OVERSIGHT HEARING ON DC FINANCES

JOINT HEARING
BEFORE THE
SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
AND THE
SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
FIRST SESSION

FEBRUARY 22, 1995

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE
88-701 CC
WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office. Washington, DC 20402
ISBN 0-16-047486-8
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WILLIAM F. CLINGER, Jr., Pennsylvania, Chairman

BENJAMIN A. GILMAN, New York
DAN BURTON, Indiana
CONSTANCE A. MORELIA, Maryland
CHRISTOPHER SHAYS, Connecticut
STEVEN SCHIFF, New Mexico
ILEANA ROS-LEHTINEN, Florida
WILLIAM H. ZELIFF, Jr., New Hampshire
JOHN M. MCUGH, New York
STEPHEN HORN, California
JOHN L. MICA, Florida
PETER BLUTE, Massachusetts
THOMAS M. DAVIS, Virginia
DAVID M. McINTOSH, Indiana
JON D. FOX, Pennsylvania
RANDY TATE, Washington
DICK CHRYSLER, Michigan
GIL GUTKNECHT, Minnesota
MARK E. SOUDER, Indiana
WILLIAM J. MARTINI, New Jersey
JOE SCARBOROUGH, Florida
JOHN B. SHADEGG, Arizona
MICHAEL PATRICK FLANAGAN, Illinois
CHARLES F. BASS, New Hampshire
STEVEN C. LATOURETTE, Ohio
MARSHALL "MARK" SANFORD, South Carolina
ROBERT L. EHRLICH, Jr., Maryland

CARDISS COLLINS, Illinois
HENRY A. WAXMAN, California
TOM LANTOS, California
ROBERT E. WISE, Jr., West Virginia
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
JOHN M. SPRATT, Jr., South Carolina
LOUISE McINTOSH SLAUGHTER, New York
PAUL E. KANJORSKI, Pennsylvania
CARY A. CONDIT, California
COLLIN C. PETERSON, Minnesota
KAREN L. THURMAN, Florida
CAROLYN B. MALONEY, New York
THOMAS M. BARRETT, Wisconsin
GENE TAYLOR, Mississippi
BARBARA-ROSE COLLINS, Michigan
ELEANOR HOLMES NORTON, District of Columbia
JAMES P. MORAN, Virginia
GENE GREEN, Texas
CARRIE P. MEEK, Florida
FRANK MASCARA, Pennsylvania
CHAKA FATTAH, Pennsylvania

(Independant)

JAMES L. CLARKE, Staff Director
KEVIN SABO, General Counsel
JUDITH McCoy, Chief Clerk
BUD MYERS, Minority Staff Director

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

THOMAS M. DAVIS, Virginia, Chairman

GIL GUTKNECHT, Minnesota
JOHN M. McUGH, New York
STEVEN C. LATOURETTE, Ohio
MICHAEL PATRICK FLANAGAN, Illinois

ELEANOR HOLMES NORTON, District of Columbia
CHAKA FATTAH, Pennsylvania
BARBARA-ROSE COLLINS, Michigan

EX OFFICIO

WILLIAM F. CLINGER, Jr., Pennsylvania
CARDISS COLLINS, Illinois

RON HAMM, Staff Director
ROLAND GUNN, Professional Staff Member
AL FELZENBERG, Professional Staff Member
ELLEN BROWN, Clerk
CEDRIC HENDRICKS, Minority Professional Staff

(II)
COMMITTEE ON APPROPRIATIONS

BOB LIVINGSTON, Louisiana, Chairman

JOSEPH M. McCADIE, Pennsylvania
JOHN T. MYERS, Indiana
C.W. BILL YOUNG, Florida
RALPH REGULA, Ohio
JERRY LEWIS, California
JOHN EDWARD PORTER, Illinois
HAROLD ROGERS, Kentucky
JOE SKEEN, New Mexico
FRANK R. WOLF, Virginia
TOM DELAY, Texas
JIM KOLBE, Arizona
BARBARA F. VUCANOVICH, Nevada
JIM LIGHTFOOT, Iowa
RON PACKARD, California
SONNY CALLAHAN, Alabama
JAMES T. WALSH, New York
CHARLES H. TAYLOR, North Carolina
DAVID L. HOBSON, Ohio
ERNEST J. ISTOOK, Jr., Oklahoma
HENRY BONILLA, Texas
JOE KOLLENBERG, Michigan
DAN MILLER, Florida
JAY DICEY, Arkansas
JACK KINGSTON, Georgia
FRANK RIGGS, California
RODNEY P. FRELINGHUYSEN, New Jersey
ROGER F. WICKER, Mississippi
MICHAEL P. FORBES, New York
GEORGE R. NETHERCUTT, Jr., Washington
JIM BUNN, Oregon
MARK W. NEUMANN, Wisconsin

