS OF OUR RESIDENTS SEEKING JOBS OFTEN DO NOT MATCH THE JOBS THAT ARE BEING CREATED. WE MUST MOVE FORWARD WITH A TWOFOLD STRATEGY OF INCREASING THE TRAINING OF RESIDENTS, WHILE AT THE SAME TIME ENSURING DISTRICT RESIDENTS RECEIVE MORE OF THE JOBS IN NEW CONSTRUCTION OR RETAIL PROJECTS THAT UTILIZE DISTRICT FUNDING. TO FACILITATE THAT, WE HAVE INCREASED ENFORCEMENT OF FIRST SOURCE LAWS WHILE ALSO ESTABLISHING A PILOT PROJECT THAT PROVIDES INCENTIVES TO HIRE DISTRICT RESIDENTS.

**SAFE COMMUNITIES**

MY FOURTH PRIORITY IS SUSTAINING SAFE COMMUNITIES SO THAT RESIDENTS FEEL SAFE IN THEIR NEIGHBORHOODS. MOST OF THE AGENCY BUDGETS IN THE PUBLIC SAFETY AND JUSTICE CLUSTER WERE HELD CONSTANT AT THEIR FISCAL YEAR 2011 LEVEL. WE ARE PROVIDING FUNDING TO HIRE 140 POLICE OFFICERS TO REOPEN THE POLICE ACADEMY WHICH ESSENTIALLY HAD BEEN SHUTOFF.

**BUDGET AUTONOMY**

MR. CHAIRMAN, THE DISTRICT OF COLUMBIA RAISES OVER $5.5 BILLION PER YEAR IN LOCAL FUNDS FROM OUR RESIDENTS IN PROPERTY TAXES, SALES TAXES, AND INCOME TAXES. A MAJORITY OF THE FUNCTIONS OF THE DISTRICT GOVERNMENT, INCLUDING ALL THE SERVICES PROVIDED BY ANY OTHER STATE, ARE FUNDED THROUGH THESE LOCALLY RAISED DOLLARS. NEVERTHELESS, IT IS THE LENGTHY

AND COMPLICATED FEDERAL APPROPRIATIONS PROCESS THAT HAS SEVERE EFFECTS ON THE DISTRICT GOVERNMENT.

AS YOU KNOW, IN ORDER TO COMPLY WITH THE FEDERAL PROCESS, THE DISTRICT MUST DEVELOP ITS BUDGET MONTHS IN ADVANCE OF THE TIMEFRAME NEEDED BY THE CITY. IN FACT, THE DISTRICT HAS HAD TO ADOPT THE FEDERAL FISCAL YEAR OF OCTOBER 1-SEPTEMBER 30, WHEN ANOTHER FISCAL YEAR MAY BE MORE APPROPRIATE FOR THE CITY. THE CONGRESSIONAL APPROPRIATIONS SCHEDULE PREVENTS THE DISTRICT FROM USING MORE CURRENT REVENUE ESTIMATES AND EXPENDITURE NEEDS THAT WOULD LEAD TO A BUDGET BASED ON BETTER AND MORE COMPLETE DATA. FURTHER, THE DUAL NATURE OF THE FEDERAL APPROPRIATIONS PROCESS REQUIRES TWO AFFIRMATIVE ACTIONS BY CONGRESS, THE DISTRICT'S APPROPRIATION IS OFTEN CAUGHT UP IN NATIONAL POLICY DISPUTES THAT TYPICALLY DELAY OUR LOCAL BUDGET ENACTMENT AND THAT DO NOT HAVE ANYTHING TO DO WITH THE DISTRICT. THIS FLAW WAS MADE ABUNDANTLY CLEAR BARELY A MONTH AGO, WHEN THE DISTRICT WAS FORCED TO SPEND ITS VERY LIMITED FUNDS PREPARING FOR A POTENTIAL SHUTDOWN. IN LOST TAX REVENUE ALONE, THE DISTRICT COULD HAVE LOST BETWEEN $1 AND $6 MILLION EVERY WEEK DURING A FEDERAL SHUTDOWN. THE RANGES DEMONSTRATE AGAIN THE VAST UNCERTAINTY PLACED ON THE DISTRICT DURING PERIODS OF POTENTIAL SHUTDOWN BECAUSE WE DID NOT, NOR DO WE KNOW EVEN NOW, IF WORKERS FURLOUGHED WOULD HAVE BEEN REIMBURSED AFTER A SHUTDOWN. THE DISPUTES IN CONGRESS ARE, IN FACT, OFTEN COSTLY TO THE CITY AND THEY DELAY KEY NEW INITIATIVES, PREVENT ORGANIZATIONAL REFORMS AND CREATE UNCERTAINTY ABOUT THE IMPLEMENTATION OF IMPORTANT AND NECESSARY PROGRAMS.

REQUIRING THE DISTRICT'S LOCAL FUNDS BUDGET TO BE APPROVED AS PART OF THE FEDERAL APPROPRIATIONS PROCESS DISRUPTS SERVICE DELIVERY IN SEVERAL TROUBLESOME WAYS:

1. IT LENGTHENS THE TIME PERIOD BETWEEN IDENTIFYING A SERVICE NEED AND IMPLEMENTING A SOLUTION.
2. SERVICE IMPROVEMENTS ARE FURTHER HINDERED BY FEDERAL DELAYS IN THE BUDGET APPROVAL PROCESS. THE AVERAGE CONGRESSIONAL DELAY SINCE 1996 HAS BEEN OVER THREE MONTHS.
3. MID-YEAR BUDGET REALLOCATIONS REQUIRE AN ACT OF CONGRESS, AND DISRUPT SERVICE DELIVERY.
4. PROGRAM MANAGERS MUST "USE OR LOSE" FUNDING AT THE END OF EACH FISCAL YEAR.

MR. CHAIRMAN, THE DISTRICT OF COLUMBIA'S OVERALL FISCAL HEALTH IS STRONG. FOR MORE THAN A DECADE, WE HAVE PRESENTED A BALANCED BUDGET AND WE HAVE RECEIVED CLEAN AUDITS IN EACH OF THOSE YEARS. AS HAS BEEN NOTED BY MEMBERS OF CONGRESS, WE HAVE CLEARLY DEMONSTRATED OUR FISCAL RESPONSIBILITY. I BELIEVE STRONGLY, MR. CHAIRMAN, THAT THE FINANCIAL RIGOR THE DISTRICT EXHIBITS PROVES THAT WE ARE MORE THAN CAPABLE OF MANAGING OUR OWN RESOURCES. IT IS TIME FOR CONGRESS TO ADOPT LEGISLATION THAT WOULD REMOVE THE APPROVAL OF THE DISTRICT'S LOCAL BUDGET FROM THE FEDERAL APPROPRIATIONS PROCESS. THIS REQUEST DOES NOT REMOVE THE OVERSIGHT AUTHORITY OF CONGRESS AS PROVIDED BY THE CONSTITUTION; IT WOULD SIMPLY ALLOW THE DISTRICT TO SPEND ITS LOCAL FUNDS IN THE SAME WAY OTHER STATE AND LOCAL JURISDICTIONS DO.

GIVING THE DISTRICT BUDGET AUTONOMY WOULD PROVIDE NUMEROUS BENEFITS INCLUDING:

1. ALLOWING FOR BETTER BUDGETING BY NOT HAVING TO START THE PROCESS FOUR MONTHS EARLIER THAN WOULD BE REQUIRED IF THE DISTRICT MANAGED ITS OWN BUDGET.
2. PROVIDING INCREASED FINANCIAL FLEXIBILITY THAT WOULD ALLOW THE CITY TO REACT QUICKLY TO CHANGES IN PROGRAM AND FINANCIAL CONDITIONS.
3. REMOVING THE UNCERTAINTIES OF THE CURRENT BUDGET PROCESS THAT THE BOND RATING AGENCIES TAKE INTO ACCOUNT WHEN ASSESSING THE DISTRICT'S FINANCES, THUS PROVIDING THE CITY WITH AN OPPORTUNITY TO SAVE MONEY.

MR. CHAIRMAN, NO LOCAL GOVERNMENT CAN OPERATE EFFECTIVELY WITHOUT THE ABILITY TO RESPOND QUICKLY TO CHANGING PUBLIC NEEDS. AS THE PRIMARY DELIVERER OF SERVICES, LOCAL GOVERNMENTS MUST BE ABLE TO RESPOND QUICKLY TO VARYING CIRCUMSTANCES BY CHANGING PROGRAMS AND SERVICES IN A TIMELY AND RESPONSIVE MANNER. ALL OTHER STATE GOVERNMENTS IN OUR NATION HAVE THIS FLEXIBILITY. THEY CONTROL THEIR OWN PROGRAMS AND BUDGET ALLOCATIONS WITHOUT APPROVAL BY CONGRESS. WHY SHOULD THE DISTRICT BE TREATED DIFFERENTLY? AS YOU HAVE PUBLICLY STATED, MR. CHAIRMAN, LOCAL GOVERNMENTS ARE MUCH BETTER AT ASSESSING THE NEEDS OF THEIR JURISDICTIONS AND HOW TO ALLOCATE THE COSTS TO THE PROVISION OF PROGRAMS AND SERVICES.

**SUMMARY**

THANK YOU FOR THE TIME TO DISCUSS MY FISCAL YEAR 2012 BUDGET FOR THE DISTRICT OF COLUMBIA. THROUGHOUT THE RECENT ECONOMIC DOWNTURN, STATES AND CITIES ACROSS THE COUNTRY HAVE HAD DIFFICULTY MAINTAINING A BALANCED BUDGET. THE CENTER ON BUDGET AND POLICY PRIORITIES ESTIMATES THAT ALMOST ALL OF THE STATES ARE FACING BUDGET SHORTFALLS. MY BUDGET CONTINUES A STRONG TRADITION OF ENSURING A BALANCED BUDGET FOR THE DISTRICT.

I BELIEVE IT IS TIME FOR CONGRESS TO RELEASE THE DISTRICT'S LOCAL BUDGET FROM THE FEDERAL APPROPRIATIONS PROCESS AND FOLLOW THE RECOMMENDATION MADE BY THE PRESIDENT IN HIS BUDGET REQUEST TO THE CONGRESS. ON BEHALF OF THE 600,000 RESIDENTS OF THE DISTRICT OF COLUMBIA, I ASK THAT A BILL PROVIDING THE DISTRICT CONTROL OVER ITS LOCAL BUDGET BE MOVED THROUGH THE HOUSE AS SOON AS POSSIBLE.

IN CLOSING, MR. CHAIRMAN, I WOULD FURTHER REQUEST THAT THE HOUSE PASS THE FISCAL YEAR 2012 DISTRICT OF COLUMBIA BUDGET IN TIME FOR THE START OF THE NEW FISCAL YEAR AND THAT NO UNRELATED RIDERS BE PLACED ON THE BILL.

THANK YOU.

Mr. GOWDY. Well, Mr. Mayor, before I introduce Chairman Brown, you were a very gracious host. To take somebody from South Carolina, who hadn't visited the District of Columbia since he was a kid in high school, you've done a wonderful job helping introduce me to your beautiful, magnificent city, and I thank you for your time. I know you have a very busy schedule. For you to take time to meet with me a couple weeks ago was very much appreciated.

Mayor GRAY. I was delighted to do it, Mr. Chairman.

Mr. GOWDY. Yes, sir.

It is my pleasure to recognize the Honorable Kwame Brown, Chairman of the District of Columbia City Council.

Mr. Brown.

**STATEMENT OF KWAME BROWN**

Mr. BROWN. Good morning, Chairman Gowdy, Ranking Member Davis, and members of the Subcommittee on Health Care, District of Columbia, Census and the National Archives.

I am Kwame R. Brown, chairman of the Council of the District of Columbia, the District's elected legislature. I'm pleased to speak with you today about the Council's role in developing the District's fiscal year 2012 appropriations request.

This year, the Council has the difficult task of reviewing and finalizing a budget that continues to provide necessary services to residents, businesses, and visitors of the District of Columbia, despite the slow pace of recovery from the recession. I would like to commend Mayor Gray and the CFO for submitting a balanced and structurally sound budget proposal to the Council. I think the mayor's proposal does not use the District's fund balance to pay for reoccurring services. It keeps in place funds created to reduce the debt and replenish our reserve. These aspects of the District's budget are particularly important to bond rating companies, a message that was conveyed to Mayor Gray and CFO Gandhi and myself during a recent visit expressing that this was an issue for them.

Over the next 2 weeks, the Council will continue to review their budget proposal before voting on the fiscal year 2012 Budget Request Act on May 25th. We are poised to follow the District's practice, Mr. Chairman, now entering its 16th year, of submitting a balanced budget to Congress.

Major cost drivers for the budget include ever-increasing health care costs, as well as the District's continuing education reform efforts, a commitment shared by both the mayor and the Council. These pressures, together with revenues that have not fully rebounded to pre-recession levels, of course makes it difficult to continue to be competitive while providing much-needed services and programs to the residents of the District of Columbia, as well as businesses.

But let me say to this committee that we will rise to the challenge. The budget passed by the Council will represent a focus on the District's core priorities of being fiscally responsible, continuing education reform, economic opportunity, and public safety.

Because of the ongoing legislative process I'm unable to forecast exactly where each dollar will be budgeted until we vote, of course, on the Budget Request Act on May 25th. We will comply with, of course, our open meetings law by openly debating proposals for spending cuts as well as revenue enhancements. Each Council member's priorities will be the subject of negotiation. Every budgetary shift will be reviewed. However, let me guarantee you as the chairman of the Council of the District of Columbia we will pass a balanced and structurally sound budget request to send to this Congress.

After the Council reaches consensus and passes the budget I welcome, quite frankly, the opportunity to brief any member of this subcommittee personally on the Council's modifications to the mayor's budget proposal.

In order for the District to provide vital services to the public, I ask that you pass this year's appropriation act in a time for the start of the new fiscal year and that you provide those citizens of the United States of America who call the District their home the right to govern their own affairs through the representation of their elected officials.

Let me stop to thank all of the members of this committee, Congress, as well as the President, for keeping the government open. As you know, had negotiations failed and the government shut down, the District of Columbia would have been the only place in the United States of America where U.S. citizens would have been left without the basic government services enjoyed by developing countries, such as trash collection or pest control or interpretation services for the blind. All of these services and many more would have been suspended because the District lacks the power to continue to spend even its tax dollars in the event of a Federal shutdown. As you know, these services, no matter where you are, no matter who you are, constituents should not go without. Yet even under the circumstances where no government shutdown is at stake the citizens in the District should always be able to assert local control over its local funds, and I would hope that you would work with the members of this committee to give the district budget autonomy that the residents in the District deserve.

In closing, let me say that we are willing and able to stand with this committee to work together, to work together on the things that we can move this great city for, knowing that we may not agree on everything, but the things that we do agree and have in common we should do everything in our power to continue to give the residents of this great country the opportunity to flourish and to continue to make this the greatest Nation in the universe.

On that note, I look forward to questions and answers, and thank you for allowing me an opportunity to testify.

[The prepared statement of Mr. Brown follows:]

TESTIMONY OF CHAIRMAN KWAME R. BROWN, COUNCIL OF THE DISTRICT OF COLUMBIA

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HOUSE SUBCOMMITTEE ON HEALTH CARE, DISTRICT OF COLUMBIA, CENSUS AND THE NATIONAL ARCHIVES

## Introduction

Good morning, Chairman Gowdy, Ranking Member Davis, and members of the Subcommittee on Health Care, the District of Columbia, Census, and the National Archives. I am Kwame R. Brown, Chairman of the Council of the District of Columbia, the District's elected legislature. I am pleased to speak to you today about the Council's role in developing the District's Fiscal Year 2012 appropriations request.

## Budget Overview

This year, the Council has the difficult task of reviewing and finalizing a budget that continues to provide necessary services to the residents, businesses, and visitors of the District of Columbia, despite the slow pace of recovery from the recession. I would like to commend Mayor Gray and Chief Financial Officer Dr. Natwar Gandhi for submitting a balanced and structurally sound budget proposal to the Council. The Mayor's proposal does not use the District's fund balance to pay for recurring services, nor does it use capital dollars to pay for operating costs. Over the next two weeks, the Council will continue to review this proposal before passing the Fiscal Year 2012 Budget Request Act. The Council will continue the District's practice – now entering its 16$^{th}$ year – of submitting a balanced budget to Congress.

Major cost drivers for the Fiscal Year 2012 budget include ever-increasing health care costs, as well as the District's continuing education reform efforts – a commitment shared by both the Mayor and the Council. These pressures, together with revenues that have not yet fully rebounded to pre-recession levels, make it very difficult to keep our tax rates competitive while providing much-needed services and programs to our residents and businesses. But we will rise to the challenge.

The budget passed by the Council will represent a focus on the District's core priorities: education, economic opportunity, and public safety.

Education

The Council is dedicated to the continued improvement of the District's education system. As products of the DC Public Schools, both Mayor Gray and I understand the opportunities created by a quality education.

More than a quarter of our local operating dollars will go toward education in Fiscal Year 2012. I am proud to say that the Council's commitment to education funding cannot be questioned. In addition to continuing the process of modernizing our school facilities, we will ensure that both public schools and public charter schools have the money they need to provide good education. For example, the loss of $19 million of federal "Edujobs" stimulus funding in Fiscal Year 2012 will be filled with local funds, and our funding formula will deliver equitable funding to our elementary and secondary schools. And we are continuing our investments in early education and expanding the number of three and four-year olds that we are serving, giving them a strong foundation for learning.

Both our operating and capital budgets will include funding for the DC Community College, a branch of the University of the District of Columbia. The Community College has been a great success not just in educating our residents, but in connecting them with employment as well.

As a parent myself, I know that the most fundamental and admirable instinct of parents is to seek what is best for their children. I cannot look a working mother in the eye and tell her that she deserves less choice, not more. Our low-income families deserve as much choice as possible, including diverse offerings in DCPS, a full menu of charter schools, and opportunities to attend nonpublic schools. And so, I commend Congress for funding the Opportunity Scholarships program.

Economic Opportunity

I also welcome the federal government's willingness to expand its presence east of the Anacostia River by moving the Department of Homeland Security to the St. Elizabeth's site. I hope that this is a major first step in a continuing commitment by the federal government to do its part to restore the Anacostia to the natural and economic resource that it could be. For too long, our residents east of the river have struggled to participate in the District's economic development, but with appropriate funding, including significant capital outlays by the District in Fiscal Year 2012, we could harness the Anacostia to spur economic activity for residents in Wards 7 and 8.

We will continue to make the District an excellent place to work or start a business. Like our investment in St. Elizabeth's, the investments in our capital budget for projects such as the Skyland Shopping Center, Walter Reed, and a new streetcar line will help to spread economic opportunity throughout the District. Along with an investment in our workforce through the Community College and adult jobs training, these projects will reduce unemployment, grow the District's tax base, and improve the quality of life for our residents and visitors.

Public Safety

Another key component of making the District a first-class city in which to live, work, or visit is ensuring that it is safe. The District is home to more law enforcement agencies than anywhere else in the nation. However, it is our locally funded Metropolitan Police Department that provides front-line patrol, investigation, and protection services to our residents and businesses. MPD Chief Cathy Lanier is doing excellent work, but we need to ensure that she has the resources necessary to run a first-rate police department.

Our public safety agencies provide vital services to the federal government, including police escorts, the housing of US Marshal detainees at the DC Jail, and emergency management and coordination. Therefore, it is imperative that MPD, along with the Department of Corrections and the Homeland Security and Management Agency, receive appropriate support from the federal government to fulfill their vital missions.

HIV/AIDS

Similarly, I must request that the federal government provide us with the resources we need to continue the progress we've made in the battle against HIV and AIDS. In July of next year, the District will host the World AIDS Conference, yet the District still has the highest AIDS rate in the country. Many of our programs have been effective, but with recent reductions in federal assistance, we face great unknowns for the future. This represents a major threat to the health of our most vulnerable residents. I urge you to ensure that the District of Columbia, as the host of that conference, has the funds necessary to continue to employ widely-recognized best practices to combat this terrible disease.

Next Steps

I have elected to address only some highlights of the budget in my testimony, because as I speak, the Council's committees are marking up their budget recommendations. In fact, as chair of the Committee of the Whole, this afternoon I will be chairing a markup of the District's 2012 budget for our schools and other agencies under the committee's purview.

Because of the nature of the ongoing legislative process, and as I'm sure you understand, I am unable to forecast exactly where each dollar will be budgeted for Fiscal Year 2012 until we vote on the Budget Request Act on May 25th. We will comply with our open meetings law by openly debating proposals for spending cuts and revenue enhancements. Each Councilmember's priorities will be the subject of negotiation; every budgetary shift will be reviewed. However, I can guarantee as the Chairman of the Council that we will pass a balanced and structurally sound budget request to send to this Congress. After the Council reaches consensus and passes the budget, I'd welcome the opportunity to brief any member of this subcommittee personally on the Council's modifications to the Mayor's proposed budget.

Conclusion

In order for the District to provide vital services to the public, I ask that you pass this year's appropriations act in time for the start of the new fiscal year, and that you provide those citizens of the United States of America who call the District their home, the right to govern their own affairs through the representation of their elected officials.

It is to that last point that I will make my final request. Last month, the federal government faced the possibility of a shutdown. Had negotiations failed, and the government shut down, the District of Columbia would have been the only place in the United States of America where US citizens would be left without basic government services enjoyed even by developing countries. Trash pickup, pest control, Braille interpretation services for the blind, streetlight repairs, the removal of dead animals from yards and alleyways – all of these services, and many more, would have been suspended, because the District lacks the power to continue to spend even local tax dollars in the event of a federal shutdown. These are services that no representative – Democrat or Republican – would allow his or her constituents to go without. I strongly urge the members of this subcommittee to work to give the District the budget autonomy that its residents and businesses deserve, by passing H.R.345, the District of Columbia Budget Autonomy Act of 2011, and to protect the District from the effects of a federal shutdown by passing H.R.980, the District of Columbia Local Funds Continuation Act.

Thank you.

Mr. GOWDY. Thank you, Mr. Chairman.

And again, in an effort to be good stewards of both your times and recognizing that there's a panel to come behind and we want to be good stewards of their times, I'm going to recognize myself for 5 minutes of questions; and I'm going to hopefully impose the same green, yellow, red light barriers on myself that we will subsequently be imposing.

What I would like to do and acknowledge up front, Mayor Gray and Mr. Chairman, is there is not a governmental entity I don't think anywhere that's not struggling with the same things that you have just elucidated. In Spartanburg County, which is my home county, we had furloughs last year of law enforcement officers and prosecutors. The State of South Carolina is struggling. Heavens knows the U.S. Congress is struggling with respect to its fiscal obligations. So what I would love to do is ask a question, give both of you a chance to answer it, and kind of seek your perspective on the challenges that you faced as you proposed your budget.

It looks like Medicaid, if I read your testimony and the documents prepared correctly, Medicaid continues to be the largest single expenditure. Are there any lessons that you can share with the panel with respect to how you are dealing with Medicaid? Any reforms that you would advocate? Any pearls of wisdom or perspectives that you could lend to us as we struggle with the same thing in South Carolina and the U.S. Government?

Mayor GRAY. Thank you very much, Mr. Chairman.

As you know, Medicaid is a key part of health care reform as we move forward. We have quite a robust Medicaid program in the District of Columbia; and, in fact, it has been essential in our ability to have such a low rate of uninsured people in the District of Columbia. We have only 6 percent of our adults who don't have some form of insurance in the city and only 3 percent of our children who are not insured.

One of the things that we've done is to start to look at every one of our optional services—as you well know, there are mandated services and there are optional services—to make sure those services are delivered in the most efficient way.

I'm delighted to have brought in a gentleman, Wayne Turnage, who is very experienced. He happened to have worked in Virginia for a number of years in health care and health care reform and brings that experience to us here in the District of Columbia.

We've brought in an ASO, an administrative services organization, that is helping us to manage; and we are increasingly now focusing on the use of managed care organizations to try to start to influence health care behavior.

One of the things that we have in the city that we're working on that is going to take some time is to try to make sure that we have health care services spread across the city. We will in the next year open three additional clinics in areas that have historically been underserved, and we believe that will facilitate the use of insurance tools like Medicaid because people will have services more accessible to them.

So I think in terms of lessons, if there have been any, it would be to try to make sure that we have external controls, external assistance, like with an administrative services organization, and try to increasingly make health care more accessible to people who may have the insurance, may have the coverage, but if they don't have access to services they're not likely to use them except on an emergent basis.

Mr. GOWDY. Chairman Brown, let me ask you this. I had the pleasure of meeting your chief of police, with whom I was very impressed. I've had the pleasure of meeting your attorney general, who I similarly have been impressed with. But it also appears as if the budget proposes a cut with respect to public safety. How do you decide which areas to cut, given the fact that's a core function of government? What process did you go through, and can the citizens of the District expect to see any diminution in services, given the cuts?

Mr. BROWN. Well, I mean, the budget that's in front of the Council in the District of Columbia currently, there is clearly a lot of discussion going on to make sure that, from the public safety standpoint in a reduction of officers, that doesn't happen. I think the mayor's proposal doesn't quite lay that out, that it will be a reduction of police officers. But we want to get the officers, number of officers, back up to an appropriate level; and I think an additional 100 officers or 200 officers is where we want to go, somewhere between 3,800 and 3,900 officers. And I think this is a phenomenal opportunity to really focus as all the Members want to move in that same direction. So I don't think what you will see as relates to a budget proposal is a reduction of police officers in the District of Columbia.

Mr. GOWDY. I am going to try to lead by example, and the yellow light is on, so I'm going to recognize the distinguished gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman; and, Mayor Gray and Mr. Brown, thank you both for being here.

You know, many American citizens, as well as people around the world, would be surprised to learn that the Congress of the United States has to approve the local budget of the Nation's Capitol, a city of 600,000 residents, before it can spend its own local taxpayer money.

In 2003, a Republican-controlled Senate passed a bill by unanimous consent to allow the District's local budget to take effect without congressional approval. Former President George Bush supported budget autonomy in his fiscal year 2004 to 2006 budgets, and President Obama supported budget autonomy in his fiscal year 2012 budget. Congresswoman Norton has introduced—reintroduced, actually, her budget autonomy bill this Congress.

Mayor Gray and Mr. Brown, both, if the District of Columbia were to be able to set its own fiscal year and implement its local budget without congressional approval, how would that affect the District's ability to provide service to its residents?

Mayor GRAY. Well, I think, Congressman Davis, that it really would provide enormous flexibility to us.

Now we have a situation where our budget is essentially adopted at the city level in June and not later than July, and then we have characteristically gone many months thereafter without having an approved budget because of the need to send it to Congress. The average time has been about 4 months. In this instance, I think it was more like 6 or 7 months this fiscal year.

Frankly, it also would probably give us an opportunity to adopt a different fiscal year. What we have now is a fiscal year that is adapted to the Federal fiscal year, October 1st to September 30th. Just one of the practical problems that creates is that our school system, and that is the largest budget but for Medicaid in the District of Columbia, actually spans 2 fiscal years, because the school year starts in one fiscal year, that is, in August, and you have expenditures associated with that school year from August until September 30th, and then you have the rest of the fiscal year or the rest of the school year beginning October 1st and running until the next June. So it will allow us to streamline our operation of our services.

Also, frankly, it would give us more time to have a better sense of what the revenue projections are likely to be and to be able to look at data from the most recent past as we craft the budget for the future.

So, again, being able to streamline how we operate and having a better timetable that we can operate on in terms of projecting what our expenditures and revenues would be would be two of the biggest gains that we would experience.

Mr. DAVIS. Thank you.

Let me ask you, Mr. Brown. We've had continuing resolutions since 1870 technically, but you don't really expect to have continuing resolution after continuing resolution after continuing resolution up to the point of brinkmanship. How does operating under these continuing resolutions affect the budgeting process and the operation of city government for the District of Columbia?

Mr. BROWN. Well, first of all, let me start by thanking you for all of your support of the District of Columbia. Clearly, as it relates to budget autonomy, I think you understand the importance of it and have always been a strong supporter working with Congresswoman Norton on these particular matters.

Your question has to do with how does Congress amend the District's budget and what does the continuing resolution—clearly, what role does it play? What's interesting is that Congress has not amended our budget. And when you look at—since I've been on the Council, they have never amended the budget. So the clear question is, why do we have these resolutions over and over and over, DCRs over and over again? I think it gives an opportunity to set a clear direction of where we want to go, gives a clear understanding how we get there, and I look forward to working with you and others to see how we can get budget autonomy passed in the District.

Mr. DAVIS. Thank you, Mr. Chairman, and I yield back.

Mr. GOWDY. I thank the gentleman.

The chair will now recognize the gentleman from Arizona, Dr. Gosar.

Mr. GOSAR. Thank you, Mr. Chairman.

Mr. Mayor, I know we all share a common thread in regards to educating our children; and in looking at the budget, we had about a 5.4 percent increase in education funding. Are you concerned about that?

Mayor GRAY. I'm concerned only, Dr. Gosar, that we can't invest even more money in education. Education reform has been afoot now for several years in the District of Columbia, and it is a huge priority of mine.

Some of the increases, frankly, reflect an increased enrollment. For the first time in 41 years, we saw an increased enrollment in our traditional public schools, and for the first time since the advent of charter schools we saw an increased enrollment in both. We had an increased enrollment of about 900 children in the traditional D.C. public schools this year and another 1,700 in charter schools for an enrollment increase of 2,600. So carrying that forward, some of the increases in our budget are to ensure that we provide an adequate education for those children, as well as projected enrollment increases.

We have made a very healthy investment also in pre-kindergarten, early childhood education services; and, as a result, I think that is a contributing factor to our enrollment increases. And we want to continue to do that because we recognize getting these children at the earliest possible point will make a huge difference in educational outcomes and, frankly, life outcomes.

The other thing that we are doing, Dr. Gosar, is we are tackling a problem now that has been longstanding, and that is how we educate children with disabilities in the District of Columbia. We have had far too many children who have had to be educated in nonpublic tuition placements, as we call them, at great expense to the city. Last year, we spent about $160 million on those children, plus another $93 million on transportation of kids with disabilities in traditional public schools, charter schools, and nonpublic placements.

So we are going to invest more in our public education system next year, hopefully to incentivize that system to begin to bring our children back in the public education system to comply with the law of the land which changed in 1975 and still, of course, exists in 2011 in the form of the Individuals with Disabilities Education Act.

So I think we're making progress on the education front. We still have a very, very long ways to go to be able to say that we are adequately educating every child, but I think we're going in the right direction.

Mr. GOSAR. I'm sure you're aware that we have H.R. 471, the Scholarships for Opportunity Results Act. I'm also from Arizona that struggles with the same type of educational aspect. And we look at everything on the table, all aspects of where we can go with assets, to try to attain and help every child. Do you support that act?

Mayor GRAY. I support strong public education, Dr. Gosar, and that's where I've placed my emphasis. I believe that education and strong public education is a great emancipator, it is a great liberator, it is what levels the playing field. And so I place my emphasis, and I've indicated here before, on public education.

I will continue to do that. I will implement whatever laws and programs are required of the District of Columbia, of course. But as a product of public education of the city I know what it can do for children, I've seen what it can do for children, and I want us to have the strongest possible public education system.

And we have a lot of choice. We have a lot of choice in terms of 123 traditional public schools; and we now have the most robust charter movement in the country, 52 charter schools operating on 93 campuses with almost 30,000 children enrolled in those programs. So we probably offer the greatest variety of choices in public education when compared to anywhere else in the Nation.

Mr. GOSAR. Well, I would hope that, particularly in light of the Supreme Court ruling with Arizona with the voucher system, that we would also embrace the voucher system and look at it as a tool in order to facilitate all children all across the board. Because you need all opportunities to embrace children. So I would hope that we would really, truly look at that system and integrate it.

Thank you, Mr. Chairman.

Mr. GOWDY. Thank you, Dr. Gosar.

The chair would now recognize the ranking member of the full committee, the distinguished gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Mr. Chairman, I yield to Ms. Norton, please. No, you go, please, Ms. Norton.

Ms. NORTON. I thank the ranking member for his generosity in yielding to me; and thank you, Mr. Chairman.

First, let me commend the mayor and the Council chair on how well you worked together on the budget even while the chairman and his subcommittees have engaged in very rigorous oversight of your budget. I know it is awkward for you to appear to discuss the budget when there is no budget.

But as far as you go, I want to commend you on the budget that the mayor—first, you, Mayor Gray, have submitted. That budget we, of course, see. It is not the final budget. It is not the District of Columbia budget. It is a tough budget with admirable balance. It spreads the pain. It gives us in—what is this—your 13th year of a balanced budget without drawing from your cumulative funds balance, your reserve balance. I wonder if there is another jurisdiction in the United States that even has a reserve, much less not drawing a penny from it in order to balance its budget. You have shown yourself not wedded to any ideological catechism in drawing your budget but requiring the whole city to participate in what it takes to balance a budget.

And you, Chairman Brown, your oversight—and I see from channel 16, or was it channel 13, and from the papers—has been very rigorous. You are apparently making changes, while keeping the rigors represented by the mayor's budget.

I think both of you are a model for the Congress of working together on a budget without rancor and working together in the first place.

I apologize for the extra cost to the District in redundant budget processes and hope that the committee will understand from your testimony the urgent need for budget autonomy.

I want to discuss a subject close to my heart. The chairman says correctly that the budget is not amended. The budget is never amended. No one here would know how to amend the budget. I don't have a clue how to change the budget. No one could get into those weeds except you.

The budget is here for one purpose. The budget is here for riders, because Members from Arizona want you to do what they do in Arizona, or Members from Ohio want you to do what they do in Ohio.

I want to speak about one of those riders. For about 10 years Congress kept the District from spending its own local funds on needle exchange programs, even though every large city and many smaller jurisdictions use needle exchange programs because they have been found to be effective by all the objective organizations in reducing the spread of HIV/AIDS. House republicans once again even in light of this evidence tried to reimpose this ban this year after we got the ban off in the prior years. We were able to resist that.

But I have to ask both of you, what would be the impact on the HIV/AIDS rate in the District of Columbia—first, how would it affect the city generally, and what would you do if Congress were to reimpose this rider on the District of Columbia, again which has taken so many lives here in this city?

Mayor GRAY. Well, frankly, the needle exchange program has been an incredibly important tool for us in fighting HIV and AIDS in the District of Columbia. The national average is 1 percent, and anything above that would be regarded as an epidemic. We have a 3 percent rate overall in the District of Columbia of people who are HIV positive or have AIDS.

Ms. NORTON. Do you think that is directly traceable to the rider?

Mayor GRAY. Well, I don't know if it's directly traceable to the rider or not, but certainly having a tool available to us to attack this problem is going to reduce the transmission of the virus. We know that intravenous drug use is now one of the most prevalent ways in which the virus is transmitted, and being able to have people access clean needles has made a difference in how the virus is transmitted. The absence of that I think is going to result in a rise in the transmission of the virus in the city.

And, frankly, you asked a question what we would do. When the ban was in place before, there was an organization, Prevention Works, that came into being that raised private dollars in order to run this program; and in fact it is now out of business because they could not sustain themselves.

So, Congresswoman Norton, I'm not really sure what we would do. We ought to have the flexibility, as I think more than 200 cities now nationally do, to be able to continue to operate this program. It is an important prevention technique, it has proven its worth, and we need to have this available to us.

Ms. NORTON. Thank you very much.

Chairman Brown, did you want to say anything on that issue.

Mr. BROWN. Well, let me just start to say that the Department of Health's HIV/AIDS, Hepatitis, STD, and TB Administration——

Mr. GOWDY. Mr. Chairman, I hate to interrupt you, but I want to fair to everyone. And what I would propose is, after I recognize the gentleman from Maryland, to maybe have a lightning round if, Mr. Mayor, if you would be willing to have just maybe one quick question so I could get all of Ms. Norton's questions asked but also be fair to the gentleman from Maryland.

So, at this point, I would recognize the ranking member of the full committee, the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman; and I want to thank you for calling this hearing. I want to thank Ms. Norton certainly for her advocacy for the District. And to you, mayor, and to you, Mr. Chairman, I want to thank you for being here.

I literally reside in two cities: Washington, DC, and Baltimore. And I must tell you that, as I listen to you, Mr. Mayor, and to you, Mr. Brown, and then I combined what you have said this morning to what I read in the Washington Post this morning where it said, Alice Rivlin, senior fellow of economic studies at Brookings, said, "for more than a dozen years, D.C. has been a model of fiscal responsibility."

And it goes on to say that Matt Fabian, managing director of the Independent Research Firm Municipal Market Advisor, said that the District operates in a highly conservative manner with a strong financial management team and institutionalized financial controls. Even as the economy struggled, he found the District faring better than most other cities and States. He says something.

You know, I notice the media, all of them are up in here today, and if we need to do nothing else we need to give you credit for what you've done and what your predecessors have done.

But the thing that made my heart glad, as my mother would say, is that not only are you doing this thing, managing the money that you have well and you're making the cuts that you have to do and doing what you got to do, but you're also doing it with compassion. I heard you talk about the 6 percent and 3 percent, the adult, 3 percent children uninsured. I think that's what you said, Mr. Mayor, is that right?

Mayor GRAY. That's right, sir.

Mr. CUMMINGS. You know, and you talked about spreading the clinics, having more clinics, and you talked about basically wellness and prevention. That's what you're talking about.

This Congress could take some lessons from D.C. and it is interesting that you have to come up here and go through these changes. Since the District of Columbia Government cannot obligate or expend its locally raised funds until Congress appropriates these funds back to the District, the District of Columbia Government would have had to shut down if the Federal Government shut down during the fiscal year 2012 Federal spending fight, even though the District had passed its budget the prior spring. Duh.

If I recall correctly, Congresswoman Norton offered multiple amendments at the Rules Committee to allow the District of Columbia to continue to spend its local funds for the remainder of fiscal year 2011. The Republicans rejected each of these amendments and refused to consider her stand-alone bill that would have accomplished the same goal.

Mayor Gray, how much time did you and other members of your administration have to devote to shut-down-contingency planning?

Mayor GRAY. It was scores of hours and scores of people who worked on it. The city administrator had the responsibility, Mr. Cummings, for directing this effort. We had the city administrator, all the deputy mayors, and every department head involved in this exercise in putting together a plan, beginning with going back and researching what happened about 15 years ago when this occurred previously.

A plan was put together. And, frankly, had it been implemented, and you heard the chairman talk about this, Chairman Brown talk about this, there would have been service shutdowns that really would have affected adversely the people of the District of Columbia. Libraries would have been shut down. Trash would not have been picked up. The Department of Motor Vehicles would have had to shut down. Our Consumer and Regulatory Affairs Agency would have had to shut down.

And, frankly, we have the money in our budget to be able to do that. We were being treated like another department of the Federal Government, when in fact we aren't. We're not the Department of Commerce or Justice or Health and Human Services or Interior or any other department like that. We are a separate jurisdiction. We raise $5½ billion a year to support those services. We had a balanced budget that we adopted, as you've indicated, last spring and early summer; and we're ready to implement that.

We never should have been caught in this; and, frankly, having to put together a shutdown plan diverted the attention of our department heads, as well as our other leaders, from running the services every day in order to craft a plan in anticipation of a shutdown.

Mr. CUMMINGS. Thank you very much.

I see my time is expired, Mr. Chairman, and thank you.

Mr. GOWDY. Thank you, Mr. Cummings.

Mr. Gray, I believe if I recall correctly you have city business to tend to beginning at 9:30.

Mayor GRAY. Yes, sir. I have to be back up shortly, back up to the Wilson Building.

Mr. GOWDY. Chairman Brown, I know you have important business to tend to as well. We have another panel. So what I would propose is maybe a continuing dialog. I know that you have one with Ms. Holmes-Norton and I'm sure others and been gracious enough to host me as well. Love to talk to you about the Metro and anything else on your minds, but I also want to keep my word and get you where you need to get.

Yes, ma'am.

Ms. NORTON. Mr. Chairman, just for the record, in light of the fact that Mr. Cummings is here, I would like to note for the record that Mr. Cummings' city, Baltimore, has had a needle exchange. Baltimore is a city that struggles considerably more than the District. This has been a white collar town. The District has had the highest AIDS rate in the United States, higher than our good sister Baltimore. One would not have expected that, and it would not have been the case if the Congress of the United States had not denied the District of Columbia the right to spend its own local money to save the lives of District of Columbia residents.

Thank you, Mr. Chairman.

Mr. GOWDY. Yes, ma'am.

Mayor Gray, the distinguished gentleman from California, the chairman of the full committee, a lot of us, as you know, have to go from committee to committee. Judiciary is having one this morning as well. I don't know whether your schedule will allow me.

Mayor GRAY. Of course.