DAVID R. OBEY, Wisconsin
SIDNEY R. YATES, Illinois
LOUIS STOKES, Ohio
TOM BEVIL, Alabama
JOHN P. MURTHA, Pennsylvania
CHARLES WILSON, Texas
NORMAN D. DICKS, Washington
MARTIN OLAJ SABO, Minnesota
JULIAN C. DIXON, California
VIC PAZIO, California
W. G. (BILL) HEFNER, North Carolina
STENY H. HOYER, Maryland
RICHARD J. DURBIN, Illinois
RONALD D. COLEMAN, Texas
ALAN B. MOLLOHAN, West Virginia
JIM CHAPMAN, Texas
MARCY KAPTUR, Ohio
DAVID E. SKAGGS, Colorado
NANCY PELOSI, California
PETER J. VISCOSKY, Indiana
THOMAS M. FOGLIETTA, Pennsylvania
ESTEBAN EDWARD TORRES, California
NITA M. LOWEY, New York
RAY THORNTON, Arkansas

JAMES W. DYER, Clerk and Staff Director

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

JAMES T. WALSH, New York, Chairman

HENRY BONILLA, Texas
JACK KINGSTON, Georgia
RODNEY P. FRELINGHUYSEN, New Jersey
MARK W. NEUMANN, Wisconsin

JULIAN C. DIXON, California
RICHARD J. DURBIN, Illinois
MARCY KAPTUR, Ohio

AMERICO S. MICONI, Staff Assistant

(III)
# CONTENTS

<table>
<thead>
<tr>
<th>Statement of:</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barry, Marion, mayor of the District of Columbia; David A. Clarke, chairman, council of the District of Columbia; and Robert Pohlm...</td>
<td>1</td>
</tr>
<tr>
<td>Hill, John W., Jr., Director, Financial Management Policies and Issues, Accounting and Information Management Division, U.S. General Accounting Office, accompanied by Edward Stephenson, Assistant Director; Terry Carnahan, Assistant Director; and Laura Triggs</td>
<td>49</td>
</tr>
<tr>
<td>Nunn, Peter, Coopers &amp; Lybrand</td>
<td>16</td>
</tr>
<tr>
<td>Letters, statements, etc., submitted for the record by:</td>
<td>104</td>
</tr>
<tr>
<td>Barry, Marion, mayor of the District of Columbia, prepared statement of</td>
<td>58</td>
</tr>
<tr>
<td>Clarke, David A., chairman, council of the District of Columbia, prepared statement of</td>
<td>71</td>
</tr>
<tr>
<td>Collina, Hon. Cardissa, a Representative in Congress from the State of Illinois, prepared statement of</td>
<td>14</td>
</tr>
<tr>
<td>Davis, Hon. Thomas M. III, a Representative in Congress from the State of Virginia, prepared statement of</td>
<td>4</td>
</tr>
<tr>
<td>Flanagan, Hon. Michael P., a Representative in Congress from the State of Illinois, prepared statement of</td>
<td>16</td>
</tr>
<tr>
<td>Hill, John W., Jr., Director, Financial Management Policies and Issues, Accounting and Information Management Division, U.S. General Accounting Office:</td>
<td>4</td>
</tr>
<tr>
<td>Information concerning pension costs</td>
<td>35</td>
</tr>
<tr>
<td>Prepared statement of</td>
<td>22</td>
</tr>
<tr>
<td>LaTourette, Hon. Steven C., a Representative in Congress from the State of Ohio, prepared statement of</td>
<td>15</td>
</tr>
<tr>
<td>Walsh, Hon. James T., a Representative in Congress from the State of New York, prepared statement of</td>
<td>9</td>
</tr>
</tbody>
</table>
OVERSIGHT HEARING ON DC FINANCES

WEDNESDAY, FEBRUARY 22, 1995

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA, COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT, JOINT WITH SUBCOMMITTEE
ON THE DISTRICT OF COLUMBIA, COMMITTEE ON APPROPRIATIONS,

Washington, D.C.

The subcommittees met, pursuant to notice, at 9:10 a.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Representatives from the Government Reform and Oversight Committee present: Davis, Gutknecht, McHugh, LaTourette, Flanagan, Norton, Collins of Michigan, Clinger [ex officio], and Chrysler. Representatives from the Appropriations Committee: Walsh, Bonilla, Kingston, Frelinghuysen, and Dixon.

Staff present: Ron Hamm, staff director; Roland Gunn and Al Felzenberg, professional staff members; Howard Denis, counsel; Ellen Brown and Migo Miconi, clerks; and Cedric Hendricks, minority professional staff.

Mr. Davis. The meeting will come to order.

This is a joint hearing of the Subcommittee of the District of Columbia of the Government Reform and Oversight Committee, and the Subcommittee of the District of Columbia on the Appropriations Committee.

The hearing will now come to order.

The format of a joint hearing, even of two small subcommittees, is a bit awkward. As the host of this hearing, I will preside for the members over my subcommittee and I would yield to Mr. Walsh to recognize the members of his subcommittee. This procedure might seem convoluted, but we have agreed to it and we will proceed in the following fashion.

I will say I have announcements to make and if someone is present, I will then yield to Mr. Walsh to recognize members of his committee. For example, if Mr. Livingston is present, we will say, I will yield to Mr. Walsh to recognize Chairman Livingston. After Mr. Livingston makes any remarks, I will reclaim the Chair, make my oral statements, and then go back and forth.

I will then yield to Mr. Walsh for any statement he wishes to make, then Ms. Norton will be recognized by me and Mr. Dixon will be recognized by Mr. Walsh.

If other Members wish to make opening statements, they will be recognized. If most everyone wants to say something, then I suggest we proceed as usual, going from majority to minority.
I will switch the order and recognize Appropriations Subcommittee members and then authorization subcommittee members. Because this hearing may be quite lengthy, I intend to hold my oral statements to 5 minutes. I have a longer statement for the record that will be available to any of you. I request that other Members limit their opening remarks as well in order that we may get to the important business at hand.

We can each speak directly to the press after the hearing, if that is any Member's desire.

Mr. John Hill will testify for GAO. He will have as much time as he needs to discuss the matters that we have asked the GAO to look into. We will then take as much time as needed to question Mr. Hill. I will insist on the 5-minute rule, however, for Members.

If anyone has more questions to ask Mr. Hill, then we can have multiple rounds, but it would be unfair to let one or two Members dominate the time while others are waiting. The Mayor and council chair will make their oral presentations, and then be accompanied by the Acting Chief Financial Officer, who will not make a presentation.

I have no intention of holding the Mayor and the council to 5 minutes of their opening presentation. I hope they have important things to tell us. I hope we do not get into a speechmaking mode, however, because this hearing, essentially a factfinding, is not the right time to make speeches.

At this point, I would like to introduce some of the Members present on the authorization side, and I would like to introduce, first of all, the chairman of the full committee, the Honorable William Clinger from Pennsylvania.

Mr. Clinger, thank you very much for being here.

Ms. Norton is the ranking minority member of the committee. Mr. McHugh from New York is a member of the authorizing committee, and Mr. LaTourette from the authorizing committee is here as well.

Mr. Walsh is here from the appropriations side at this point.

I will proceed now for an opening statement.

This joint hearing with the authorizing and Appropriations Subcommittees on the District of Columbia is a beginning, not an end of a critically important process. As a Representative of the State which produced George Washington, I look forward to the day when the Nation's Capital City, like the man who gave it life, will once again be first in the hearts of the people of America.

No one can doubt that the District faces a serious financial crisis, but the crisis is more than unfavorable numbers on a balance sheet. It is a crisis in the lives of the men, women and, above all, the children who live in the District.

Although we are going to spend much of today looking at the financial condition of the city, we must never lose sight of the fact the financial crisis is important because of the devastation it brings to the lives of the District's least powerful residents.

As we work together to solve this crisis, we must be careful that the needs of the weak and the powerless are met. I challenge the Mayor and the city council to work with us to make sure this happens.
Just so that everyone understands what faces the District of Columbia, it is neither a revenue problem nor a budget problem, rather the District of Columbia faces a spending problem of monumental proportions and a management failure to enforce controls or implement reductions. These spending and management problems are so severe that the District's government cannot deliver the basic services needed by its citizens.

GAO will testify that 43 percent of the District spending goes to personnel costs. By contrast, only 39 percent of total spending goes to social services. Blaming almost all this crisis on social service spending alone is not correct or acceptable.

Five years ago, the Rivlin Commission stated the District government, even considering its county and state activities, had about 40 percent more employees per 10,000 residents than comparable cities. Program costs can change from year to year because of outside actions, including eligibility rules and benefit levels, but personnel costs are permanent and will only go up over time.

This is where the permanent solution has to come. Serious and real personnel reductions of a magnitude not yet contemplated simply must enter into the equation.

GAO will tell us that so far in fiscal year 1995, which is now almost half over, the District has conspicuously failed to implement the type of dramatic spending reductions and financial controls that are the only avenue left to deal with this situation. In fact, the spending rates remain the same as before the Mayor's transition team delivered a report of the city's finances on November 22, which included numerous proposals for resolving the city's crisis. The most important recommendation was that no new revenues are necessary.

This recommendation was made for two reasons: The District not only levies sufficient taxes to pay for any reasonable levels of services and conspicuously fails to collect millions of dollars owed to it; but also there is really no more blood left in the turnip to squeeze. The District receipts from some taxes have already begun to fall because business and residents are being taxed right out of town.