Mr. GOWDY. Then I would recognize—and thank you for that, Mr. Gray. But I would recognize the gentleman from California, the chairman of the full committee, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Mayor, Chairman, I really appreciate your making the time this morning. Hopefully, this can be a regular dialog, not always at a formal hearing. But under both of my predecessors, I think there continues to be a good relationship.

One of the challenges—and the gentlelady from the District of Columbia does a good job of representing a point of view of the District, but one of the things that we seem to see here is that there are more views of the District than just hers. And I might note and actually comment on the impact of both chartered public schools and the private school community within the District and how you feel you will work with Federal funding that helps in that effort.

Mayor GRAY. Well, we'll try to make everything work that's required of us.

As I indicated, Mr. Chairman, earlier, we have a very robust commitment to public education in the city. We're making very substantial investments in that regard. The biggest increase in this budget proposed for fiscal year 2012 is in public education and especially in early childhood education and trying to get our kids with disabilities back into public education environment. So for me, and I've said it many times before, I think that the future lies for us in having a robust public education system.

Our charter movement I think is second to none in the Nation. As I indicated earlier, we have 52 charter schools, we're adding four more on 93 campuses, and they serve now 30,000 children, or close to it, which provides an opportunity to offer an enormous amount of choice to our kids.

It's the first time we've seen enrollment increases in our traditional public education in 41 years, and the first time since the advent of charters back in the 1990's that we've seen enrollment increases in both. So I think we're going in the right direction.

Mr. ISSA. Let me have a followup question on a completely different subject, but I think one that is near and dear to all of us who went through a series of continuing resolutions, no budget last year, essentially one after another short-term financing of the government, and I know that impacts you as the Federal city. If we're able to come up with a system that allows you to continue operating not with Federal funds but with your own means, if for any reason there is a break in full funding or, in another way of putting it, even if there isn't, if we wait to the 11th hour for you to maintain all services even through a period of uncertainty, do you believe you're prepared to do that on an annual basis with a budget that reflects a contingency for no Federal funds coming?

Mayor GRAY. Well, for the most part, we receive Federal funds in the same way as other States do.

Mr. ISSA. No, I understand that. But if the Federal Government had not fully funded all aspects of the government, the States would have been without certain Federal funds, but they would have, for example, picked up Medicaid. No Medicaid person would have found themselves without money. Because the States, as sovereigns, would have found a way to meet their obligation, even if Federal funds were delayed.

My question to you, and it's an important question, when you look at your budget and contingencies, if we essentially allow for the city to be, at least on an annual basis, early on disconnected from what may or may not happen in a continuing resolution, a budget battle, a debt ceiling, all of those which I think this committee is concerned, are you able to give us a contingent budget that shows that for X period of time you can continue to provide all the required services of the Federal city?

And I said "Federal city" because we're not just talking about school. We're talking about police and all the functions, many of which are ultimately services that are provided, often with reimbursement. Your city receives a certain amount of impact aid equivalent to make up for the fact that embassies don't pay property tax and so on.

So my question today is one of can you now or in the near future give us, if you will, a contingency plan so that this committee could look at a way to say, OK, per that plan, on an annual basis we can forward allocate authorization so that the District of Columbia is never caught up in what might be weeks or months of uncertainty in the budget process?

I would like to see the city have that capability on a go-forward basis, but I'm looking for some sort of a structured mechanism to where this committee could say, they have a plan, they can live without Federal dollars and still meet the requirement. And each time that is received it would allow us to say, we have no reason to be in the way of your spending your dollars if you can make the commitment. And we all understand the contingent plan would not fully fund everything you want to do, and it may not be able to do it for a full year, but can you comment on that?

Mayor GRAY. Well, first of all, again, as I indicated, we raise $5½ billion in local tax dollars. And many of our services——

Mr. ISSA. By the way, I'm very aware that I pay twice as much as a nonvoter in the District of Columbia than your voters do, and I'm very aware that you have a wonderful scheme to make sure those without representation pay twice as much tax. But go ahead, please.

Mayor GRAY. I would like to hear more about that so we can expand it to others.

No, I think many of our services——

Mr. ISSA. It's called your homestead, but go ahead.

Mayor GRAY. Many of our services, as you know, Mr. Chairman, are completely funded with local dollars; and we certainly would be prepared to be able to do that with budget autonomy. That's one of the points that we have made.

Again, and I think you're saying this as well, if it was something like Medicaid for us, our Medicaid formula is 70/30, 70 percent Federal, 30 percent local. And that formula is no less than 50/50 for every State. So we wouldn't find ourselves in any different situation than the States would on programs like that.

But those things that are wholly funded with local dollars, we've demonstrated we can do that, and we are prepared to do that. That's one of the, I think, strongest arguments we have for budget autonomy. That if you look back over the past 13 to 15 years we've indicated that we've had balanced budgets, we've had clean audits, and demonstrated our ability to manage our finances in a very prudent manner.

Mr. ISSA. Thank you. I thank the gentleman for his indulgence and yield back.

Mr. GOWDY. Thank you, Mr. Chairman.

Let me quickly recognize the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman; and let me appreciate your sensitivity to the needs of our witnesses to move on to other pressing business.

I also appreciate the presence of both the chairman of the full committee and the ranking member as an indication of how important this issue is to all of us.

And I would ask unanimous consent to submit for the record an opening statement, as well as an editorial from the Washington Post entitled Congress Should Loosen Its Fiscal Reins on D.C., and I yield back.

Mr. GOWDY. Yes, sir, Mr. Davis. Without objection, indeed, all Members may have 7 days to submit opening statements for the record and any other extraneous material.

[The prepared statement of Hon. Danny K. Davis follows:]

ONE HUNDRED TWELFTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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**Opening Statement**
**Rep. Danny K. Davis, Ranking Member**

**Subcommittee on Health Care, DC, Census and the National Archives**
**Hearing on "The District of Columbia's Fiscal Year 2010 Budget:**
**Ensuring Fiscal Sustainability."**

**May 12, 2011**

Thank you Chairman Gowdy, I appreciate your leadership as we delve into the critical issues under the purview of this subcommittee. I look forward to continuing our work. I want to welcome the witnesses today. Thank you for your attendance.

I want to be brief, as I believe Ms. Norton should be allowed ample opportunity to speak. I first want to congratulate the District of Columbia, as its fiscal discipline has brought it out of the era of the Financial Control Board to sound footing. But, similar to many urban areas, the District today faces the difficult strains of declining revenues and inflation. Further, the District bears the unenviable tasks of operating as a city, county, state, and a school district, but without the full taxing authority.

It is my understanding that the subject of this hearing- the DC budget, is at this stage, merely a proposal, a draft. The Mayor is currently travelling his city, hosting town hall meetings, acquiring feedback via a website- all in an effort to gather information and input from those who are affected by it - the city's residents. Also, the city council has yet to weigh in on this budget. This is clearly a local issue.

The District's budget may contain items for legitimate discussion, but not by this body. If we are truly interested in assisting the District in maintaining fiscal sustainability, this subcommittee should advance the budget autonomy necessary for the District to successfully transact its business. The federal shutdown came dangerously close to interfering with the District's ability to provide basic services, pay its bills, and to fully employ its workforce. However, budget autonomy would allow the District rights similar to most states and local governments, including the ability to plan and manage its locally collected funds and begin its fiscal year timely. We should not allow the District's special status to continue to serve as a fiscal hindrance to the District's financial success.

I now yield the remainder of my time to Representative Norton for her remarks.

The Washington Post

# Congress should loosen its fiscal reins on D.C.

**By Editorial, Published: May 11**

ANNOUNCING PLANS for a hearing on District finances, a House subcommittee pointedly mentioned the federal control board that oversaw city spending in the mid-90s. The reference to one of the most embarrassing periods in D.C. history may be good politics — and it's enough to raise worries that a Republican majority that's been unabashed about meddling in city affairs will meddle further. But if Congress allows itself to be guided by facts and the judgment of experts, it will loosen, not tighten, its control over the city's budget.

The city's fiscal 2012 budget is ostensibly the subject of Thursday's hearing before the D.C. subcommittee of the House Committee on Oversight and Government Reform. Such hearings have traditionally been the domain of the Appropriations Committee, so there's speculation about a broader inquiry into city affairs. D.C. Mayor Vincent C. Gray (D) and D.C. Council Chairman Kwame R. Brown (D) — currently the subjects of separate controversies — have been called to testify. Without diminishing the seriousness of concerns over Mr. Gray's hiring decisions or Mr. Brown's campaign finances, it's important to distinguish those issues from the city's fiscal health.

On that score, there's no question. In testimony prepared for Thursday's hearing, Alice M. Rivlin, senior fellow of economic studies at the Brookings Institution, details the city's journey from "a financial basket case to a responsibly managed and fiscally healthy city." As chair of the federal control board, Ms. Rivlin had a close view of city finances, and she believes D.C. residents and officials learned their lessons: "For more than a dozen years, D.C. has been a model of fiscal responsibility." Matt Fabian, managing director of the independent research firm Municipal Market Advisors, said the District operates in "a highly conservative manner" with a strong financial management team and institutionalized financial controls. Even as the economy struggled, he found the District faring better than most other cities and states.

Ironically, one problem highlighted by Mr. Fabian was the recent possibility of a federal shutdown. Because the city's budget is tied to federal appropriations, its day-to-day functions as well as its ability to make a June credit payment of $240 million would have been threatened. In fact, Mr. Fabian suggested that Congress loosen its federal oversight requirements. Pending before the committee since January is a bill by D.C. Del. Eleanor Holmes Norton (D) that would give the city control over its own, locally raised tax dollars. Prepared testimony by D.C. Chief Financial Officer Natwar M. Gandhi details how, because of congressional restrictions, the District is not able to react as "swiftly, appropriately or effectively as possible to meet the needs of residents and visitors." If Congress is serious about the city's fiscal viability, it would give local officials the tools they need to manage the city's money.

Mr. GOWDY. Mr. Mayor, Mr. Chairman, on behalf of all of us, thank you for your time. As the second panel approaches, we'll take a brief recess. And if you have an extra second I would like to come down and thank you both in person.

[Recess.]

Mr. GOWDY. It is my pleasure to recognize our second panel and welcome you and thank you for your patience and indulgence for being the second panel.

Pursuant to committee rules, all witnesses will be sworn before they testify. So I would ask you to please rise with me and raise your right hands.

[Witnesses sworn.]

Mr. GOWDY. May the record reflect all of the witnesses answered in the affirmative.

I will introduce the witnesses from my left to right, your right to left. First is Dr. Natwar Gandhi, who is the chief financial officer of the District of Columbia. In the middle is Mr. Matt Fabian, who is the managing director of the Municipal Market Advisors. And last but not least is Dr. Alice Rivlin, who is a senior fellow at the Brookings Institution and was former Chair of the D.C. Control Board.

I will recognize each of you in the order I introduced you for 5-minute opening statements. And again, thank you for joining us.

**STATEMENTS OF DR. NATWAR GANDHI, CHIEF FINANCIAL OFFICER, DISTRICT OF COLUMBIA; MATT FABIAN, MANAGING DIRECTOR, MUNICIPAL MARKET ADVISOR; AND DR. ALICE M. RIVLIN, SENIOR FELLOW, THE BROOKINGS INSTITUTION, FORMER CHAIR OF THE D.C. CONTROL BOARD**

**STATEMENT OF DR. NATWAR GANDHI**

Mr. GANDHI. Good morning, Mr. Chairman. Thank you, Mr. Chairman, members of the subcommittee, Mr. Davis, Ms. Norton, Mr. Clay.

I am, as you pointed out, Natwar Gandhi, chief financial officer of the District of Columbia Government. I am pleased to be here for the subcommittee's hearing on Mayor Gray's proposed 2012 budget and financial plan.

Mr. Chairman, in 1995, the U.S. Congress created the Office of the Independent Chief Financial Officer to work with the mayor and the Council to maintain the District's fiscal stability and enhance its financial liability. Since then, we have completed 14 consecutively balanced budgets and expect to end the current year in the same manner.

Between 1996 and 2008, we turned a cumulative $550 million deficit into an impressive $1.2 billion fund balance. Further, we transformed a nearly bankrupt District Government, plagued with junk bond ratings, into a financially credible jurisdiction with strong credit ratings.

Indeed, our turnaround from junk bonds to status A category bond ratings was faster than any other major city that has undergone similarly a financial crisis, including New York, Philadelphia, Cleveland, and Detroit. Attachment 1 to my testimony and the board before you on my left tells the story of the District's successful return to fiscal solvency and financial stability.

This turnaround is a case study in commitment to improved financial management and practices. Our General Obligation bond ratings have increased at an unprecedented speed. They now stand at A+ from Standard & Poors and are in the AA category from Moody's Investor Services and Fitch Ratings. In addition, our Income Tax Revenue Bonds are rated AAA by Standard & Poors. This is indeed a record of which the District can be justifiably proud.

As in the case of many jurisdictions around the country, the recession of the past several years have taken a toll on our finances. Our General Fund balance has dropped from a peak of $1.6 billion in 2005 to $890 million at the close of 2010, a decrease of some $695 million over 5 fiscal years. In early February, the newly elected leadership and I visited the three rating agencies to discuss the reserves and lay out a plan for the future.

I am pleased to report that the mayor's 2012 budget and financial plan meets the rating agency expectation despite the difficulties experienced due to loss of about a quarter of previously projected 2012 revenues and expiration of the Federal stimulus fund, a loss of some $228 million compared to the previous fiscal year.

The mayor's proposed budget meets all the criteria required for certification by the chief financial officer, and they are:

This proposed budget is balanced.

It does not use any Fund Balance; that is, it requires the District to live within its means.

It is in compliance with our Debt Cap Act which limits the debt service on our tax-supported debt to 12 percent of expenditures.

Mr. Chairman, I would like to take the issue with those who proclaim that the District's finances are failing to the point that a reinstatement of a Control Board is imminent. Yes, the District is facing challenges, but none of the seven Control Board triggers will be breached. Congress in its wisdom created the Office of Chief Financial Officer for the purpose of preventing any of those triggers. Our elected leadership pledged to the rating agencies, and to District residents, that they will do what is necessary to balance the budget without the use of fund balance and limit borrowing to stay within the debt cap.

Our challenges, however, are significant. The District, as the urban center of a large metropolitan area, houses a disproportionately large share of very poor and needy citizens. The District's overall poverty rate of 17 percent and the child poverty rate of 26 percent are among the highest in the Nation and more than three times the comparable rate across the neighboring counties. Unlike other jurisdictions that provides services to a large share of the region's poor, the District cannot divert resources from wealthier suburban areas to serve its urban poor.

In this environment of continuing expenditure needs, the challenges posed by reduced revenues is substantial. Kindly permit me to briefly note two areas that merit continuous attention. Both go to the unfunded mandates that restrict the District's own taxing power.

The prohibition on taxing the income earned by nonresidents, including those who commute into the city on a daily basis. That 66 percent of income generated in the District is earned by nonresidents makes the simple point.

The District also has an especially high concentration of nontaxable real property, much of it off the tax rolls due to the presence of the Federal establishment. The value of property here by the Federal Government alone is 30 percent of the nonresidential property values.

Mr. Chairman, I will not belabor on the issue of the District's budget economy. The mayor and the chairman spoke so eloquently about that, but I emphasize my endorsement of their views.

I want to thank you for your leadership, sir, and appreciate your wisdom in visiting our offices, and I appreciate your interest very much.

[The prepared statement of Mr. Gandhi follows:]

# PUBLIC HEARING ON

# THE MAYOR'S PROPOSED FISCAL YEAR 2012 BUDGET AND FINANCIAL PLAN

**Before the**
**Subcommittee on Health Care, District of Columbia, Census and the National Archives**
**Committee on Oversight and Government Reform**
**U.S. House of Representatives**

**The Honorable Trey Gowdy, Chairman**

**May 12, 2011; 8:45 a.m.**
**Room 2154, Rayburn House Office Building**

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Gowdy, and members of the Subcommittee. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia. I am pleased to be here for the Subcommittee's hearing on Mayor Gray's proposed FY 2012 Budget and Financial Plan for the period FY 2012 through FY 2015.

This first budget process for Mayor Gray's administration was challenging because of the lingering effects of the national recession. On the revenue side, compared to the pre-recession estimates, by last September, the District's Local Source revenue projections had fallen by about one-quarter in both FY 2011 and FY 2012 compared to the June 2008 projections (see Attachment 1). Since last September, the Mayor and the D.C. Council took legislative and administrative actions to close a budget gap largely created by the drop in revenues reflected in the September 2010 revenue estimate.

By the end of February, however, the economic picture had brightened, and a new revenue estimate showed an increase in FY 2012 revenues of $105 million, with larger increases in subsequent years. Still, the current revenue estimate for FY 2012 is over one billion dollars below the June 2008 estimate for that fiscal year.

Accordingly, the Office of the Chief Financial Officer (OCFO) worked closely with the District government's executive leadership team and agency program and finance staffs to resolve numerous budget issues to produce a balanced five-year financial plan. The FY 2012 policy budget reflects funding priorities by the Mayor and agency directors. We will continue to work collaboratively with the Mayor and the Council as they deliberate on the Mayor's FY 2012 Proposed Budget and Financial Plan.

After careful review, when the Budget was transmitted to the Council, I certified that the FY 2012 – FY 2015 Budget and Financial Plan, as proposed, is balanced.

**BRIEF HISTORY**

Attachment 2 to my testimony and the board before you tells the story of the District's successful return to fiscal solvency and financial stability. Between 1996 and 2008 we turned a cumulative $550 million deficit into an impressive $1.2 billion fund balance. Further, we transformed a nearly bankrupt District government plagued with junk bond ratings into a financially credible jurisdiction with strong ratings. Indeed, our turnaround from "junk bond" status to "A" category general obligation bond ratings was faster than that of any other major city that has undergone a similar period of financial crisis, including New York, Philadelphia, Cleveland and Detroit.

This turnaround is a case study in a commitment to improve financial management and practices. Our General Obligation (GO) bond ratings have increased at an unprecedented speed. They now stand at A+ from Standard & Poor's, Aa2 from Moody's Investors Service and AA- from Fitch Ratings. In addition, our Income Tax Revenue Bonds are rated AAA by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch. This is indeed a record of which the District can be proud.

**BUDGET AUTONOMY**

I would now like to speak about why I believe, from a financial management perspective, the District should have discretion with respect to the allocation of funds raised from local sources.

Under current law, all District of Columbia spending is authorized by the Congress through the federal appropriations process, irrespective of the source of revenue underwriting such spending. In the District's FY 2012 proposed general operating funds budget of $8.99 billion, about $6.34 billion, or71 percent, comes from revenues raised through local taxes, fees, fines, and user charges. Another $2.45 billion or 27 percent comes from Medicaid and federal grants, which are mostly formula based and available to all jurisdictions. Only $174.3 million or approximately two percent are from federal payments specifically requested in the President's FY 2012 Budget from federal revenues for programs and projects unique to the District of Columbia.

I suggest that only the federal payments specifically and uniquely earmarked for District programs or federal initiatives should be appropriated by the Congress. In the case of local funds, the Congress has rarely altered an allocation made by the District. Federal grants to the District have already been appropriated to the federal agency responsible for program administration and awarded to the District. Having already been appropriated to a federal transferring agency, these federal grants should not need to be "re-appropriated" to the District.

Were the Congress to modify current law by reducing its role in the District's appropriation process, a range of possibilities would still remain to allow for oversight of the District's budget and operations. These might include periodic audits, after-the-fact review of the District's locally enacted budget, or review of the District's locally enacted budget by the appropriate oversight group in the Congress. Federal payments directly appropriated to the District would remain within the federal appropriations process.

**Benefits to the District**

*Faster and smoother enactment of budgets.* Because the District currently receives all its authority to spend funds only through the federal appropriations process, the District cannot enact the budget approved by its elected representatives until Congress passes and the President signs the District's appropriations bill. This situation guarantees a four-month lag between local approval and federal enactment. Furthermore, federal appropriations bills are often delayed beyond this period, as was the case with the current FY 2011 fiscal year. There are adverse consequences for the District since it is tied to the federal appropriations cycle. In the case of new or expanded programs approved and financed locally or with federal grants, no action can be taken during the fiscal year until Congress passes its appropriations act, or includes language in the Continuing Resolution to permit the District to spend these funds at the approved level. For years, the CR's have included just this language, thereby removing the unnecessary and unfortunate delays in programs that had previously existed. This extra effort with the language in the CR is very much appreciated, but it is never certain. With budget autonomy, it would not be necessary.