The District is important to all Americans as our Nation's Capital. As such, it has a special claim on all our affections, but it has added importance to the people of the metropolitan-Washington area. We know that without an economically vibrant and healthy central city, the strength of the suburbs will be dissipated. We cannot allow this to happen. We all must remember the city and the suburbs have the same interests.

The citizens and Representatives of this entire region have a vital stake in the solution to the short- and long-range problems of the District. We must all work together so that we do not all fail together. America's Capital deserves no less.

The two subcommittees are beginning this process together. We will finish this process the same way. In conjunction with our counterpart subcommittees in the Senate and with the Federal Executive we will embark upon individual hearings and investigations.

In the end, we will carefully examine the reality of the District of Columbia finances and budgeting, what the city government has said it will do and what it has actually done about these problems and then decide what the Federal response needs to be.
I have not prejudged any final action. I know that my colleagues have not prejudged either.

Once we have gotten past the immediate fiscal crisis, my subcommittee will be holding hearings to find out more about living, working, sanitary, health, crime, education and other conditions that affect the lives of the people of Washington, DC. We will want to hear from residents, students, parents and other people who spend much of their time struggling to make this Capital City one that is truly worthy of a great Nation. By working together, we can transform this city. It will enable Washington to become the preeminent symbol of the rebirth of urban American civilization.

I now yield to Mr. Walsh for his opening statement.

[The prepared statement of Hon. Thomas M. Davis III follows:]

PREPARED STATEMENT OF THOMAS M. DAVIS III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

This joint hearing with the authorizing and appropriating subcommittees on the District of Columbia is a beginning, not an ending of a critically important process. The 104th Congress is faced with important questions on many issues. I believe that few of those issues are more important than how we deal with the nation's capital. I mean how we deal with the District of Columbia in every way possible—public safety, financially, services for the needy, education, and all the others.

Today's hearing is to set the common parameters of fact and reality. We will also attempt to divorce from the process of the District of Columbia government and the federal government's dealings with the local government the myths and mistrust that has plagued us for too long.

Just so that everyone understands today what faces the District of Columbia, it is not a revenue problem, and it is not a budget problem. Rather, the District of Columbia faces a spending problem of monumental proportions and a management failure to enforce controls or implement reductions. That is the problem that the District must deal with.

The GAO has done outstanding service to the Congress and to the people and government of the District in its investigations. The tireless team of auditors probably has as much work ahead of it as it has already accomplished, but they deserve our thanks and our praise today.

Separate truth from fiction is not always an easy task. The value of getting behind rhetoric to reality so that everyone begins from the same place cannot be overestimated.

GAO will testify today that the potential FY 1995 District cash deficit is not $722 million as has been claimed. The potential cash deficit is not even $631 million as has also been claimed by some. These exaggerated figures are political numbers designed to scare people. The truth is scary enough, we need no more rhetoric. Exaggerating the problem will not get a quicker response from Congress. Congress will not allow the city government to throw up its hands and say “the problem is too big and we can’t fix it so we choose to do next to nothing.”

Exaggerating the problem or trying to play a blame game on someone else will not get a more favorable response from the city's unions. It will not end up in a windfall of cash from any source. Everyone involved should listen carefully to the GAO testimony and begin to use those numbers.

GAO will also testify that 43% of District spending goes to personnel costs. By contrast, 39% of total spending goes to social services. Blaming almost all of this crisis on social services spending alone is not correct or acceptable. Five years ago the Rivlin Commission stated that the District government, even considering its county and state activities, had about 40% more employees per 10,000 residents than comparable cities.

Very slight reductions in personnel have been made since then while at the same time thousands of taxpaying citizens have continued to leave. I believe that the ratio is no better now than it was 5 years ago. This is the main issue on a permanent basis which has to change. Program costs can change from year to year because of outside actions including eligibility rules and benefit levels. But personnel costs are permanent and will only go up over time. This is where the permanent solution has to come. Serious and real personnel reductions of a magnitude not yet contemplated simply must enter the equation.
The District of Columbia employs more than 50,000 full-time employees, more than the City of Chicago, which has five times Washington's population. It simply cannot afford one bureaucrat for every thirteen citizens. And the taxpayers of the United States should not have to help pay for this excess. Yet, on the February 14 edition of the McNeil-Lehrer Hour, I heard the Mayor tell municipal workers that there were some members of Congress who want to see him cut 5,000 workers, but that he would not let that happen. Instead he proposed furloughs, pay reduction, and other partial and unworkable remedies.

The pension plan for police and fire, teachers, and judges has also been cited as a major contributor to the current crisis. That is not correct. The proposed solution to this issue would have the city paying the same amount to the Retirement Board as it does now, and the total over the past five years has not increased at nearly the rate that social services or personnel costs have risen. The year-to-year costs of the pension program are also under the control of the city and not driven by the unfunded liability. The District should immediately stop its hesitation and pass a new retirement plan for all new employees. Congress can and will deal with the unfunded liability, but that issue did not cause and is not seriously adding to the crisis.

GAO will tell us that so far in FY 1995—which is now almost half over—the District has conspicuously failed to implement the type of dramatic reductions and controls that are the only avenue left to deal with the situation. Back on October 1st the agencies were allowed to spend at the rate of the District budget as submitted, even though Congress had ordered a $140 million spending reduction. Even after the Council action on December 21, which I can only describe as half-hearted at best, none of the approved actions were actually implemented. The spending rates remained the same as before.

Now new spending plans have been developed and they seem to ratify a FY 1995 deficit of about $400 million and spending that is hundreds of millions of dollars over the Congressionally mandated spending cap of $3.254 billion. This situation is unacceptable. It is unacceptable from the standpoint that the District does not seem willing to do those things that must be done. It is also unacceptable because at the current spending levels the District will overspend its approved budget to a degree that will virtually wash out the FY 1996 federal payment to the District. Everyone should be aware that in the FY 1995 Appropriations Act is a provision that requires a dollar-for-dollar reduction in the 1996 payment for every dollar over $3.254 billion that the District spends.

Coming to Congress five months into the fiscal year and asking to be relieved of that spending cap and that offset in the federal payment simply will not fly. The 103rd Congress was serious when it imposed those conditions on the District and not to start off with any illusion that the 104th Congress is less serious than its predecessor. The District government has ignored these mandates at its own peril and it should not anticipate a great deal of sympathy from a Congress elected on its desire to end business as usual and stop letting government spend money that it does not have.

Medicaid is a special problem that will be the subject of future hearings. I would like to make plain that the Medicaid problem is also largely the fault of city government actions, and in this particular case, of city inactions. The failure of the District to certify patients for Medicaid has cost many hospitals in the city ten's of millions of dollars. Care has been provided with no reimbursement. The 50% cost share from the District that hasn't been paid looks like it saved the District money. The 50% cost share of the federal government is simply gone. But in the long run the city has lost by its own intentional actions in not certifying Medicaid patients because DC General has run deficits that can no longer be tolerated. I am greatly impressed with that document and intend to question the Mayor on what he has done to implement those recommendations. I do not mean what plans he has or how he might intend to do things—I mean what has been accomplished. That is the bottom line for all of these issues—not what people have said, not what they plan, not even what they approved, but plain and simply, what has actually been done. So far it appears that the bottom line is that far too much has been said and far too little has been accomplished.

The transition team recommended serious efforts to privatize some services. I endorse that action wholeheartedly as well as contracting out services. Both of these activities must be done with reasonable conditions—even if that means changing current District laws and procedures. That is exactly the kind of action that the District desperately needs—revise and reform current impediments, proceed as quickly as possible, ask for help as you need it whether that comes from the private sector,
the federal executive or the Congress. Why have more emergency actions not been taken or even spoken of at this point? I hope to find out some answers today.

The most important item in the transition report was—no new revenues. This recommendation was made for two reasons. 1) The District not only already levies sufficient taxes and fees to pay for any reasonable level of services and conspicuously fails to collect millions of dollars owed to it; but also because 2) there is no more blood left in the turnip to squeeze. District receipts from some taxes have already begun to fall because business and residents are being taxed right out of town. Any further increases in taxes would be even more subject to the law of diminishing returns.

Even though GAO will tell us chapter and verse of how the District government deliberately under-budgeted known expenses in recent years, the District does not have a budget problem in the classic sense. Medicaid and AFDC budgets were passed that had no basis in reality. On top of that, these budgets were justified by claims that “unallocated management initiatives” would accomplish the needed reductions in spending to meet the budgets.

All too often “unallocated management initiatives” meant that there was no plan to implement. When there was a proposal it was not implemented. When some type of implementation was tried no savings were realized. In effect, “unallocated management initiatives” too often have meant “nonexistent management initiatives.” The FY 1995 budget and proposals made so far continue to include these nonexistent savings. This activity will no longer be tolerated. If savings are claimed we want to see a detailed proposal whose implementation can be monitored. We want to see an implementation plan. And, we want to see results.

In addition to nonexistent savings plans there are many instances of under-budgeting by completely ignoring known expenses. The FY 1995 budget contains no dollars to pay the federal Bureau of Prisons for housing District inmates. The District already owes BOF more than $3 million from 1994 and is expected to owe at least $3 million more for 1995, but you can’t find it in the budget.

Similarly, the District is being fined for contempt of court for exceeding residency limits at its youth facility. The judge was charging $1,000 per day, but when no effort seemed to be made by the District government to improve the facility or reduce the overcrowding; the fine was increased to $1,000 per day per violation. In 1995 these fines are expected to amount to $21 million but you won’t find it in the budget.