Also, the more time that elapses between the formulation of a budget and its execution, the more likely the operating assumptions underlying that budget will not hold true. Thus another critical aspect of faster budget enactment would be that budgets could be based on more current revenue estimates. This became apparent two years ago when my office issued a new revenue estimate June 22, after the Council had approved the budget, but before Mayor Fenty had returned it to Council with a single line-item veto.

The June estimate showed a drop of $190 million of revenue in FY 2009, and a projected drop of $150 million in FY 2010, forcing the Mayor and Council to go back to the drawing board. To their great credit, both Mayor and Council moved swiftly to revise the budget to reflect the lower revenues, but this was far from an optimal way of doing business.

If the District Council were able to set its own schedule to enact a budget, the Mayor and legislators could always rely on revenue estimates based on more current data. Currently, budgets are based in large part on revenue estimates completed in February, some seven months before the start of the new fiscal year in October and a total of 20 months before the end of that fiscal year. The District does not get actual data on how accurate these revenue estimates are, and whether budgeted expenditures are fully covered, until after the end of that fiscal year, almost 2 years after the original revenue estimates were made.

*No Interruption of Local Government Services.* As you are well aware, this year, the District government, along with the federal government, would have had to close down had Congress and the President not reached a budget agreement to extend the Continuing Resolution through the end of the year. The District would have immediately lost revenue from a government shutdown – about $5.5 million a week. For District residents, unlike any other Americans, a shutdown would have meant that they would have had only limited federal, state or local government services – no trash collection, no public recreation facilities like swimming pools or youth baseball leagues, no libraries, no driver's license renewals or car registration, no parking enforcement, no building permits, no city university or community college access, no social services for needy families with children. In short, the potential effects of an extended shutdown would have been felt more immediately and far more severely by District residents than our fellow citizens in the rest of the nation.

*Maximum Local Financial Flexibility.* Providing the District with the authority to direct the spending of its locally raised revenue would substantially increase the District's ability to react to changing program and financial conditions during a fiscal year. Under current law, the District must follow the federal supplemental appropriation process to appropriate additional revenues that become available during the course of the fiscal year or to make any significant realignment in resources among its appropriations. All program plans premised on supplemental appropriations are held in abeyance while Congress considers the request.

It should be noted that since the early part of the decade, Congress has provided increasing degrees of budget flexibility to the District. Currently, if our revenues exceed projections, the District is allowed to increase our appropriations ceiling. Specifically, if local tax base revenues increase, spending of that revenue source may be increased up to 6 percent. Similarly, if dedicated revenues or O-type revenues increase, spending in that category may be increased up to 25 percent. This authority, however, still requires a 15-day Congressional review period during which the monies cannot be spent. Also, the authority is not permanent but is derived from a general provision in an annual appropriations bill that must be continually renewed.

As you can see from these examples, because of the lack of permanent budget autonomy, the District cannot always react as swiftly, appropriately or effectively as possible to meet the needs of residents and visitors. To the best of my knowledge, no other municipality in the nation functions under such restrictions.

**Mechanisms and Safeguards for Assuring Financial Integrity**

The District of Columbia Financial Responsibility and Management Assistance Act of 1995 (the Act), coupled with the continuation of an independent Office of the Chief Financial Officer, provides the framework for assuring financial integrity without the need for imposing the federal appropriation process on local fund budgets. The Act details specific benchmarks for financial management within the District and provides for the reinstitution of a control board and other constraints if the District fails to meet these major financial obligations. These financial benchmarks remain in effect under the proposed Budget Autonomy legislation.

Further, in October 2006, Congress enacted the 2005 District of Columbia Omnibus Authorization Act, which re-established, within the District's Home Rule Act, a permanent Office of the Chief Financial Officer. The Office of the Chief Financial Officer provides an independent assessment of key financial data – annual comprehensive financial reports, revenue estimates, fiscal impact statements, and all other consequential financial data. The Chief Financial Officer's duties are not changed by the proposed Budget Autonomy legislation. I believe that the existence of an independent Chief Financial Officer, chartered by the Congress to oversee the fiscal stability of the District, along with the prudent financial leadership demonstrated by our elected officials, is sufficient to ensure fiscal discipline without the added complexity of putting local spending plans through the federal appropriations process.

**Fiscal Condition and Financial Improvements**

There is no question that the District has the financial infrastructure to permit it to manage its local funds effectively. Congress created the position of independent Chief Financial Officer to provide for fiscal responsibility apart from the political process. We have a strong accounting system linked to our budget oversight processes. Monthly closings and cash reconciliation are in place. Financial managers have a clear understanding of expectations. The improved financial reporting infrastructure has enabled the OCFO to supply elected leaders with sound fiscal analysis. Clean audit opinions by the District's independent auditors have become routine. Moreover, since the dormancy of the Congressionally created control board in 2001, the District's elected leaders have achieved an exemplary record of fiscal prudence. Financial markets have recognized it in the form of higher bond ratings and lower interest rates on our borrowing. The return of a control board is now highly unlikely.

**HIGH NEEDS AND RESTRICTED TAX BASE**

The District, as the urban center of a large metropolitan area, houses a disproportionately large share of very poor and needy citizens. The District's overall poverty rate of 17 percent and the child poverty rate of 26 percent are among the highest in the nation and more than three times the comparable rates across neighboring counties.[1] Unlike other urban jurisdictions that provide services to a large share of the region's poor, the District cannot divert resources from wealthier suburban areas to serve its urban poor.

Higher costs of service delivery further threaten the District's fiscal health. Labor costs for public services in the District are 123 percent of the national levels, and capital costs (primarily buildings) are 1.54 times the national average. Because of this combination of a needy population and high service costs, our expenditure needs are very high. If the District were to offer a basket of public services similar to what is offered across all states and localities in the nation, for each of its residents, it would have had to spend 132 percent more than what other states and localities spend on average.[2]

In this environment of continuing expenditure needs, the challenge posed by reduced revenues is substantial. Now, here is where the U.S. Congress plays an important role. Kindly permit me to briefly note two areas that merit continuous attention. Both go to the unfunded mandates that restrict the District's own taxing power. [3]

- The prohibition on taxing the income earned by non-residents, including those who commute into the city on a daily basis. That 66 percent of the income is earned by non-residents makes the simple point.
- The District has an especially high concentration of non-taxable real property, much of it off the tax rolls due to the presence of the federal establishment. The value of property held by the federal government is 30 percent of non-residential

[1] Census Bureau, American Community Survey, 2008.
[2] District of Columbia, Office of Revenue Analysis, 2008.
[3] In 2003, the General Accounting Office (now Government Accountability Office) calculated this preemption to be between $470 million and $1.1 billion annually. (GAO, District of Columbia Structural Imbalance and Management Issues, May 2003.)

property values. The District is also home to foreign embassies, national headquarters for charitable and religious organizations and numerous educational institutions, all of which enjoy exemption from our real property tax requirements.

Because of the inability to tap these resources, our residents must shoulder a disproportionate share of the costs of public services, while the benefits generated by the city's taxpayers are shared by a much larger community. Our 14th consecutively balanced budget attests to the fact that we have not allowed these deficiencies to become an excuse for fiscal irresponsibility. The looming danger, given the economic conditions in the nation combined with the District's high expenditure needs is that, should our revenue growth fail to return to a level at least even with inflation, District services could be severely impaired.

Notwithstanding these issues, Mayor Gray has produced a fiscally sound FY 2012 Budget and five-year plan.

**FY 2012 BUDGET AND FINANCIAL PLAN**

The Mayor's Proposed Budget and Financial Plan was prepared at a time when the recession appears to have entered a sustained, although somewhat muted, period of recovery. Still, at the national level, there is a considerable amount of uncertainty, as unemployment remains high, and income gains are still weak. The District has avoided some of the worst problems of the national recession because of the presence of the federal government. During the recession and subsequent recovery, jobs located in the District have done relatively well compared to the rest of the nation, but the percentage decline in the employment of District residents has been about the same as the U.S. average. Unfortunately, the unemployment rate for District residents is an unacceptably high 9.5%.

Rating agencies have expressed concern about the District's use of General fund balance to make up for losses in revenues. Since the June 2008 revenue estimate, we have lost about a quarter of what had been projected for Fiscal Year 2012. Furthermore, the expiration of the federal stimulus program added another $228 million in revenue loss. The result has been a decrease in our General fund balance of $695 million or 44 percent over five fiscal years. The FY 2011 Budget calls for use of $186 million of fund balance, and although it is far too early to tell where we will actually end the current fiscal year, the fund balance will certainly see some degree of decline.

These challenges required that the Mayor and his Budget office make difficult decisions about how to balance current spending needs and current revenues in order to enable the District to "live within its means and meet our citizens' most pressing needs." We pledged to do this when we met with the rating agencies in February, and the Mayor has made this measure of fiscal responsibility one of the four priorities of his Budget and Financial Plan.

## GENERAL FUND BALANCE

I have testified many times before this Subcommittee, other Congressional committees responsible for District oversight and appropriations and the District Council about the extraordinary turnaround the District has achieved since the 1990s. The journey from junk bond status to the highest possible rating of AAA on our income tax secured bonds is indeed a remarkable story, and one of which we are proud. The story that is more relevant to today's hearing, however, is how we will continue to deal with the current economic situation.

The presence of the federal government has always provided the District a measure of protection from economic downturns. The lengthy recession of the past three years had a less negative effect on District finances than it did on most other states and large municipalities. But, we did suffer.

In order to continue funding critical programs in the face of greatly reduced revenue estimates, we used a substantial portion of our cumulative general fund balance, which was $1.5 billion in FY 2007. By the close of FY 2010 the General Fund balance stood at $890 million, a drop of over 40 percent in just three years. As I have noted many times before, this is why governments need to build and keep sizable reserves in fund balance – to cover needs in times of economic downturns.

The chart in Attachment 2 shows a history of the District's General Fund Balance and budgetary basis surplus. The use of fund balance left us not only with a lower total fund balance, but also the loss of any unreserved, undesignated savings , which, along with the Emergency and Contingency Funds, serve as our "Rainy Day" accounts to use for unforeseen events. (See Attachment 3) Further, as you can see from Attachment 4, with the erosion of the fund balance, our working capital situation has reduced the District's spendable funds to the equivalent of only about 20 days' expenses – far less than the two months' reserve recommended by the Government Finance Officers Association. As we have noted, rating agency analysts have expressed concern about the depletion of fund balance. I commend the elected leadership of the city, who pledged to the rating agencies that we would restrict the amount of spending in FY 2012 to the level of revenues collected in that fiscal year, as well as all years in the Financial Plan. This Budget is consistent with that commitment.

## MONITORING EXPENDITURES

The OCFO will continue to work with the Mayor and Council to monitor spending in FY 2011 and FY 2012 to ensure that the District ends each year in balance. To that end, the OCFO will closely watch the following items included in the FY 2012 Proposed Budget. Each relies on programmatic changes that have been difficult to attain in the past, and if the changes do not materialize, spending pressures could emerge:

- **Department of Health Care Finance (DHCF):** The FY 2012 Proposed Budget for DHCF includes a reduction in the Local funds for the D.C. Health Care Alliance program. The proposed cost-saving initiative requires that the Income Maintenance Administration (IMA) conduct face-to-face recertification every 6 months to disenroll non-eligible persons from the Alliance. Another initiative would strengthen trading of eligibility files with both Maryland and Virginia to support residency requirements.
- **Department of Human Services (DHS):** The FY 2012 Proposed Budget includes a provision to realize savings by implementing full family sanctions for families that receive Temporary Assistance to Needy Families (TANF) but are not compliant with the work requirements. In addition, the agency

believes that it can shift several TANF recipients to the federal Supplemental Security Income (SSI) program to realize Local savings.

- **Disability Compensation Fund (DCF):** The FY 2012 Proposed Budget includes several cost savings measures that resulted in a reduction of the FY 2012 budget. The OCFO believes that in order to realize these savings initiatives, the Office of Risk Management will be required to make dramatic programmatic revisions.

- **Unemployment Compensation Fund (UCF):** The FY 2012 Proposed Budget represents a 61 percent reduction in the number of persons receiving unemployment payments when compared with FY 2011.

## REVENUE OUTLOOK

As I noted earlier, this budget was prepared at a time when we have seen an increase in revenues for the first time since 2008, yet there remain many downside risks and uncertainties to the outlook, including the possibility of a slowing down or reversal of national economic growth, further financial market problems, and national security concerns.

The FY 2011 baseline estimate of $5.069 billion in total local fund revenue, which excludes Dedicated Taxes and Special Purpose Revenue, is $7.0 million (0.1 percent) lower than FY 2010 revenue. The $5.353 billion estimate for FY 2012 is an increase of $283.1 million, or 5.6 percent, from FY 2011. Including restricted revenues and the Mayor's proposed policy initiatives, total FY 2011 General Fund revenue in the financial plan is $5.9 billion, which is $38.4 million more than in FY 2010, and $6.3 billion in FY 2012, or $488 million higher than FY 2011.

Various proposed policy initiatives increase total General Fund revenue in FY 2011 by $2.0 million and in FY 2012 by $158.6 million. Some of the major proposals impacting FY 2012 are:

- $35.4 million from a new top income tax bracket and a limitation on itemized deductions;
- $19.2 million from a change in apportionment methods for multi-state business taxpayers and a two-tiered minimum tax ($250 for businesses with less than $1 million of sales and $1,000 minimum tax for those with over $1 million of sales) that replaces the current $100 minimum franchise tax;
- $65 million for changes to withholding and estimated payments that results in a one-time increase in income tax revenue;
- $18.2 million for an increased sales tax on parking; and
- $5.3 million for increasing the tax on alcohol purchases for consumption off-premise and allowing stores that sell alcohol to sell until midnight.

Also, the budget repeals over 75 Special Purpose Revenue funds and shifts a net $55.7 million of associated revenue to unrestricted Local fund revenues.

## EXPENDITURES

### Local Funds (including Dedicated Taxes)

The FY 2012 Mayor's Proposed Budget includes $5,924.1 million in Local source (including Dedicated Taxes) spending supported by $5,925.5 million of resources, with an operating margin of $1.4 million, as shown in Table 1.

| Table 1<br>Proposed FY 2012 Budget Summary - Local Source<br>($ in millions) | |
|---|---|
| Taxes | $4,905.6 |
| Dedicated Taxes | 371.4 |
| Non-Tax Revenues | 366.9 |
| Lottery | 69.4 |
| Other Interfund Transfers (Net) | -1.7 |
| Revenue Proposals | 212.9 |
| Appropriated Fund Balance | 1.0 |
| **Total Local Fund Resources** | **$5,925.5** |
| | |
| Local, Operating Expenditures | 5,489.7 |
| Transfers to Enterprise Funds | 324.6 |
| Transfer to OPEB for FY 2012 costs | 109.8 |
| **Total Local Fund Uses** | **$5,924.1** |
| | |
| **Projected FY 2012 Operating Margin** | **$1.4** |

### Special Purpose Revenue Funds

The Mayor proposes a $418.8 million Special Purpose Revenue Fund budget for FY 2012, financed with (a) $405.9 million of FY 2012 revenues ($460.2 million of certified revenues, plus $1.2 million of new revenue sources, less $55.5 million of revenues transferred to Local as the associated Special Purpose Revenue funds were abolished, and (b) $12.8 million of fund balance ($39.7 million of fund balance originally certified, less $26.9 million of fund balance that was not budgeted).

**Gross Funds**

The proposed FY 2012 gross funds operating budget (excluding intra-District funds) is $10.8 billion, an increase of $322.2 million, or 3.1 percent, from the FY 2011 approved gross budget of $10.5 billion. The Local and non-Local funding components of the proposed FY 2012 gross budget and the changes from FY 2011 are summarized in Table 2 below.

**Table 2**
**FY 2012 Gross Funds Budget by Fund Type**
**($ in millions)**

| Fund Type | FY 2011 Approved | FY 2012 Mayor's Proposed | Change | % Change |
|---|---|---|---|---|
| Local | $ 5,286.8 | $ 5,537.5 | $ 250.7 | 4.7% |
| Dedicated Tax | 337.8 | 386.6 | 48.8 | 14.5% |
| **Subtotal, Local and Dedicated Tax** | **5,624.5** | **5,924.1** | **299.5** | **5.3%** |
| Federal | 2,701.9 | 2,620.3 | -81.5 | -3.0% |
| Private | 5.0 | 23.2 | 18.2 | 365.2% |
| Special Purpose | 490.2 | 418.8 | -71.5 | -14.6% |
| **Total, General Operating Fund** | **8,821.7** | **8,986.3** | **164.7** | **1.9%** |
| Enterprise and Other Fund | 1,682.0 | 1,839.6 | 157.5 | 9.4% |
| **Total Gross Funds** | **$ 10,503.7** | **$ 10,825.9** | **$ 322.2** | **3.1%** |

Note: Excludes intra-district funds.

## MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the FY 2012 Local Source Component budget (Local and Dedicated Tax funds) increased by $299.5 million, or 5.7 percent, over FY 2011. Table 3 provides a snapshot of the major cost drivers associated with the increase.

| Table 3 | | |
|---|---|---|
| **FY 2012 Local Source - Cost Drivers** | | |
| **FY 2011 Approved Local Source** | **$** | **5,624.5** |
| **Major Changes:** | | |
| Department of Health Care Finance | | 77.9 |
| DC Public Schools | | 67.0 |
| DC Public Charter Schools | | 55.8 |
| Repayment of Loans and Interest | | 31.4 |
| Metropolitan Police Department | | 25.9 |
| Department of Youth Rehabilitation Services | | 16.6 |
| Other | | 24.9 |
| **Total Changes** | $ | 299.5 |
| **FY 2012 Proposed Local Source** | **$** | **5,924.1** |

**Primary Cost Drivers**

- Department of Health Care Finance Local expenditures increased primarily because of the District's loss of enhanced Federal Medicaid Assistance Percentage (FMAP). Local funds were increased to replace the loss of federal funds.

- Additional Local funding was provided to the Department of Youth Rehabilitation Services to account for the increase in the projected average daily committed youth population.

- D.C. Public Schools (DCPS) increased Local funding to align the budget with the actual funding needs of special education and because of the increased projected student enrollment.

- Additional Local funding was added to D.C. Public Charter Schools to keep the funding formula equal between DCPS and DCPCS. In addition, the FY 2012 projected student enrollment in DCPCS will increase.

## CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). We are, however, limited by constraints on our levels of General Obligation (G.O. bond) and Income Tax secured (I.T. bond) borrowing. Taken together, these factors place a premium on developing a sound CIP to make the best use of limited resources.

The total proposed CIP for the FY 2012 through FY 2017 CIP is $4.98 billion for all sources. The increased CIP will be financed with I.T. or G.O. bonds, Pay-As-You-Go (PAYGO) transfers from the General Fund, the Master Equipment Lease Program, Federal Grants, a local match to the grants from the Federal Highway Administration, a private donation, and local transportation fund revenue.

The proposed FY 2012 capital program includes $844.8 million in planned capital expenditures to be financed by $580.8 million in new I.T. or G.O. bond issues , $5.8 million of PAYGO transfers for a Department of the Environment project required by the Environmental Protection Agency, $45 million from the Master

Equipment Lease Program, $143.2 million in federal grants, $37.3 million in the Local Match to the Federal Highway Administration grants, $1 million in a private donation from DC Water (the D.C. Water and Sewer Authority), and $35.7 million from the Local Transportation Revenue Fund. (See Attachment 6.)

Total debt service for all tax-supported debt as a percentage of total General Fund expenditures is estimated to be below the District's 12 percent debt limit within the FY 2012 – 2017 CIP period.

**SUMMARY**

In summary, the District's leadership has the will and the necessary resources to make informed decisions and the District has a proven record of functioning in a fiscally responsible manner. Based on this commendable record, our elected leadership deserves a greater degree of confidence in the form of budget autonomy.

As a final note, I would like to take issue with a recent editorial in *The Washington Post* regarding the competitiveness of the District in attracting new businesses to the nation's capital. They based this on several reports by Ernst & Young and others that compared the tax burdens of the fifty states and the District. I strongly disagree with their contention that the District is not competitive because of prohibitively high business taxes. There are many factors other than taxes that go in to a corporate decision to locate here, most notably, proximity to Congress. In response to the editorial, I sent a rebuttal, which the Post published on May 1st. A copy is included as Attachment 7.

The leadership provided by the Mayor and the Council, along with the hard work of the Office of the Chief Financial Officer, allowed us to produce this balanced budget. I would like to thank this Subcommittee for its diligent and continuous oversight work on the District's finances during this sustained recovery period. We look forward to continuing to work with you during the forthcoming budget deliberations.

This concludes my remarks. I would be pleased to answer any questions you may have.

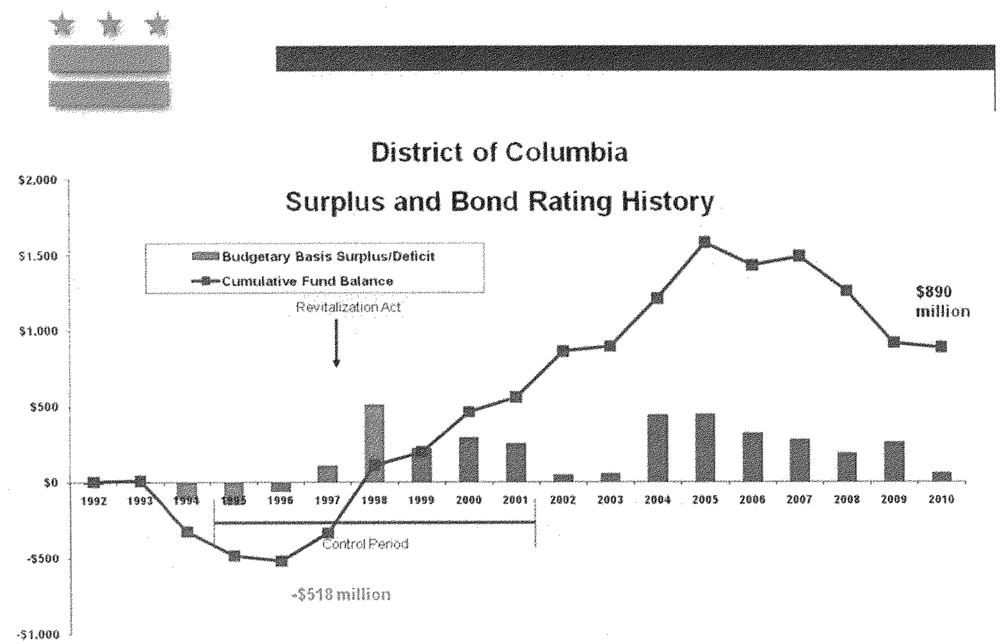
**Attachment 1**

## Changes in Revenue Estimates ($ in millions)

### Changes Since June 2008, Local Source, General Fund Revenue Estimates

| | Actual | Estimated | | Projected | | |
|---|---|---|---|---|---|---|
| | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
| **June 2008 Budget** | **$ 5,831.7** | **$ 6,099.2** | **$ 6,402.5** | - | - | - |
| Changes in revenue estimate June 2008 to September 2010 | $ (1,032.6) | $ (1,432.1) | $ (1,614.6) | $ (347.3) | - | - |
| Percent change from June 2008 | *-17.7%* | *-23.5%* | *-25.2%* | - | - | - |
| **Estimates as of September 2010 (excluding policy changes)** | **$ 4,799.1** | **$ 4,667.2** | **$ 4,788.0** | **$ 4,941.4** | - | - |
| Policy changes to address revenue decrease | $ 344.6 | $ 363.5 | $ 375.8 | $ 363.8 | - | - |
| (Combination of spending cuts and revenue enhancements) | | | | | | |
| **Estimates as of September 2010** | **$ 5,143.7** | **$ 5,030.7** | **$ 5,163.8** | **$ 5,305.2** | **$ 5,401.8** | **$ 5,539.3** |
| Legislative and administrative changes to revenues | | 35.3 | 83.4 | 85.0 | 86.0 | 68.1 |
| Changes in February 2011 estimate | | 3.5 | 105.4 | 203.7 | 238.7 | 232.0 |
| **February 2011 Revenue Estimate** | **$ 5,076.4** | **$ 5,069.4** | **$ 5,352.5** | **$ 5,593.9** | **$ 5,726.5** | **$ 5,839.4** |
| Percent change from prior year | *0.5%* | *-0.1%* | *5.6%* | *4.5%* | *2.4%* | *2.0%* |

Attachment 2




General Obligation Bond Ratings

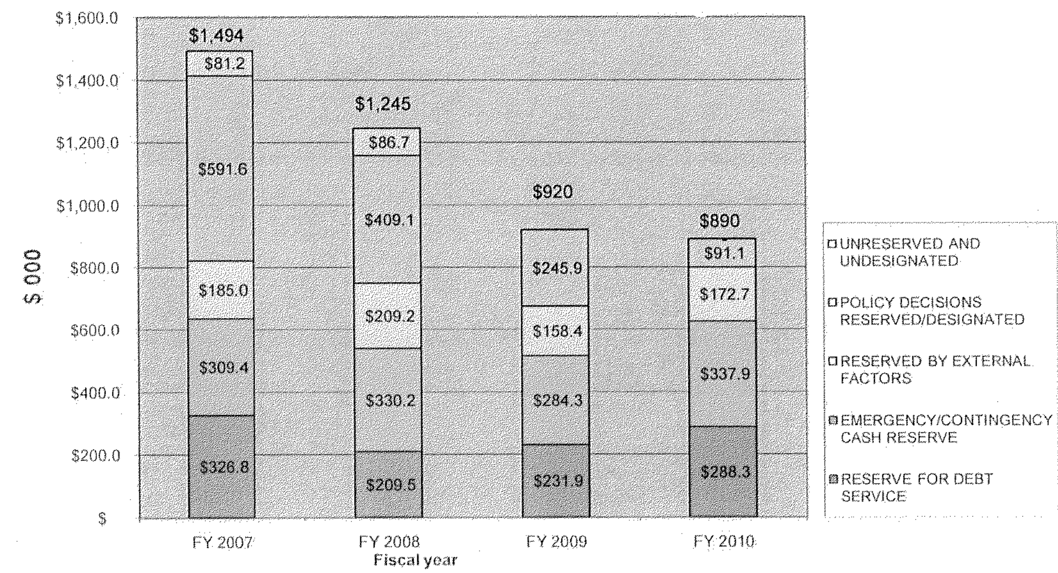
| | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| S&P: | A- | A- | A- | BBB- | B | B | BB | BBB | BBB | BBB+ | BBB+ | A- | A | A+ | A+ | A+ | A+ | A+ | A+ |
| Moody's: | Baa | Baa | Baa | Ba | Ba | Ba2 | Ba1 | Ba1 | Baa3 | Baa3 | Baa1 | Baa1 | A2 | A2 | A2 | A1 | A1 | Aa2 | Aa2 |
| Fitch: | | A- | BBB+ | BB | BB | BB | BB+ | BB+ | BBB | BBB | BBB+ | A- | A- | A | A | A+ | A+ | AA- | AA- |

Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+

Attachment 3

# Composition of General Fund Balance

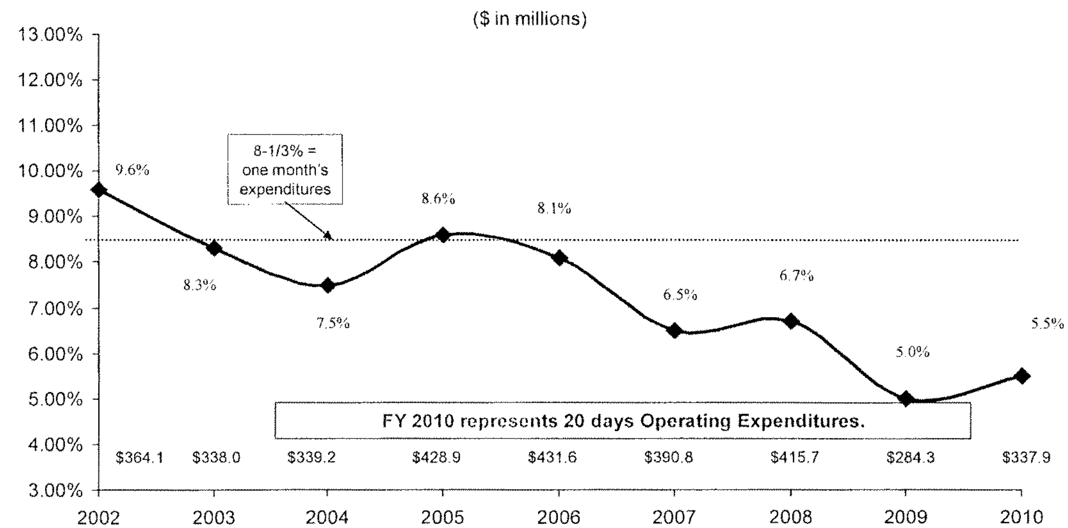
## FY 2007 – FY 2010



Attachment 4

# Total Working Capital

Unreserved/Undesignated Fund Balance Plus Congressionally Mandated Emergency/Contingency Reserves as a Percent of Next Year's Budgetary Expenditures



**Attachment 5**

# TABLE 3-1, BUDGET AND FINANCIAL PLAN

**FY 2012 - 2015 Proposed Budget and Financial Plan: GENERAL FUND**
($ thousands)

| | | FY2010 Actual | FY2011 Approved | FY2011 Revised | FY2012 Proposed | FY2013 Projected | FY2014 Projected | FY2015 Projected |
|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | |
| 2 | Taxes | 4,645,088 | 4,538,225 | 4,582,427 | 4,905,607 | 5,137,236 | 5,279,237 | 5,446,616 |
| 3 | Dedicated Taxes | 258,779 | 349,071 | 354,431 | 371,375 | 384,177 | 429,958 | 438,240 |
| 4 | General Purpose Non-Tax Revenues | 338,208 | 409,053 | 403,113 | 366,862 | 368,252 | 355,688 | 317,461 |
| 5 | Special Purpose (O-type) Revenues | 439,908 | 478,777 | 426,615 | 460,173 | 457,984 | 462,189 | 482,950 |
| 6 | Transfer from Lottery | 66,750 | 68,500 | 63,007 | 69,415 | 71,586 | 73,675 | 75,349 |
| 7 | Inter fund transfer | 0 | 14,889 | 20,889 | 10,636 | 16,797 | 17,934 | 0 |
| 8 | **Sub-total, General Fund Revenues** | **5,748,733** | **5,858,515** | **5,850,482** | **6,184,068** | **6,436,032** | **6,618,681** | **6,760,616** |
| 9 | Bond Proceeds for Issuance Costs | 5,079 | 15,000 | 15,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| 10 | Revenues setaside for subsequent years' expenditures | 0 | 0 | 0 | 0 | (29,000) | 0 | 29,000 |
| 12 | Transfer from Federal and Private Resources | 1,589 | 3,497 | 3,497 | 3,497 | 3,497 | 3,497 | 3,497 |
| 13 | Transfer from Enterprise and Other Funds | 22,697 | 78,745 | 69,817 | 4,196 | 5,532 | 0 | 0 |
| 14 | Fund Balance Use | 138,421 | 195,784 | 200,501 | (12,163) | 0 | 0 | 0 |
| 15 | Revenue Proposals | 0 | (25,956) | 3,674 | 158,624 | 133,715 | 139,145 | 145,886 |
| 16 | **Total General Fund Resources** | **5,916,520** | **6,125,585** | **6,142,971** | **6,344,223** | **6,555,776** | **6,767,323** | **6,944,999** |
| 17 | | | | | | | | |
| 18 | **Expenditures (by Appropriation Title)** | | | | | | | |
| 19 | Governmental Direction and Support | 349,803 | 464,043 | 467,266 | 537,561 | 545,493 | 555,959 | 567,131 |
| 20 | Economic Development and Regulation | 252,827 | 242,500 | 243,464 | 221,995 | 221,698 | 223,846 | 226,340 |
| 21 | Public Safety and Justice | 1,018,243 | 976,196 | 976,196 | 961,404 | 976,318 | 992,427 | 1,009,516 |
| 22 | Public Education System | 1,406,991 | 1,485,843 | 1,500,043 | 1,560,895 | 1,580,311 | 1,612,712 | 1,638,237 |
| 23 | Human Support Services | 1,487,270 | 1,453,130 | 1,455,261 | 1,499,565 | 1,537,720 | 1,577,487 | 1,622,658 |
| 24 | Public Works | 565,731 | 540,670 | 540,670 | 464,309 | 484,289 | 488,930 | 488,911 |
| 25 | Financing and Other | 469,610 | 538,993 | 538,993 | 603,172 | 642,970 | 669,597 | 693,850 |
| 26 | Bond Issuance Costs | 5,079 | 15,000 | 15,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| 27 | Operating Cash Reserve | 0 | 40,000 | 25,191 | 0 | 0 | 0 | 0 |
| 28 | **Sub-total, Operating Expenditures** | **5,555,554** | **5,756,375** | **5,762,084** | **5,854,902** | **5,994,798** | **6,126,957** | **6,252,644** |
| 29 | Paygo Capital | 14,933 | 12,071 | 12,071 | 37,448 | 84,055 | 126,757 | 164,911 |
| 30 | Transfer to Trust Fund for Post-Employment Benefits | 90,700 | 98,700 | 98,700 | 109,800 | 117,500 | 125,700 | 133,900 |
| 31 | Repay Contingency Reserve Fund | 0 | 3,000 | 3,000 | 3,000 | 0 | 0 | 0 |
| 32 | Transfer to Enterprise Funds | 197,203 | 244,644 | 244,644 | 337,703 | 348,510 | 374,437 | 379,845 |
| 33 | Operating impact of CIP | 0 | 0 | 0 | 0 | 9,498 | 11,986 | 11,861 |
| 34 | **Total Expenditures and Transfers** | **5,858,390** | **6,114,790** | **6,120,499** | **6,342,853** | **6,554,361** | **6,765,837** | **6,943,161** |
| 35 | **Operating Margin, Budget Basis** | **58,129** | **10,795** | **22,472** | **1,369** | **1,415** | **1,486** | **1,838** |
| 36 | | | | | | | | |
| 37 | **Composition of Cash Reserves** | | | | | | | |
| 38 | Emergency Cash Reserve Balance (2%, formerly 4%) | 109,704 | 109,872 | 109,872 | 110,041 | 110,209 | 111,023 | 113,667 |
| 39 | Contingency Cash Reserve Balance (4%, formerly 3%) | 228,241 | 228,549 | 228,549 | 228,858 | 229,167 | 229,476 | 229,786 |
| 40 | **Total cash reserves - emergency & contingency** | **337,945** | **338,421** | **338,421** | **338,899** | **339,376** | **340,499** | **343,453** |

# Attachment 6

# CAPITAL FUND PRO-FORMA

## Capital Fund Pro Forma

(Dollars in thousands)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Total | Percent of FY 2012 |
|---|---|---|---|---|---|---|---|---|
| **Sources:** | | | | | | | | |
| G.O. / I.T. Bonds | $ 580,784 | $ 526,884 | $ 501,298 | $ 475,677 | $ 445,323 | $ 388,053 | $ 2,918,019 | 68.7% |
| Master Equipment Lease | 45,000 | 26,500 | 16,000 | 14,406 | 27,425 | 16,338 | 145,669 | 5.3% |
| Paygo | 5,800 | 49,265 | 89,994 | 131,951 | 161,221 | 195,598 | 633,829 | 0.7% |
| Local Transportation Fund Revenue | 31,648 | 34,225 | 34,225 | 34,225 | 34,225 | 24,003 | 192,549 | 3.7% |
| GARVEE Bonds | - | 50,000 | - | - | - | - | 50,000 | 0.0% |
| Local Highway Trust Fund | 37,310 | 37,310 | 37,310 | 37,310 | 37,310 | 37,310 | 223,858 | 4.4% |
| Federal Grants | 143,249 | 133,249 | 140,249 | 133,249 | 133,249 | 133,249 | 816,492 | 17.0% |
| Private Donations | 1,000 | - | - | - | - | - | 1,000 | 0.1% |
| **Total Sources** | **$ 844,790** | **$ 857,432** | **$ 819,075** | **$ 826,817** | **$ 838,752** | **$ 794,550** | **$ 4,981,417** | **100.0%** |
| **Uses:** | | | | | | | | |
| District of Columbia Public Schools | $ 267,036 | $ 299,071 | $ 315,596 | $ 307,473 | $ 268,112 | $ 278,973 | $ 1,736,262 | 31.6% |
| Department of Transportation | 255,496 | 292,496 | 244,343 | 233,986 | 243,946 | 227,043 | 1,497,310 | 30.2% |
| *Local Transportation Fund* | *84,938* | *121,938* | *73,784* | *63,427* | *73,388* | *56,485* | *473,959* | |
| *Highway Trust Fund* | *170,558* | *170,558* | *170,558* | *170,558* | *170,558* | *170,558* | *852,792* | |
| Washington Metropolitan Area Transit Authority | 126,678 | 117,968 | 122,635 | 116,625 | 107,161 | 118,833 | 709,900 | 15.0% |
| University of the District of Columbia | 43,220 | 39,340 | 25,080 | 25,873 | 43,627 | 45,000 | 222,140 | 5.1% |
| Department of Public Works | 26,226 | 5,400 | 6,316 | 6,850 | 6,789 | 3,900 | 55,481 | 3.1% |
| Fire and Emergency Medical Services Department | 22,296 | 16,146 | 12,298 | 10,648 | 14,836 | 3,500 | 79,724 | 2.6% |
| Department of the Environment | 16,800 | - | - | 25,000 | 25,000 | 24,000 | 90,800 | 2.0% |
| Office of the Deputy Mayor for Planning and Economic Development | 14,400 | 8,500 | 10,500 | 30,500 | 53,500 | 4,100 | 121,500 | 1.7% |
| District of Columbia Public Library | 10,400 | 11,136 | 11,275 | 8,000 | 1,500 | 17,865 | 60,176 | 1.2% |
| Office of Unified Communications | 10,121 | - | - | - | - | - | 10,121 | 1.2% |
| Special Education Transportation | 7,219 | 6,657 | 6,021 | 6,223 | 6,388 | 6,729 | 39,237 | 0.9% |
| Department of Parks and Recreation | 7,070 | 13,670 | 24,054 | 17,989 | 25,800 | 23,150 | 111,733 | 0.8% |
| Office of the Chief Financial Officer | 6,600 | 12,600 | 6,800 | 5,500 | 4,200 | - | 35,700 | 0.8% |
| Office of the State Superintendent of Education | 6,500 | 5,100 | - | - | - | - | 11,600 | 0.8% |
| Office of the Chief Technology Officer | 5,898 | 6,104 | 3,427 | 4,450 | 10,240 | 13,000 | 43,119 | 0.7% |
| Metropolitan Police Department | 5,400 | 7,200 | 6,899 | 7,550 | 10,700 | 10,700 | 48,449 | 0.6% |
| Office of General Services | 5,030 | 8,543 | 5,131 | 6,951 | 8,253 | 7,057 | 40,966 | 0.6% |
| Department of Corrections | 3,300 | 2,300 | 1,500 | - | - | - | 7,100 | 0.4% |
| Commission on Arts and Humanities | 2,700 | 2,700 | 2,700 | 2,700 | 2,700 | 2,700 | 16,200 | 0.3% |
| Office of Planning | 2,400 | 2,500 | 2,500 | 3,500 | 4,000 | 4,000 | 18,900 | 0.3% |
| Department of Employment Services | - | - | 12,000 | 6,000 | - | - | 18,000 | 0.0% |
| Department of Consumer and Regulatory Affairs | - | - | - | 1,000 | - | 4,000 | 5,000 | 0.0% |
| Department of Housing and Community Development | - | - | - | - | 2,000 | - | 2,000 | 0.0% |
| **Total Uses** | **$ 844,790** | **$ 857,432** | **$ 819,075** | **$ 826,817** | **$ 838,752** | **$ 794,550** | **$ 4,981,417** | **100.0%** |

Note: Details may not sum to totals due to rounding.

Attachment 7

# The myth of D.C. anti-competitiveness

By Natwar M. Gandhi, Published: April 29 | Updated: Wednesday, April 27, 1:30 PM

It is conventional wisdom that the District's high business taxes keep firms from locating in the city. This was evident in an April 10 Post editorial, which stated: "The District, according to a report prepared by Ernst & Young in conjunction with the Council on State Taxation, is tied for last place in the nation as the least competitive place for new investment because of its taxes."

That study, "Competitiveness of State and Local Business Taxes on New Investment: Ranking states by tax burden on new investment," ranked the District and the states on attractiveness for new investments. In a hearing of the D.C. Council's Finance and Revenue Committee, this study and a similar one by the Small Business & Entrepreneurship Council were cited as evidence that high taxes are hurting the District's competitiveness.