Mayor Kelly’s documents on the 1994 deficit cite overspending by every department of the District government. This is in spite of the fact that the District budgets very generous amounts for almost all of its functions. Budget levels in the District of Columbia, whether measured by total population, population served, or employees providing the service are far in excess of what other cities provide. It is not the budgeted spending that is too low or inadequate—it is the spending over the limits that is breaking the District.

What, simply put, must happen now is for the District government and the federal government to work together in good faith and with complete honesty. Phony budgets and exaggerated deficits are of no help to anyone. Inflated rhetoric about “taking over” the city or “repealing home rule” are equally unhelpful. This crisis is real and it is not just a short-term problem. The only way to solve it is by working together.

I am also disturbed at reports I have read that the city may be targeting whatever modest cuts it makes at some of its most vulnerable residents and organizations. Last week, this subcommittee’s staff was flooded with calls from DC residents angry at reports that the city was curtailing police protection in wards represented by Council members who voted to rescind recent property tax increases. “Well find ways to put pressure on... You cannot cut $40 million and not expect me to cut police officers,” the Mayor was quoted as saying.

The Mayor now says he was misunderstood. But I remind all who speak for this city’s government that any administration that is seen as willing to hold residents, commuters, and tourists hostage to political bickering will never rebuild the confidence of either Congress or Wall Street.

The two subcommittees are beginning this process together. We will finish this process the same way. In conjunction with our counterpart subcommittees in the Senate and with the federal executive we will embark upon individual hearings and investigations. In the end, we will carefully examine the reality of District of Columbia finances and budgeting, what the city government has actually done about these problems, and then decide what the federal response needs to be. I have not prejudged any final action. I know that my colleagues have not prejudged either.

What we know is that the games are over. No more smoke and mirrors. No more under-budgeting. No more “unspecified management initiatives.” No more phantom
revenues which are not collected or bring no cash with them. No more exaggerating the problem to avoid dealing with the hard choices and taking the only real actions that can have a lasting impact.

Today is the beginning of a process. The road will be long and parts of it will be hard. In the end I am confident that we will still be together and we will have embarked on the journey out of the morass. That journey, too, will be long and difficult. No one should be under any illusion that the District's problems will be solved this year or next. The first task is to get control of the overspending and improve management. Then the budget must be balanced in a real sense rather than some mystical fantasy way. Then renewed access to the bond market must be pursued. As each of these steps occurs we can mark down another accomplishment, but the crisis will only go away completely after years of hard work, tough decisions and workable controls.

It is ironic that we are holding this hearing on the birthday of George Washington, for whom our nation's capital is named, and whose vision determined its location and shaped its early destiny. The intensity with which he immersed himself in planning the District of Columbia, prompted a Georgia Congressman to observe that the federal city had become "the hobby-horse of, perhaps, the most illustrious man who ever lived."

Washington, and the other Founding Fathers wanted Congress' relationship with the capital city to be special. Article 1, Section 8, clause 17 of the Constitution of the United States, granted Congress the power to "exercise exclusive Legislation in all Cases whatsoever, over such District ... that may ... become the Seat of Government." Over time, the relationship has evolved into that which exists today under the Home Rule Act of 1973, as amended. Nothing in the Home Rule Act relieved Congress of its ultimate responsibility for the well being of this city and all who visit and inhabit it.

As a Representative of the state which produced George Washington and of a county that he made so celebrated, I look forward to the day when the nation's capital city, like the man who gave it life, will once again be first in the hearts of the people of America.

Mr. WALSH. Thank you very much, Tom.
And good morning, colleagues.

Allow me to also welcome our witnesses here this morning. This is our subcommittee's first hearing for this historic 104th Congress, and I am very pleased it is a joint hearing with both House committees that are directly involved with the District of Columbia—the Committee on Government Reform and Oversight, their Subcommittee for the District, and the Appropriations Committee's Subcommittee on the District of Columbia. Our subcommittee is responsible for financial oversight and for appropriating the proper sums to meet our constitutional responsibility to the District of Columbia.

I want to thank my colleague from Virginia, Tom Davis, for hosting this joint hearing today. We have a big job ahead of us and it is going to take all of us pulling together and in the same direction if we are to be successful and make our Nation's Capital the jewel that it should be in the eyes of the world.

Let me take a moment to introduce the members of the Subcommittee on District of Columbia Appropriations. Many of them are not yet here because we are all engaged in markups in other subcommittees this morning. Mr. Bonilla of Texas was on this subcommittee the last 2 years; Mr. Kingston of Georgia; Mr. Frelinghuysen of New Jersey who has just joined us, and Mr. Neumann of Wisconsin. On the minority side Mr. Dixon of California is here with us. He is our ranking member, and was the chairman of this subcommittee in prior years. Our roles have been reversed, but our relationship remains strong. Mr. Durbin of Illinois, and Ms. Kaptur of Ohio are also former members of the subcommittee.
I would like to say at the outset that I recognize that the District is facing very serious financial problems not unlike those in other jurisdictions in this country. Philadelphia, New York City, and Cleveland are three cities that have had similar problems and it required Herculean efforts by the entire community—the political establishment, the business community, and the residents—to bring those cities back from the brink.