These last-place rankings conjure up an image of a District in decline, with fleeing businesses leaving behind empty office buildings, undeveloped lots and boarded-up storefronts. Except that is not true. Today, the District's private sector is vibrant and growing. D.C. businesses are recovering from the recession much faster than businesses are anywhere else.

Bureau of Labor Statistics figures show that private-sector employment in the city is now virtually the same as it was at its pre-recession peak (in the D.C. suburbs and the United States as a whole, private-sector employment is off its peak by 2.3 percent and 6.5 percent, respectively). The Bureau of Labor Statistics figures show that from 2005 to 2011, the District's private sector had a net gain of 20,300 jobs — about the same as the gain in the suburbs — while the United States as a whole lost 2.6 million jobs.

In addition, occupied office space increased in the January-March quarter just ended by 4.85 million square feet from a year earlier, and the District has one of the lowest vacancy rates in the country (8.4 percent in the quarter ending in March 2011, compared with 12 percent in the D.C. metropolitan area overall). And, it is not just U.S. investors who find the District attractive. Foreign investments are key components of many property sales and projects — the convention center hotel and City Center DC, to name two.

So what is going on here? Why do these studies rank the District dead last as a place to invest, despite such strong evidence to the contrary?

First, the studies' narrow focus on taxes as a driver of business investments excludes more important factors, including the built-in advantages of the federal presence, population demographics and residents' education levels.

Many businesses locate in the District for access to the federal government (e.g., lobbyists, federal contractors). They are also here because of the District's unique amenities, such as the national institutions and cultural attractions. National and local retailers are attracted to a significant growing population of younger, wealthier and well-educated residents. While high taxes certainly can affect competitiveness, we cannot forget the District's strong competitive advantages.

Second, the studies have a methodological flaw. They take a "representative firm" and apply statutory tax rates, ignoring the reality of aggressive tax planning by businesses, which reduces what they actually pay. In the District, almost two-thirds of businesses pay only the minimum of $100 a year. When actual business taxes paid are ranked, the District falls in the middle of the pack.

Another Ernst and Young/COST report, from March 2010, showed that D.C. business taxes as a percentage of private-sector gross state product were slightly below the national average, with the District at 4.2 percent vs. 4.7 percent for the United States as a whole. The District ranked the same as Maryland, but below Virginia. This is consistent with our own 2009 study comparing the District's household tax burden with that of 50 other U.S. cities. For a hypothetical family of three with income of $150,000, the District's tax burden ranked in the middle (22 out of 51) with a tax burden of 9 percent, a bit higher than the average of 8.1 percent.

Finally, it must be recognized that the federal government's restrictions on the District's ability to tax commuters and property create a constricted tax base that leads to an additional tax burden on the individuals, families and businesses that choose to live and operate here. It is my hope that the business community will use its significant voice to help us deal with these issues.

The writer is chief financial officer of the District of Columbia.

Mr. GOWDY. Thank you, Dr. Gandhi. It was a pleasure to meet with you.

Mr. Fabian.

**STATEMENT OF MATT FABIAN**

Mr. FABIAN. I thank you, Mr. Chairman.

Before I begin to speak about the District of Columbia, I just wanted to emphasize that Municipal Market Advisors, my firm, is a pure independent research company. So we make no money on trading, underwriting, investing in municipal bonds. We provide pure research and sell that research for subscriptions, and that makes up about 95 percent of our revenues.

You know, normally when we do an awful lot of commentary about the municipal bonds—oh, and I have my statement which I've submitted but I will speak off of that just to keep things time efficient.

Normally our company talks a lot about the municipal bond market in general, and we have spent a disproportionate amount of time in recent 2 years looking at distressed credits, Jefferson County, Harrisburg, Vallejo, California, so it is a real pleasure to spend some time and look at the District of Columbia, which has done so well in the financial crisis of managing largely through the practices from the management team like Dr. Gandhi.

I have to say that as things have gotten tighter, as credit conditions and tax revenues have gotten thinner across the country, the financial abilities of city managers across the country has been strained, and it has begun to undermine willingness in some cases to honor obligations. That is completely the opposite of the case in the District. We have seen very strong management responses and, if anything, an increasing willingness toward bond holders and toward servicing their obligations. Just so with that as sort of the opening context.

You know, there's two—and I have an awful lot of information in my statement about the structure of the bonds and investor perception of the bonds. But you know, let me say that there's two particular successes I'd say that management has had over the past few years.

First is the imposition of the more conservative debt cap to 12 percent of annual spending. Sorry. Yes. And that has been from widely recognized by the rating agencies as a credit strength and from looking at, you know, at the future economic prospects of the District and the country things will continue to be very difficult. The financial crisis for the States and for cities and for governments like the District is transitioning from a revenue problem into a spending problem.

So, you know, proactive limits on debt and leverage are very well received in the municipal bond market today.

In addition, their restructuring of their variable rate debt over the last few years. Variable rate debt, it is long maturity bonds where the coupon resets every week or every day. Mostly these are packaged with derivatives. Prior to the financial crisis, the District had about 22 percent of its debt in these kinds of instruments. It is very difficult because that is the exact kind of instrument which came under pressure in the financial crisis.

The District was able to use its new income tax bond structure and because of its very high ratings was able to restructure a huge amount of that debt, and now its exposure to variable rate is a very manageable 9 percent. So I have to say they have been very proactive in hitting the exact area where the municipal bond market was weakest in their response.

Looking forward, you know I do say that like I said before the financial crisis is not necessarily abating for cities and States. The National Governors' Association has talked about a lost decade for State revenues starting last year. So 2010 to 2020 are going to be a very difficult time for government managers everywhere. So I think continuing to prepare for the fiscal crisis is exactly what the District has done.

The improvements, the situation that has come up in the earlier panel talking about budget autonomy, it is a very important one for the municipal bond market. If you think about what happened just prior to the government shutdown, you know, the District because of its—because of how their debt is structured is able to service most of its debt even without congressional authorization and without the city budget appropriation except for the city certificates of participation. So there is a $240 million bonded obligation that the District has which under the law would not have been able to pay had the Federal Government shut down.

So there could now—the city managers were doing all they could to make sure that didn't happen. But they were taking emergency steps to do so. In theory, they may not have been able to pay those interest payments, which is something that even in the depth of a financial crisis the District did not miss a payment.

So you know in this current municipal bond market where there is an enormous amount of concern being put on credit quality of State and local issuers, to have the District even incidentally miss a debt service payment because of the actions of Congress you know would have had a real impact on the debt service cost of the District going forward.

Thank you.

[The prepared statement of Mr. Fabian follows:]

**MMA** The Power of Independence

# PRESENTATION TO HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, SUBCOMMITTEE ON HEALTH CARE, DISTRICT OF COLUMBIA, CENSUS AND THE NATIONAL ARCHIVES



May 12, 2011

## THE DISTRICT OF COLUMBIA: CURRENT CREDIT QUALITY ASSESSMENT

Thank you for giving me the opportunity to speak on the District of Columbia's credit quality and rating prospects. Before I begin my remarks, let me state that Municipal Market Advisors ("MMA") is a fully independent research company without any trading, investing, or underwriting interests. We produce a range of research and commentary on the municipal bond market, and our subscribers include dealer firms, mutual fund companies, regulators, issuers, and even a few retail investors.

**DISTRICT'S CREDIT PROFILE IS STRONG**: While MMA comments extensively on general market dynamics, we also provide research opinions on individual bond issuers. Our analytic focus is weighted strongly on a bond's security structure, meaning the constitutional and statutory procedures, the legal indentures, and the loan agreements that provide the framework by which revenues are collected and bondholders are paid. Through this lens, the District of Columbia provides a solid credit profile. The security pledges to bondholders under its two main borrowing programs are well made and carefully tended. These bonds should, and do, qualify for above average bond ratings as the risk of payment default is very small.

**GENERAL OBLIGATION BONDS**: The District's bonding programs include general obligation ("GO") bonds, which are specifically paid out of a special district-wide property tax levied and collected for this purpose only. That tax, which is set each year to cover the amount of debt service coming due, is deposited into a separate debt service fund set off from the District's other financial operations and can only be spent for general obligation debt service. Should tax collections be insufficient, bonds must be paid out of all other District funds not otherwise committed. Payment of GOs does not require District or Congressional approval. The District has approximately $2.96Bn of GO debt outstanding, currently rated Aa2/A+/AA- by Moody's, S&P, and Fitch, respectively. Both Moody's and Fitch sharply raised their ratings on the District's GOs in 2009 (from A1 and A+, respectively) as part of a sector-wide recalibration of their municipal ratings to the global rating scales already being used for corporate, structured, and international sovereign credits. These recalibrations were not upgrades per se, but instead recognitions of the historically lower default and loss risk characterized by municipal borrowers.

**INCOME TAX BONDS**: The second principal program used by the District of Columbia is its Income Tax Secured program, under which $2.89Bn of debt is currently outstanding: very close to this program's $2.92Bn limit. This is a new program, launched in 2009, that carries much higher bond ratings (Aa1/AAA/AA+) because of its structure, whereby income taxes are collected by an outside agent and transmitted to the bond trustee daily for periodic payment of debt service. Again, no appropriation or District action is required to ensure debt service is paid. Projected coverage of peak debt service by collected revenues is greater than 5 times, although the District's borrowing capacity is somewhat higher, permitting projected peak debt service coverage to fall to 2 times by pledged revenues.

**STRONG FINANCIAL MANAGEMENT BENEFITS CREDIT QUALITY**: Because of its history of being subjected to a financial control board, the potential for re-imposition of the board should District management stray, and a likely interest in minimizing incremental Congressional rulemaking, the District operates itself in a highly conservative manner. Importantly, while the District has greatly benefitted from the current management team, many of the procedures they follow are institutionalized in statute or regulation. This means subsequent management teams are less likely to stray from current policies than would be the case in other jurisdictions where similar practices are not codified. Specifically, the District CFO estimates revenues four times a year and completes five year revenue projections. Congress requires the maintenance of two financial reserves that together equal 6% of annual expenditure. The District recently passed legislation to require two additional working capital reserves that, when fully

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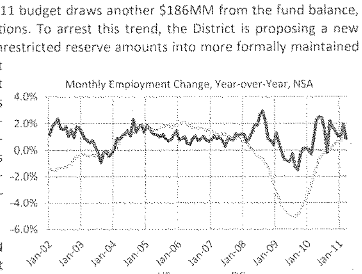
## PRESENTATION (CON'T)

built up, will push total financial cushion to 16% of expenditures: similar to peak reserve levels maintained prior to the financial crisis. Finally, all District reserves feature strong replenishment provisions: a best practice for a governmental issuer.

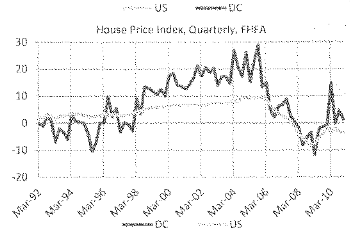
We note two recent management successes:

- The District-led imposition of a stricter debt cap than that allowed under the Home Rule Act, which itself addressed only GO debt and permitted near extreme levels (at 17% of annual revenues) of GO debt service. The District's new Debt Cap Law instead limits all tax-supported debt, including the income tax bonds, to 12% of annual expenditures. Current tax-supported debt service is 10.2% of annual expenditures. The District had some difficulty remaining within the debt cap during the financial crisis as expenditures were steadily cut in response to falling revenues. In general, the District's higher debt levels make its regular financial operations less flexible than similar credits. However, this debt cap is broadly appreciated by the rating agencies; its imposition bolstered their opinions of the District's strong financial management.
- The District's aggressive and successful restructuring of its variable rate debt portfolio which, in 2008, amounted to 22% of the District's total debt burden. Variable rate bonds employing interest rate swaps were 12% of the District's total debt. Following the flight to quality in US Treasury bonds that started in mid-2007, monoline bond insurer downgrades that began in December 2007, the auction rate market collapse in February 2008, and the crisis in confidence in bank counterparties that continued into 4Q08, interest rates spiked across the entire municipal bond sector, and many municipal issuers with variable rate debt and related swaps found themselves facing much higher near-term debt service costs. In large part, the District used its new, highly-rated income tax bond program to restructure these troublesome positions into fixed or new floating debt, reducing its variable rate debt exposure to just 9% at present. Interest rate swaps are now attached to only 5% of the district's bonds. It is unclear to what extent the rating agencies value the District's success in mitigating the large risks it faced; however, investors in the District's bonds are now much better insulated from contingencies or shocks that might develop from the banking sector.

**THE RECESSION AND FINANCIAL CRISIS WILL CONTINUE TO POSE CHALLENGES**: In addition to its debt portfolio, the District has faced stiff challenges from the financial crisis as economic weakness undermined revenues. In response to both initial and mid-year budget gaps, the District relied heavily on a mix of reserve fund draws, spending cuts, ARRA cash and other one-time measures, and to a limited extent, new revenues. The general fund balance has fallen from its 2005 peak of $1.6Bn to $0.9Bn in FY10. And pressure continues: absent additional ARRA funds, the FY11 budget draws another $186MM from the fund balance, leaving end of period cash resources at 11% of planned appropriations. To arrest this trend, the District is proposing a new budget with zero reserve draws through 2015 and the transfer of unrestricted reserve amounts into more formally maintained working capital balances, as noted above, which should help protect against reserve fund draws in the future. This will be an important safeguard as, should economic growth slow again, District revenues will reasonably come under renewed financial pressure. The District's proposed income tax rate increase is also a strong credit positive if approved. The municipal market is currently rewarding issuers willing to use all means of structural solutions, in particular tax increases which have been removed by consideration by a great number of issuers, to create lasting budget balance.




**ECONOMY HAS STRUGGLED, BUT DC IS FAR BETTER OFF THAN MOST OTHER CITIES AND STATES**: The District of Columbia's great credit weakness is its inability to tax non-resident commuters or governmental buildings, which together represent the large majority of economic activity within the District. Absent a change in this rule, it is unlikely the District's GO rating will ever achieve AAA status on its own. However, the location of the Federal government and related organizations and businesses has meant above average employment and income trends over the last five years. In addition, house prices are rising briskly, and long term, very favorable trends for Federal government-related employment, should encourage further development within the District itself, implying an improving ability to pay across the entire tax base. Still, the economic is consistent with other large urban areas, has structurally higher poverty and unemploy-



## PRESENTATION (CON'T)

ment rates. District investment in its schools is an offset here, but, long-term service provision costs will be a higher burden on taxpayers and keep both tax and debt levels elevated.

**RATING AND DEMAND OUTLOOK IS STABLE TO POSITIVE**: While Moody's and Fitch have taken a far more conservative stance than S&P toward municipal ratings in the last year—downgrades outpacing upgrades—both agencies have recently written highly positive reports on the District's GO security, with notable risks being erosion of current financial practices and a potential retrenchment of the Federal government. Neither of these appear likely in the near or medium-terms, implying more rating upside than down. Further, S&P's more conservative A+ rating has been restrained by the District's modest use of fund balance over the last few years, its above average debt levels, and its inability to tax commuters or government buildings. Should the District be able to rebuild reserves as planned, rating upside does exist—although this is limited. A credit upgrade would be an important factor for the District's market access costs. The municipal bond market has been deeply affected by the collapse of the AAA bond insurers, which effectively removed about 50% of the "high grade" supply from the market. Yet individual investors, who represent the backbone of demand for municipal bonds, continue to strongly favor bonds rated AA and better, paying a far higher premium for these kinds of credits than in the past. Thus, were the District's GO security to garner at least AA-category ratings from all three agencies, market acceptance should improve, meaning markedly lower borrowing costs for new bond issues.

**INCREMENTAL RULEMAKING NOT WARRANTED, FOR NOW**: With the improvements made over the last few years, MMA sees little need for additional reserve requirements, borrowing caps, or management processes at the current time. In MMA's opinion, the District has maintained a very reasonable balance between conservatively managing its finances and leveraging its resources to maximize services. However, with recent threats over a Federal government shutdown potentially threatening the District's ability to pay its $240MM certificates of participation (COPs) outstanding, not to mention many of its day-to-day functions, Congress should consider loosening Federal oversight requirements to allow somewhat greater District autonomy so long as financial metrics are being met.

Matt Fabian,
Managing Director

Mr. GOWDY. Thank you, Mr. Fabian.
Dr. Rivlin.

**STATEMENT OF DR. ALICE M. RIVLIN**

Ms. RIVLIN. Thank you, Mr. Chairman, for inviting me to testify today. I have been involved with the District's finances for a long time, for more than 2 decades. Over that period, our Nation's capital has gone from a financial basket case to a responsively managed and fiscally healthy city. In my brief remarks, I will try to put the District's situation in some historical context.

This year Washington, like most cities, is dealing with difficult budget choices. The deep recession and the extraordinary weakness of the housing market has cut city revenues, especially property tax revenues. And at the same time the increased needs of the jobless and homeless residents have put upward pressure on spending.

This combination has made balancing the budget far more challenging in the last 3 years than earlier in the decade when things were going better. That's true of all cities. The impact of the recession on D.C.'s finances has been considerably less serious than in many cities that were hit harder by the recession and the foreclosure crisis.

Compared to other cities, the D.C. economy is actually doing quite well. Jobs are up, population is growing, economic development is resuming and city revenues are beginning to edge up again.

However, as the mayor and the Council Chair have emphasized, Washington is a bifurcated city with prosperous areas primarily on the western side of the city and high rates of poverty, unemployment, and underemployment primarily on the eastern side. So efforts to mitigate these problems make the D.C. budget challenging.

The District must provide both city and State-like services and it has a narrow tax base mainly because Congress prohibits the District from taxing the incomes earned in the city by nonresidents.

Mayor Gray has proposed a combination of spending cuts and revenue increases designed to close a budget gap that was estimated at $322 million. This is a rather small shortfall in a $9.6 billion budget of which $6.3 billion are locally raised funds.

There will be a debate about this budget in the Council, but I am confident that the final budget will be balanced in a fiscally responsible way.

The main reason for my confidence is that the city has a strong record of fiscal responsibility stretching back to the end of the 1990's. More importantly, the mayor, the Council, and the chief financial officer are all committed to maintaining that record and avoiding any danger of the triggering of a new control period.

I was personally involved in that unfortunate period of D.C. fiscal history and share the view that it must not happen again. In early 1995, the District was facing imminent bankruptcy. It was a really bad situation. The Federal Government had to step in and do what a State normally does: Put in place a Control Board.

I was President Clinton's point person on doing that, and I worked closely with Delegate Norton, with Congressman Chair

Tom Davis of the Congress, with Speaker Newt Gingrich and the leadership of the Senate. It was a thoroughly bipartisan effort. It had to be. And it resulted in the creation of the Control Board and the Office of the Chief Financial Officer.

We wound up the Control Board successfully in 2001.

The District residents and officials have taken the lessons of that difficult period to heart. For more than a dozen years, as has been emphasized before, the District has been a model of fiscal responsibility, has continued to balance its budget, built up its fund balance and cash reserves and improved its credit rating remarkably.

In the last several years as the recession reduced revenues, the District has drawn down its fund balance, that's what reserves are for, but not to dangerous levels, and it is now in a position to begin replenishing those reserves.

It is now past time, I believe, for the Congress to recognize the District's exemplary fiscal behavior and pass legislation giving the District fiscal autonomy, the ability to spend its locally raised revenues as its elected government sees fit. This would represent your faith in representative democracy that works.

I've testified before on this subject, and I attach my testimony of November 2009 for the record.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the committee.]

Ms. RIVLIN. In short, Mr. Chairman, I believe that the District of Columbia has a manageable fiscal challenge this year and can be counted on to balance its budget in a sustainable and responsible manner, and I also believe that the Congress should demonstrate its faith in representative democracy by granting the District fiscal autonomy.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Rivlin follows:]

**Testimony of**

**Alice M. Rivlin***
**The Brookings Institution and Georgetown University**

**before the**

**U. S. House of Representatives**
**Committee on Oversight and Government Reform**
**Subcommittee on Health Care, District of Columbia, Census and Archives**

**May 12, 2011**

Mr. Chairman and Members of the Subcommittee:

Thank you very much for inviting me to testify today at this hearing on the District of Columbia's budget for FY 2012. I have been involved with the District's finances for more than two decades. Over that period our nation's capital has gone from a financial basket case to a responsibly managed and fiscally healthy city. In my very brief remarks I will try to put the current budget situation of the District in its historical and economic context.

- This year, Washington, like most U.S cities, is dealing with difficult budget choices. The deep recession and the extraordinary weakness in the housing market have cut city revenues, especially property tax revenues. At the same time, the increased needs of the jobless and homeless residents have put an upward pressure on spending. This combination has made balancing the budget far more challenging in the last three years than earlier in the decade, when property values, sales, and incomes were rising more rapidly.

- The impact of the recession on DC's finances has been considerably less serious than in many cities, which were hit harder by the recession and the foreclosure crisis. Cities, such as Detroit, Cleveland and Baltimore, which were dealing with recession in the context of long-term declines in their manufacturing base, have experienced far worse fiscal deterioration. Washington never had a manufacturing base, and its principal economic engine, the federal government and the activities it attracts, is not faltering.

*Senior Fellow, Economic Studies, The Brookings Institution and Visiting Professor of Public Policy, Georgetown University. The views expressed in this statement do not necessarily reflect those of staff members, officers, or trustees of either of these institutions.

- Compared to other cities, the DC economy is actually doing quite well. Jobs are up; population is growing; economic development is resuming; and city revenues are beginning to edge up again. However, Washington is a bifurcated city with prosperous areas and low unemployment primarily on the western side of the city and high rates of poverty, unemployment and underemployment primarily on the eastern side. Efforts to mitigate these persistent problems, while improving the quality of city services, guarantee that balancing the budget will prove challenging for DC government not only this year, but in years to come. The District must provide both city and state-like services and has a narrow tax base—mainly because Congress prohibits the District from taxing income earned in the city by non-residents. Hence, fiscal choices in the District will always be difficult.

- Mayor Gray has proposed a combination of spending cuts and revenue increases designed to close a budget gap estimated at $322 million. This is a small shortfall in a $9.6 billion total budget ($6.3 billion without counting federal funds). Both the Mayor's proposed spending reductions and revenue increases are controversial. The DC Council is debating the budget and may come up with different proposals for closing the gap. However, I am confident that the final budget will be balanced in a fiscally responsible way.

- The main reason for my confidence is that the city has a strong record of fiscal responsibility stretching back to the end of the 1990's. More importantly, the Mayor, Council and Chief Financial Officer are strongly committed to maintaining that record and avoiding any danger of triggering a new Control Period. The period of federal takeover is still remembered as unpleasant and humiliating by DC officials and residents.

- I was personally involved in that unfortunate period of DC fiscal history and share the view that it must not happen again. In early 1995 DC was facing imminent bankruptcy. In the absence of a state, the federal government was forced to take extraordinary measures to put the District back on the track to fiscal health. I was President Clinton's budget director and the Administration's point person for this effort. We worked closely with Delegate Eleanor Holmes Norton, Congressman Tom Davis, Speaker Newt Gingrich and the leadership of the Senate. This bipartisan cooperation resulted in rapid passage of 1995 legislation creating the DC Financial Responsibility and Management Authority ("Control Board") and the Office of the Chief Financial Officer. I later chaired the "Control Board," which achieved sustained fiscal solvency and met the statutory requirements for suspending its operations on Sept. 30, 2001.

- District residents and officials took the lessons of that difficult period to heart. For more than a dozen years, DC has been a model of fiscal responsibility. It has continuously balanced its budget, built up its fund balance and cash reserves, and improved its credit rating remarkably. In the last two years, as the recession reduced revenues, the District has drawn down its fund balance--that is what reserves are for--but not to dangerous levels. With revenues beginning to climb again, the District is in a position to replenish its reserves.

- It is now past time for the Congress to recognize the District's exemplary fiscal behavior and pass legislation giving the District fiscal autonomy—the ability to spend its locally raised revenues as its elected government sees fit without review or interference from the federal level. Taking this action would show that Congress believes that representative democracy is the most responsible form of government—not only in far away countries, but right here in our nation's capital. Fiscal autonomy would also improve the efficiency of DC government by eliminating costly delays occasioned by failure to pass the federal budget on time. I attach my testimony on fiscal autonomy before this subcommittee on November 18, 2009.

In short, Mr. Chairman, I believe that the District of Columbia has a manageable fiscal challenge this year and can be counted on to balance its budget in a sustainable and responsible manner. I also believe that the Congress should demonstrate its faith in representative democracy by granting the District fiscal autonomy.

Thank you, Mr. Chairman and Members of the Subcommittee for this opportunity to present my views.

"The Case for Fiscal Autonomy in the District of Columbia"

Statement of Alice M. Rivlin*
Hearing on Greater Autonomy for the Nation's Capital
Subcommittee on Federal Workforce, Postal Service and the District of Columbia
U.S. House of Representatives
Wednesday, November 18, 2009

Mr. Chairman and members of the committee:

I am happy to be here to discuss greater autonomy for the District of Columbia. I support both of the bills before you, but will focus most of my remarks on H.R. 1045, "The District of Columbia Budget Autonomy Act of 2009."

I believe that greater autonomy for the District of Columbia is a test of the seriousness of Congress' commitment to democracy. The United States is justifiably proud of our democratic tradition. We send our finest young men and women to far away places to fight and die for democratic ideals. Our national leaders advocate democracy around the World. We preach that democratically-elected governments are more responsive to public needs, that they require greater accountability for public funds, are more transparent and less corrupt, and that they are more likely to foster economic efficiency and peaceful resolution of disputes. We use our public resources to teach others how to hold elections and make democratically-elected governments function, even in places with no tradition of political freedom or public engagement comparable to our own.

*Alice M. Rivlin is a Senior Fellow at the Brookings Institution and a Visiting Professor at Georgetown University. The views expressed in this statement are strictly her own and do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution or Georgetown University.

**But right here at home, Congress apparently doubts that the citizens of the District of Columbia can be trusted to elect leaders who will make wise decisions about local policy, even about how to spend their own locally-collected tax revenues. The Home Rule Act of 1973 grudgingly allowed the District to elect a Mayor and City Council, but retained ultimate control over D.C. legislation, budgeting, and borrowing. At the time, Congressional skepticism was understandable. The citizens of the District had been ruled like colonial subjects for a long time, and had no experience with electoral politics or self-government. Home Rule was viewed as an experiment, and when the District came close to bankruptcy in 1995 many viewed the experiment as a failure—never mind that New York, Cleveland, Philadelphia, and many other cities also had similar fiscal crises. So the federal government once more took charge.**

**I believe that Congress, working with the Clinton Administration, took necessary and appropriate action when it created the D.C Financial Resources Management and Assistance Authority (better known as the "Control Board") in 1995. That legislation temporarily transferred fiscal authority to an unelected board in a serious crisis, but provided for the transfer of power back to elected leadership once the District had demonstrated its ability to handle its financial affairs responsibly by balancing its budget and obtaining clean audits for several successive years. The same legislation created an independent Office of the Chief Financial Officer (OCFO)—a much needed contribution to strengthening fiscal oversight in the District. Control Board actions, supported by the City Council and combined with an improving economy, turned the District's budget outlook from dismal to positive in a remarkably short time. The District of Columbia Revitalization Act of 1997 also helped put the District's finances on a more solid basis by transferring to the federal government some of the state-like spending responsibilities of the District and relieving it of the unfunded pension liability left over from the "colonial" period. By the time I took over as the second chair of the "Control Board" in 1998, the city was on the way back to fiscal health. The Board then worked closely with the Mayor,**

**the Council, and the OCFO to transition the city back to elected leadership, and went out of business on September 30, 2001.**

**Young democracies learn from their mistakes, and the District of Columbia Government has amply demonstrated in recent years that it learned from the experience of the 1990's and is able to manage its own resources responsibly. It has balanced its budget every year since the control period ended and earned clean audits (albeit with some expressions of concern from the auditors about specific weaknesses). It has built up a large fund balance and significant cash reserves. Growing Wall Street respect for the District's financial management has been reflected in increasingly favorable ratings for its general obligation bonds and a triple A rating for a recent income-tax backed bond issue. The executive and the legislative branches have often had different priorities, but they have worked out their differences and made budget decisions on time. The District weathered the recession at the beginning of this decade, making the necessary adjustments when slower economic growth cut into revenues. It appears to be adjusting to the more severe current recession as well.**

**Now is the time for the Congress to show its commitment to democratic government by trusting the citizens of the District of Columbia, through their elected officials, to handle their own fiscal affairs without interference or delay from Congress. In fact, in recent years Congress has interfered far less than it used to in District budgets and tried to accommodate the District's needs by keeping District appropriations from getting caught in lengthy disputes over other federal spending bills that drag on long after the budget year has begun. This confidence is reassuring but should be reflected in law.**

**If H.R. 1045, "The District of Columbia Budget Autonomy Act of 2009," were enacted, District officials could design their own process for coming to budget decisions. Once a budget reflecting spending out of its own source revenues was passed by the Council and signed by the Mayor, it could not be altered by Congress**

**or delayed by the Congressional appropriations cycle. The District would be able to choose its own fiscal year. Like most States it would likely choose a fiscal year starting on the first of July to shorten the period of budget debate and make sure educational institutions received their funding well before the school year started. Such a vote of confidence in democracy and in the citizens of the District would free the Congress from the task of second guessing the District's government on local spending issues. Enacting this legislation would not affect Congressional responsibilities for the District under the Constitution, nor would it repeal the legislation that would revive the "Control Board" in the event of a future financial meltdown in the District.**

**Budget autonomy for the District is a win-win for the District and the federal government, as well as a demonstration of national confidence in the democratic process.**

**Thank you, Mr. Chairman and members of the Committee.**

Mr. GOWDY. Thank you, Dr. Rivlin.

Dr. Gandhi, can you take maybe a minute or so and update us on the hospital in the District?

Mr. GANDHI. Yes, sir. As you know, we took over the hospital in July of last year primarily to make sure that the satisfactory health care services are provided in the area where there is a large needy population, and we wanted to make sure there is no interruption of health care services.

So at that time we took over the hospital. Like any public health hospital, not-for-profit public health hospital, this hospital also has its challenges. In addition, it had a troubled history and it has substantial issues that we need to resolve.

At the end of the day, the District will have to be quite mindful, given of our experience earlier with D.C. General Hospital some 10 years ago. When we went to Wall Street, there was substantial concern about our owning the hospital again. The mayor and the chairman and the leadership at the Council and in the Mayor's Office, they're all quite concerned about the viability of the hospital. We want to make sure that we provide health care services distributed, but at the same time we do not want to be in the hospital business. My expectation is that the mayor and the Council will resolve the issue satisfactorily.

Mr. GOWDY. Dr. Gandhi, the District has a problem that other cities have, although the District problem may be more exacerbated, which is tax exempt properties, properties where you have to provide the service but you can't collect any taxes.

Do you have a strategy? Do you have a plan? Is there a means by which you can adjust for that, the fact that you're providing services to buildings and places where you can argue there's not a contribution toward the greater good.

Mr. GANDHI. That is one of the two major issues that we presently face in managing of our so-called constrained limited restricted tax base. One is of course the inability to tax people who work here and don't live here. And second is, as I pointed out in my testimony, a large chunk of real property is tax exempt. As I pointed out, the Federal Government, the tax exempt institutions, the World Bank, IMF, embassies, etc.

I used to have an office on the 11th floor on the Judicial Square building. Outside I look. Beautiful museums, monuments, galleries. Nothing I could tax. That is a major problem for the city. It is that limited tax base.

Other cities like Hartford, Cambridge, Philadelphia, they do have a PILT payment, payment in lieu of taxes. I am not so sure that is going to work here. But I think the Federal Government needs to take into account the fundamental limitation of our public tax base.

In spite of all of this, our commitment to you, sir, and certainly of the independent chief financial officer, despite this limitations on our taxes, we will balance the budget, even maintain our financial viability and financial credibility on Wall Street.

Mr. GOWDY. Dr. Gandhi, I've got about a minute left, so I'll ask the question quickly and then you can have the remainder of the time. Long-term pension liabilities in the city, what's the status? Any reason for concern?

Mr. GANDHI. Well, I think in general we manage our liabilities very well. We do not have the major concern of the rest of the jurisdictions around the country of the pension liabilities. We do not have that. The Federal Government took over a bulk of our liability on that front. All of our long-term liabilities, in particular the pension liabilities, are actuarially funded, fully funded, actuarially speaking, so we are very blessed and I would give great credit to our elected leadership, mayor and the Council, for abiding by that requirement.

Mr. GOWDY. Thank you.

I would recognize the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. Mr. Chairman, given the fact that Representative Clay has a markup that he's involved in, I would ask that I switch time with him and let him go and then I will take his order. I ask unanimous consent.

Mr. GOWDY. Without objection.

Mr. CLAY. Again, let me thank the gentleman from Illinois and thank the chairman for conducting this hearing.

A question for all three witnesses. How would you characterize the District's fiscal health in relation to other large cities?

Starting with you, Dr. Gandhi.

Mr. GANDHI. Thank you, sir.

I'm pleased to say that relatively speaking, Washington, DC, is in better financial condition than perhaps any other major cities out there. We have still $343 million of so-called rainy day fund. We make sure that our budget is always balanced. We have a very independent and vigorous Office of Independent Chief Financial Officer that tracks our budget on a—almost on a weekly basis.

So when you look at all these considerations, we are in very good financial condition. And that is not just me saying it. Wall Street says that. They reaffirmed our AAA bond rating on income tax bonds, a plus category bonds ratings on our GO bonds, with a stable outlook. That is more than what can be said about many other jurisdictions around the country.

Mr. CLAY. Mr. Fabian.

Mr. FABIAN. Well, I would agree also with Dr. Gandhi. I think that the location of the Federal Government has been a tremendous economic stabilizer for the city in addition to its management practices.

Looking forward, you know one of the things that cities and States around the country have been very loath to do is to raise taxes to help balance the budgets. The District is at least considering this. And I think that you know from a Wall Street perspective having a city or a jurisdiction that is willing to look at all financial options to correct its structural budget gap is a real positive.

Mr. CLAY. Thank you. Dr. Rivlin.

Ms. RIVLIN. I agree with Dr. Gandhi and Mr. Fabian. We're in relatively good shape. And we're very lucky. I have sometimes said to the mayor when he was sounding down about the fiscal situation, "Cheer up. You could be Mayor of Detroit."

The situation in cities that were in trouble anyway because they were losing their manufacturing base is much worse than it is here. And we are lucky that our major industry is the Federal Government and the activities that it attracts. And those are in pretty good shape.

Mr. CLAY. Thank you all for your response.

And Mr. Chairman, as well as Chairman Issa, not to engage in a debate over the merits of the bill at this time, but as a question, could this committee seriously or the full committee take a serious look at Representative Norton's bill that gives the city control over its own tax dollars? I think that with the testimony that we've heard today, the city has certainly demonstrated their ability to, in a fiscally prudent way, manage their resources. Perhaps it is time that we actually take a look at giving the city more responsibility. We are guests here. And I just would like to hear.

Chairman ISSA. If the gentleman would yield.

Mr. CLAY. Yes.

Chairman Issa. I have looked at the gentlelady's draft legislation earlier on. And now I am reasonably confident that no, we cannot accept budget autonomy fully. But I am going to be offering an alternative that I hope the gentlelady will join with me on that provides a mechanism for a separate vote and separate consideration of the District's funds. And that's what I was alluding to in my question with the mayor. And what I hope to be able to work with Delegate Norton on is an ability to have an early on annual vote to accept the budget—what I would call a contingent budget, the budget of exclusive jurisdiction of the District, meaning what they do with their money as it shall come in.

I think that we would be hubris for us to assume that we could do anything about the appropriation process of other funds. But I think by bifurcating them, we can in fact come up with something that accomplishes what Ms. Norton is asking for. We can do it early on in every Congress and do it separate from the sometimes difficult budget process.

Mr. CLAY. Yes, and I thank you for your response. I would have to take a look at your proposal in more detail because——

Chairman ISSA. I'm looking for cosponsors when I drop it.

Mr. CLAY. But really I still think that we are treating this locale as a stepchild, and it is probably time we loosen the strings that we have applied to them since the 1990's and move forward. I mean, they have certainly shown fiscal responsibility.

I know my time is up, but I yield back.

Mr. GOWDY. I thank the gentleman from Missouri.

At this time I would recognize the chairman of the full committee, the gentleman from California, Mr. Issa.

Chairman ISSA. Thank you, Mr. Chairman. Thank you for your indulgence as all of us go back and forth to Judiciary today.

Dr. Gandhi, earlier on when I asked the mayor about contingent budget proposals, I knew I was asking the wrong person. But he was the right person to be asked first. When you look at the finances of the city, as a Federal city with all of the responsibilities, certainly we've met with your police chief many times and she has a responsibility like no other big city police chief because protests come here, other activities come here which she must deal with first even though she has backup of Federal agents.

Do you believe that the District could produce an annual contingent budget? Now let's assume for a moment that we were a threequarters/one-quarter ratio of all Federal funding to the District's self-funding for a moment. Do you believe you could produce a full funding document that would say we have a contingent capability for, let's say, 10 months meaning that if we receive substantially less, we can continue operating. If we receive nothing, we can operate for 10 months. And of course if it looks like for some reason there is no money coming, you could adjust.

But do you believe that you could produce that contingency that would take us, let's just say, from this month to the end of the year on an annual basis?

Mr. GANDHI. Yes, sir. And I say that quite advisedly because the Federal contribution to the District, distinctly for the District, is less than 2 percent of its budget. We get about $174 million, if everything the mayor is asking for 2012, the President is asking for is $174 million in a $10 billion budget.

What the budget autonomy that I am endorsing here is that let us spend our local dollars and obviously $174 million that I'm talking about must be appropriated by the Congress in its usual regulatory and legislative way, and that's fine with us.

All we are suggesting here is that when we pass our own budget, as we will in June, that we should be allowed to spend money. And second, if you give us budget autonomy, then we would like to realign our budget with our specific needs. October, September, the timeframe doesn't work for local government.

The next thing I would say is that dependent upon the Federal Government——

Chairman ISSA. What date would work for you, Doctor?

Mr. GANDHI. The date for any other local jurisdiction which is June-July.

Chairman ISSA. So echoing what you're saying, if we considered a D.C. money only—and by the way, that would include, for example, a school lunch program that you expect to have Federal money for not getting it. So I want to make sure that when we talk about no Federal dollars, that you would maintain all that you believe you need.

If that were the case and we were to deliver, you were to deliver us a budget by let's say March, we were to forward it through the Congress and have it passed before July as a free-standing separate from appropriations, that would meet your needs very well, recognizing that the dollars that would come from the Federal Government would come on a different schedule?

Mr. GANDHI. Yeah. I understand that. And all, again to repeat myself, all we want is to make sure that we spend, are allowed to spend our local dollars according to our own wishes and according to our own timetable.

Chairman ISSA. Any other comments on the idea of bifurcating the two?

Mr. FABIAN. I think that it would be a real credit strength from a Wall Street perspective. We're still having that level of Federal oversight to make sure that the District keeps its game clean. But otherwise, again, absolutely.

Chairman ISSA. You said something and I want to be careful. I don't to accept "game clean" but the view at least from this side of the dais for myself has been that the District, although it has done a very good job in recent years, lacks an equivalent—Los Angeles does a good job, but ultimately Sacramento has a major role in education and so many other areas. The view is we don't have as major a role but we have a role. And I think that's what you were saying.

Mr. FABIAN. Yes. Exactly, absolutely.

Ms. RIVLIN. Yes. I think this would be possible and that it is a very good idea. And the Congress would not be relinquishing its ultimate oversight responsibility and the provisions that in extremis would bring back a Control Board.

Chairman ISSA. Well, it is the goal of this committee to have sufficient oversight and have sufficient good conduct that we will never go back to the days in which you had hands in every aspect of it far beyond this committee.

I thank the chairman, and I yield back.

Mr. GOWDY. Thank you, Chairman Issa.

The chair would now recognize the distinguished lady from the District of Columbia, Ms. Holmes Norton.

Ms. NORTON. The ranking member is taking Mr. Clay's place, so I understand.

Chairman Issa's proposal is something I want to very much—it is the first I've heard of it, but it is one I certainly very much would like to work with him on and to build on. Indeed, during the shutdown I had a number of bills just to keep us open for the rest of the year. But then I had one bill that said in the event of a shutdown, in any year, the District may spend its local funds so that we would not have to go through what we went through this time.

If what you say on schools—and I'd like any or all of you to speak about that—the incongruity between the fiscal year of the Federal Government and the fiscal year of every other jurisdiction in the United States I know has created real havoc in some years. Could you speak about that incongruity and what it does to a local jurisdiction to be faced with schools opening in September before the fiscal year has even begun?