Mayor Giuliani just last week proposed a budget for New York City that, according to press reports, includes the largest reduction in overall spending since the Great Depression and will probably result in restructuring of the government to become leaner and more efficient because the revenues are just not there anymore.

We, dealing with the District of Columbia, must make a similar decision. We cannot continue business as usual. And the first step is to find out where the District is financially.

The General Accounting Office has been looking into the District's finances for almost a year now. Their audit of the District's books was presented to us last June and helped guide us in the last appropriations cycle for fiscal year 1995. It was very, very helpful. I am hopeful that information provided by the General Accounting Office will continue to guide us in the direction we need to go.

We will hear from them first this morning and then we will hear from Mayor Barry and Council Chairman Clarke. I cannot over-emphasize the need for everyone to be honest and forthcoming. This is the beginning of a long, hard road, that both our sub-committees are going to be traveling to bring the District back to fiscal reality.

This is not a speechmaking day, but I feel I have to say loud and clear that we have to change the way things are done.

The fiscal year 1995 District of Columbia Appropriations Act passed the House last year by three votes, and that was after the committee was forced to cut $140 million from the city's budget request.

It was only 4 years ago that the new city administration received an additional $100 million Federal payment from the Congress plus the authority to borrow $336 million to retire the so-called accumulated deficit.

In addition, within those first 8 months of her new administration, Federal legislation was approved to allow the Mayor an 18-month window to bypass the personnel regulations and selectively reduce the work force. That same bill also gave the Mayor the authority to reduce the budgets of independent agencies.

All the tools that were requested were provided.

Four years later, the District is technically insolvent. Their current liabilities exceed their current assets. And the District is, for all intents and purposes, out of cash.

One of our objectives is to find where the money has gone and where the District is today. After this joint hearing today, our two subcommittees will begin having separate hearings on the District's finances and structure. So while this hearing is intended to shed some light on the District's financial situation, we will be addressing these issues in greater detail in future hearings.

It saddens me to see the District in the condition that it is in, and I would rather be focusing my attention on other issues. But
the Congress has a constitutional responsibility for the District of Columbia and we as Members cannot lose sight of that fact. That is why we are here this morning.

While I would rather the District’s financial situation were different, I welcome the challenges that are ahead of us. All of our actions thus far have been bipartisan. This is an issue that requires total cooperation among the District government, the Congress, and the executive branch of the Federal Government. This is our city, this is the people’s city and we cannot afford to fail.

Thank you, Mr. Chairman.

[The prepared statement of Hon. James T. Walsh follows:]

PREPARED STATEMENT OF HON. JAMES T. WALSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you, Chairman Davis.

Let me also welcome our witnesses here this morning.

This is the first hearing of our subcommittee for this historic 104th Congress and I am very pleased that it is a joint hearing with both House committees that are directly involved with the District of Columbia—the Committee on Government Reform and Oversight’s Subcommittee on the District of Columbia and the Committee on Appropriations’ Subcommittee on District of Columbia Appropriations.

I want to thank my colleague from Virginia, Tom Davis, for hosting this joint hearing. We have a big job ahead of us and it is going to take all of us pulling together and in the same direction if we are to be successful and make our Nation’s Capital the jewel that it should be in the eyes of the world.

Let me take a moment to introduce the Members of our D.C. Appropriations Subcommittee.

Mr. Bonilla of Texas who was also with us during the last Congress.

Mr. Kingston of Georgia who is in his second term in Congress but is new to our subcommittee this year.

Mr. Frelinghuysen of New Jersey who brings a wealth of experience from his service in the New Jersey State Assembly.

Mr. Neumann of Wisconsin.

Mr. Dixon of California is our ranking member—he and I have switched chairs—our roles may be reversed but our friendship remains strong.

Mr. Durbin of Illinois who served with us during the last Congress, and

Miss Kuster of Ohio who was also with us during the last Congress.

I would like to say at the outset that I recognize that the District is facing very serious financial problems, not unlike those faced by other jurisdictions. Philadelphia, New York City and Cleveland are three cities that have had similar problems and it required Herculean efforts by the entire community—the political establishment, the business community, and the residents—to bring those cities back from the brink. Mayor Giuliani just last week proposed a budget for New York City that according to the press includes the largest reduction in overall spending since the Great Depression and will probably result in a restructuring of the government to become leaner and more efficient because the revenues are just not there.

We, dealing with the District of Columbia, must make a similar decision.

We cannot continue business as usual.

And the first step is to find out where we are financially. The General Accounting Office has been looking into the District’s finances for almost a year now, and we will hear from them first this morning and then we will hear from Mayor Barry and Council chairman Clarke.