Mr. GANDHI. Yeah. Let me first comment on your suggestion on the Federal Government closing itself and impact it has on the District Government. My expectation is that we would lose anywhere from $1 to $5 million a week and that is just a taxing fact.

Ms. NORTON. If we had closed down.

Mr. GANDHI. Yes, ma'am. And if we talk about the economic impact, you're talking about $15 million a week.

Further, the idea of us deciding on our own gives us a flexibility to adjust ourselves. We basically manage our budget based upon the revenue assumptions that were made some 18 months ago. So there is no flexibility when circumstances change, revenues decline, expenditures go up. We don't have a way to adjust of ourselves.

Next is that any emergency arises, as in case of hospital, when we had to take over the hospital, we had no authority to spend money there. So what we had to do is to borrow money from other contingency funds just to make sure that hospital remains operational, that the emergency care is provided, that doctors are paid, the salaries are paid.

And last on the school issues, because the schoolyear doesn't correspond with the fiscal year, what we have to do every year, we have to give an advance money so the school can start planning ahead of time for that academic year which doesn't coincide with the fiscal year.

So I think it would be a major implement of our ability to manage budget if we have the budget autonomy. To repeat myself, we are talking about only the local dollars. We're not talking about Federal dollars.

Mr. FABIAN. From a bondholder's perspective they certainly value predictability and flexibility in any issuer. So having a sense that revenues will continue to come in and that they could be spent in a predictable way is very important. I think that from the idea of the fiscal year shift, you know again it speaks to the exact same issue and it may also facilitate the District's needs to borrow for cashflow midyear if it does need to do that.

Ms. NORTON. Dr. Rivlin.

Ms. RIVLIN. I agree with all of that.

Back on the school issue, I believe every State has a June-July fiscal year and the reason they've chosen that is for this reason, that schools are majorly inconvenienced by starting in August or September and not getting their budgets until the end of September.

Ms. NORTON. Can I ask one more question?

I was very concerned during the shutdown period about possible default or having to somehow redo contracts if some of them came due during the time or in between the time and what those who held these notes would think and whether it would have consequences the next year when you went to get contracts or notes. And I wish you would comment on the effects on possible default or on other contracts and on contracts in the future given the fact that you were close to default this time.

Mr. GANDHI. Yeah. I think that is a major concern for us. Obviously our debt service on gender obligations bonds, income tax bonds is assured because we put that money in escrow. However, we do borrowing on what is known as certificate of participation, 240-plus million dollars out there, which we use to buy police cars and safety equipments, hospital staff. On that we will not be able to pay our debt service because there will be no appropriation for us to be able to pay because Congress was shut down, and that would cause a major havoc in those areas, in public safety, in public health. And as Mr. Fabian pointed out, the bond agencies and financial market want certainty and what now appears to be a likelihood that government, the government may shut down because of the debt limit controversy at the Federal level. Then you know that causes problem for us.

Ms. NORTON. Mr. Fabian.

Mr. GOWDY. Mr. Fabian, I hate to cut you off. We ran through the red light by about a minute. So we may have time to come back to Ms. Holmes Norton, but at this point I'd like to recognize the gentleman from North Carolina, Mr. McHenry.

Mr. MCHENRY. I thank the chairman, and thank you for your testimony, and I read—have taken a look at your testimony and I am obviously interested in this issue.

I have a subcommittee, I chair a subcommittee which Chairman Gowdy is also on. We have been looking at State and municipal creditworthiness. It is a very interesting issue in light of unfunded pension liabilities.

Now Dr. Rivlin, I know you have a unique experience here, but in the 1990's basically the Federal Government did bail out D.C.'s pension liabilities, and then D.C. has since switched to a defined contribution pension plan. Has that been successful? Has it provided stability financially for the District and its taxpayers?

Ms. RIVLIN. Yes, it has. The District pension liability was very large. I forgot the numbers, now but it had been accumulated while the Congress ran the District. It was pre-home rule liability. So those of us in the District didn't think of it as a bailout. We thought of it as the Federal Government facing up to the liabilities that it had created. Fortunately it did, and the District was able to essentially go forward with a better constructed pension plan.

Mr. MCHENRY. Dr. Rivlin, you know you certainly have a unique perspective and you certainly put forward some interesting ideas on entitlement reforms writ large, and we appreciate your service to your government. Thank you for being here today.

Ms. RIVLIN. Thank you.

Mr. MCHENRY. Mr. Fabian, in terms of a municipality or State or it is the District's credit profile, does that defined contribution versus defined benefit pension liability or pension fund, does that have a bearing on their credit profile?

Mr. FABIAN. The existence of one versus the other is really inconsequential. It is just about the annual burden of how they fund up the contribution and how they manage the long-term liabilities. So the fact that we switched to defined contribution, it doesn't really impact the credit quality. Bit just let me say that going forward in the last year and over the next few years, pension liabilities will become a larger factor for the rating agencies so they will tend to bring ratings down. The fact that the District doesn't have that means that the District rating will not be subject to those same pressure.

Mr. MCHENRY. So net positive going forward that they have a defined contribution rather than a defined benefit plan in terms of credit rating?

Mr. FABIAN. Yes, sir.

Mr. MCHENRY. And in terms of the accounting of those pension liabilities. I mean basically what you're saying is if you have a well funded, well capitalized pension plan, you don't really make a judgment about the contents of it. You just simply judge whether or not it is appropriately funded, right?

Mr. FABIAN. That's right.

Mr. MCHENRY. But the accounting of these pension funds, do you have some concerns about how States, municipalities, and the District account for—I'm sorry, not the District but larger than this, but the accounting of these defined benefit pension plans?

Mr. FABIAN. Well, you know for sure you know there has been or there have been accounting issues in the past. I think that the efforts of the GASB to reconcile that and begin to organize it are definitely a positive. The Nunez-Issa-Ryan bill I think, which would require more uniform accounting of those pension liabilities, is from a credit analyst's perspective, is maybe a step in the right direction, although there are limits on looking at limiting the States access to tax exempt markets, you know, is also very difficult to say. I think it needs to be carefully drawn, you know, encouraging those or requiring those conditions but at the same time not necessarily limiting access to the capital markets.

Mr. MCHENRY. Dr. Gandhi, can you comment on your view in terms of your role on whether or not this defined contribution pension plan has been helpful in terms of your role in making sure the District is fiscally solvent?

Mr. GANDHI. Well, the District is fiscally solvent. Whether we want to have a defined benefit or defined contribution plan, it is a policy decision of the mayor and the Council. My obligation here is to make sure that we don't land it, suggest and implement, to be appropriate for District. That land must be properly actuarially funded. And as I pointed out earlier, our plan is actuarially fully funded. And I think we may be among the very, very few jurisdictions in the country to claim that and, as Mr. Fabian pointed out, it suggests a great credit strength on our part.

Mr. MCHENRY. Thank you, and thank you for your service to our government.

Mr. GOWDY. I thank the distinguished gentleman from North Carolina.

And I would now recognize the distinguished gentleman from Maryland, the ranking member of the full committee, Mr. Cummings.

Mr. CUMMINGS. Thank you very much. Again, as I've listened to the testimony, I am convinced that, Dr. Rivlin, I'm convinced that the District of Columbia could teach the Congress some things.

I find it interesting that we bring the District of Columbia here and looking at their budgetary situation, one which has been addressed in a very responsible way, as I said, combined with compassion, and keeping people well, making sure kids are educated. There are cities and States that could, and this Congress that could take a few pointers.

But I want to just ask you, Dr. Gandhi, and then I am going to yield, Mr. Chairman, to my colleague Ms. Norton, Holmes Norton. You know the one thing that the District has that I wish we had in Baltimore is that you've got property—by the way, congratulations on your great work.

Mr. GANDHI. Thank you.

Mr. CUMMINGS. You've got property values that are going up.

Mr. GANDHI. Yes, sir.

Mr. CUMMINGS. Which is phenomenal. I mean that to me is major. I mean has there been sort of like a rediscovery of the District? I mean, in other words, it seems like everybody wants to now live in the District. And I remember when I was a student at Howard University a long time ago back in 1969, I remember I used to see all of these vacant houses and I used to say to myself as a student, it would seem as if every square inch of the District of Columbia would be invaluable because it literally is the capital of the world. And it seems like people are discovering that. And I am just wondering how does that help with your stability with your tax base and help you to collect that $5 billion plus that the mayor talked about?

Mr. GANDHI. Your assessment is entirely correct, sir. The District is presently perhaps the most sought after commercial real property market in the country, if not in the world. The last two major investments that have happened in just last 2 months, one at the city's center, $700 million development, the money came from Middle East; $500 million investment in Convention Center, a hotel, again money came from the Middle East.

People are flocking to the District, and the amount of the revenues that have added roughly $165 million in a—basically all of that is real property, commercial real property.

I think the image of the District of eighties and nineties is gone. What you have now is a vibrant, hip city that is culturally very diverse. It has cultural climate. It has attraction in terms of the entertainment, in terms of education, in terms of governance that are truly unique.

Mr. CUMMINGS. Did you say "hip" city? Is that what you said?

Mr. GANDHI. Yes, sir.

Mr. CUMMINGS. I thought I was hearing things.

Mr. GANDHI. All I suggest is Mount Pleasant area and Gallery Place area. And 30 years ago when I used to be at the General Accounting Office—now the Government Accountability Office—that area around Gallery Place, Chinatown, you know was really not a safe area in the evening. Today you will see thousands of people every evening.

Mr. CUMMINGS. I know. I see it. I go to the movies down there.

Mr. GANDHI. That's our Times Square, sir. That's our Times Square. And wait till another few years and you will see the area around the stadium is going to be very attractive area.

Today the city has more theater per person than any other city in the country. We have world-class Shakespeare Theater, Kennedy Center, Arena Stage. I mean, I can go on and on, and great educational institutions here. I think the city has a great future ahead, a great future ahead and great credit should go to District mayors and Council and community and civic leaders like Dr. Rivlin here. I think the city is on a great promise here.

Mr. CUMMINGS. I see Dr. Rivlin wants to say something.

I'm sorry, Ms. Norton. Dr. Rivlin.

Ms. RIVLIN. I just want to add a cautionary note. I agree with everything, the enthusiasm of Dr. Gandhi about the city. But that very resurgence and the upward pressure on property values and rent creates problems for a city which has a large low-income population and creates needs in terms of affordable housing that are difficult to meet.

Mr. CUMMINGS. Thank you. Thank you very much.

Mr. GOWDY. I thank the gentleman from Maryland.

The chair would now recognize the distinguished gentleman from Illinois, the ranking member of the subcommittee, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. I thank all three of you.

Dr. Gandhi, tell me, how long have you been involved with the financial operation.

Mr. GANDHI. I have been the chief financial officer now for 10 years.

Mr. DAVIS. And prior to that time?

Mr. GANDHI. I was head of the Office of Tax and Revenue and before that I was with the General Accounting Office [GAO]—now the Government Accountability Office [GAO].

Mr. DAVIS. I was just as I listened, thinking that probably yourself, Dr. Rivlin, and perhaps council member and former Mayor Marion Berry probably knows very much about the history and operation of District of Columbia finances and government as anybody alive. I mean, there would probably be nobody else alive who knows much about this as the three of you.

My question is, and I've served for three terms as a member of a large city council, the City Council in the city of Chicago, and I was trying to rationalize what is it that Congress provides other than money in terms of the oversight for resources—and of course we used to get an awful lot of Federal money from—we don't get nearly as much anymore, but there was a time. And the oversight was of the money, but then of course Congress did not approve our budget.

So what is it that Congress provides that the District of Columbia could not provide for itself?

Ms. RIVLIN. Other than the money, which is very—the direct money is very, very small, as Mr. Gandhi has pointed out, it is hard to think of much of anything.

I would like to commend the Congress actually for having moved over the last few years away from micromanaging the District and trying to play City Council. I have sat with Delegate Norton in Mr. Istook's office and I couldn't believe it. I thought we were just sitting here talking about street repairs and potholes and I thought what is the Congressman doing wasting his time talking about this?

Fortunately, that era has passed. And we have not had much interference except on some major social issues like the needle exchange or abortion.

Mr. DAVIS. Last question. I find intriguing the proposal that the chairman of the committee has put forth separating or having essentially two budgets. I mean while it is possible, but do you see where it would pose any challenges, any difficulties in the budgeting process?

Mr. GANDHI. I do not think so because primarily what we are asking for is managing our own local dollars. And Congress would let us do that, it would facilitate great deal of our management of the city, of our school system, and would not create any problems for us.

The Federal appropriation can take its own course, as it usually does. So I would wholeheartedly support Ms. Norton's idea of a budget autonomy that would give us flexibility to manage our own resources.

Mr. DAVIS. Thank you very much. I have no further questions, Mr. Chairman, and I yield back.

Mr. GOWDY. I thank the distinguished gentleman. I have just been informed that Judiciary is calling for a recorded vote, and one of my goals is to not miss those if I can avoid it. But on behalf of all of us I want to thank the three witnesses not just for your expertise and your acumen, but also for your professionalism and civility with which you treat one another and the members of this panel. And if you will excuse my poor manners, I would like to come thank you in person, but Judiciary is calling. So Dr. Gandhi, I look forward you seeing you soon. Dr. Fabian, Dr. Rivlin, my colleague and friend Paul Ryan has extraordinarily kind things to say about you, and I would look forward to the chance to talk to you in person at some point in time, too.

With that, the committee is adjourned.

[Whereupon, at 10:50 a.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Paul A. Gosar and additional information submitted for the hearing record follow:]

Opening Statement
Congressman Paul Gosar
Oversight and Government Reform Committee
Subcommittee on Health Care, District of Columbia, Census, and Archives
"The District of Columbia's Fiscal Year 2012 Budget: Ensuring Fiscal Sustainability"
May 12, 2011

Chairman Gowdy and Ranking Member Davis, thank you for holding this necessary and critical hearing today, on Mayor Gray's proposed Fiscal Year 2012 budget for the District of Columbia.

It is imperative to recognize that oversight over certain aspects of District governance is a Congressional duty, explicitly recognized in the Constitution. In 1973, Congress did establish a Home Rule authority for the district, giving them control to elect its own mayor and city council. However, the budget approval process for the District is still guided by federal law, as is correct and proper. Since not only federal grants, but explicit federal appropriations make up such a large part of the District's budget, and because the federal government's operations are so centered in the District of Columbia, Congress must play a role in ensuring that the District's fiscal outlook remains stable and healthy.

The economic recession that began in 2008, ravaging the economies of state and local governments, did not by any means leave the District's finances unscathed. The City's revenues have indeed been negatively affected by the economic downturn. In fact, the City is facing a multi million dollar shortfall this year alone. While I applaud the Mayor's willingness to make some tough choices in his budget, I am concerned to see tax and fee increases over $100 million for the residents, businesses, and visitors to our nation's capital. Throughout my short time in Congress, I have decried high taxes and onerous, unclear regulations as major barriers to economic recovery. Yet this year's budget increases the local tax rate on some individuals, but also on businesses throughout the District. While these new taxes and fees may make up part of the shortfall for this budget year, history shows that high taxes on businesses tend to drive businesses out of the jurisdiction that is taxing them.

I would also note that Medicaid expenses continue to make up the District of Columbia's single largest expenditure. The Committee on Oversight and Government Reform has already started an investigation into the rampant fraud, waste, and abuse in the Medicaid system, which costs $1.48 billion this year in the District of Columbia alone. It would be of great import to all committee members to hear Mayor Gray and Chairman Brown's ideas on how we might combat waste, fraud, and abuse in Medicaid.

I greatly appreciate the willingness of Mayor Gray, Chairman Brown, and our other witnesses to come before our committee and share their plans and perspective for the future of our nation's capital. Thank you.

VINCENT C. GRAY
MAYOR

August 18, 2011

The Honorable Darrell E. Issa
Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Issa:

Thank you for your letter of May 23, 2011. Below are the responses to your questions.

Question 1: Mayor Gray and Chairman Brown: as you surely know, Medicaid expenses in the District of Columbia are enormous, projected at nearly $1.5 billion this year alone. Yet, Medicaid has a history in all 50 states of waste, rampant fraud, and abuse. How much would you estimate that inefficiency and fraud in the DC Medicaid system cost District and United States taxpayers per year? Have you considered any measures to curb this problem, and if so what have been the results.

Response:

A cardinal piece of the District's FY 12 budget priority is fiscal accountability. To this end, the administration is committed to minimizing fraud, waste, and abuse in the DC Medicaid program. The Department of Health Care Finance (DHCF) is the sole agency responsible for administration of Medicaid in the District.

While it is very difficult to develop cost estimates of DC Medicaid fraud, the National Health Care Anti-Fraud Association (NHCAFA) conservatively estimates that 3% of all health care spending is due to health care fraud. Other estimates by government and law enforcement agencies approximate this loss to be as high as 10 percent. If these estimates are correct, approximately $ 42 – 141 million of DC Medicaid funds could be lost to health care fraud annually.

Measures to Curb Medicaid Fraud

Federal regulations require all State Medicaid agencies to have methods for identifying, investigating and referring suspected cases of fraud and abuse and for referring suspected fraud cases to law enforcement officials, as well as procedures for investigating the utilization of Medicaid services.

The DHCF has a multi- pronged Medicaid fraud mitigation plan that includes : 1) education of providers to avoid unintentional billing errors, abuse, and waste; 2) retrospective claims review by DHCF's Office of Program Integrity to detect and remedy provider abuse of the Medicaid program; 3) surveillance, identification, and referrals of instances of suspected provider fraud to the District of Columbia Medicaid Fraud Control unit, FBI, and federal Office of Inspector General; and 4) DHCF work redesign initiatives to increase the efficiency and integrity of program operations.

In FY 2011 DHCF has focused on strengthening policies and procedures targeted at preventing fraud and abuse among Medicaid home health service providers. This initiative is in response to significant increases in expenditures within home health (in the District of Columbia as well as nationwide) in recent years, some of which may be inappropriate and/or fraudulent. This initiative will include strengthening home health regulations, improving the home health provider application and enrollment processes, and developing and initiating a formal strategy for quality improvement in home health that incorporates increased coordinated and collaboration with other District oversight agencies. This activity will reinforce DHCF's intent to deny erroneous payments up front and prevent the occurrence of fraud. This "cost avoidance" approach to fraud prevention is preferable to the "pay and chase" detection of fraud after it occurs.

In addition, in 2009 DHCF upgraded its MMIS system, significantly expanding the capability of DHCF staff to conduct data mining activities to identify fraud and abuse. Data analysis requests that were previously programmed and executed by specialized fiscal IT experts, (an often a lengthy process), are now easily executed by utilization management and program integrity staff at their desk within a matter of hours. Staff have been trained on methods to detect fraud and abuse by the federal Medicaid Integrity Institute. In addition, we have provided the investigative staff at the Office of the Inspector General direct access to the data in our system so that they might search for suspicious patterns in claims payments as well.

Question 2. Thank you for your May 10 reply to the Bicameral letter regarding abortion funding in D.C. As you know, the letter asked for information " outlining what steps you are taking to ensure that no more public funds are used to pay for elective abortion in D.C." and for answers to the detailed questions posed in repeated letters sent to both you and your predecessor. I am concerned that you did not answer the question regarding actions taken to follow the reinstated policy now that it has been restored by Congress. What steps you are taking to ensure that no more public funds (both federal and local ) are used for elective abortion in D.C now that the policy has been restored ?

Response:

As we stated in the May 10th reply, effective April 15, 2011, the Department of Health Care Finance (DHCF) discontinued reimbursement for all elective abortion procedures. Since then, there has been no change or deviation from the policy. In the May 10th letter addressed to the

Committee on Oversight and Government Reform, the District disclosed immediate steps taken to ensure no public funds are used for elective abortion procedures . To reiterate, the initiatives undertaken by the District include:

• Contact Health care providers and managed care organizations to notify them about the ban;
• Calibrate the Medicaid Management Information System (MMIS) to decline reimbursements for services under the elective abortion edit codes; and
• Regular monitoring and review of MMIS utilization reports to ensure compliance.

We do not believe any additional steps are necessary to address this issue.

I hope this information answers your questions. I you have any additional concerns, please contact Janene D. Jackson, Director of the Office of Policy & Legislative Affairs at 202-727-6979 or Janene.Jackson@dc.gov.

Sincerely,

Vincent C. Gray

Vincent C. Gray
Mayor