I cannot overemphasize the need for everyone to be honest and forthcoming. This is the beginning of a long, hard road that both of our subcommittees are going to be traveling to bring the District back to fiscal reality.

This is not a speech-making day but I feel I have to say loud and clear that we have to change the way things are done.

The FY 1995 DC Appropriations Act passed the House last year by only 3 votes, and that was after the Committee was forced to cut $140 million from the city’s budget request.

It was only 4 years ago that the new city administration received an additional $100 million Federal payment plus the authority to borrow $336 million to retire the so-called accumulated deficit. In addition, within those first 8 months of her new administration, Federal legislation was approved to allow the Mayor an 18-month
window to by-pass the personnel regulations and selectively reduce the workforce. That same bill also gave the Mayor the authority to reduce the budgets of independent agencies.

All the tools that were requested were provided.

Four years later, the District is technically insolvent—their current liabilities exceed their current assets.

And the District is out of cash.

One of our objectives is to find where the money has gone and why the District is where it is today.

After this joint hearing today, our two subcommittees will begin having separate hearings on the District’s finances and structure. So while this hearing is intended to shed some light on what we have been reading in the press, we will be addressing these issues in greater detail in future hearings.

It saddens me to see the District in the condition it is in and I would rather be focusing my attention on other issues. But the Congress has a constitutional responsibility for the District of Columbia. And we as Members cannot lose sight of that fact. That is why we are here this morning.

While I would rather the District’s financial situation were different, I welcome the challenges that are ahead of us.

All of our actions thus far have been bipartisan. This is an issue that requires total cooperation from among the District government, the Congress, and the Executive Branch of the Federal government.

This is our city—This is the people’s city and we cannot afford to fail.

Thank you.

Mr. Davis. Thank you, Chairman Walsh.

I now recognize the Delegate from the District of Columbia, who I think has courageously opened a public discussion of this situation. This hearing is not about policy debates or initiatives, but I cannot help acknowledge her leadership in taking up the gauntlet.

Ms. Norton.

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

Chairman Jim Walsh and Chairman Tom Davis deserve both thanks and praise for convening this unusual joint hearing to help meet the demands of these unusual times. I welcome the testimony of Mayor Marion Barry and Council Chairman David Clarke, who are working with indefatigable energy to resolve a mounting crisis. I welcome also John Hill and his colleagues at GAO whose indispensable service to both committees and to the District has been thoroughly professional.

The District’s problems are both a replay of serious and similar problems confronting many large cities and a unique version of the urban crisis of the 1990’s. With its unique disabilities, however, the wonder is that the District followed rather than led the way to the serious fiscal calamity that overtook cities such as New York and Cleveland as early as the 1970’s.

The reason the District did not come earlier to this crossroad of crisis, ironically, is because of self-help. Congress froze the Federal payment between 1985 and 1990. It was not the Federal Government but the District’s own taxpayers who made up for the absence of a State and county to share the increasing cost of functions borne by no other city.

The District drew from its own resources, especially its middle-income and business tax base, until it used some up and sent others scurrying. The city did not foresee an act early to avoid the crisis, a myopia common for jurisdictions that live close to the people. In the process, however, the District grew and overgrew its government.
Yet, only a city with underlying strength could have held on for so long. Even today, most cities would envy the District's population. Among the 25 largest cities, most would not mind being first in percentage of residents employed in the top-tier jobs, those in the professional, managerial, and technical categories; third in percentage of residents with college degrees; and fifth in per capita income. As recently as the 1980's, the District had the greatest decline in the poverty rate among the top 25.

I recite these hopeful statistics to document the optimism that I believe is fully justified even as the crisis saps the city's strength. But I am no starry-eyed optimist. The District's potential will be lost unless the city and the Congress are willing to look straight into the eye of this crisis, refuse to blink, stare it down, and dispose of it.

The city's able leaders are hard at work, but the time has come to rise above the false hope that day-to-day crisis management can get us out of this deep hole. We are pretending as if our message to anxious District residents is that we should keep doing what we're doing, only harder and faster. There is no expenditure of effort or speed of action by which the District, using the single strategy of downsizing, can cut its way out of this problem in a single fiscal year. The prospect of damage to vital services makes it irresponsible even to try.

By saying the obvious, my message is surely not that the Mayor or the city council should slow down. For the sake of the city's credibility and their own, they must indeed continue to work harder and faster. That is what they are now doing, and I want to applaud them publicly for their efforts.

It is easy enough to underestimate the personal and political difficulty of their task from on high in the Congress or from the sidelines of the press. The Mayor and the city council live within shouting distance of the people whose jobs they are taking, whose medical services they are withdrawing, and whose programs they are eliminating.

The Mayor and the city council are also motivated, however, by the desire to assure that the crisis does not damage home rule. Thus, they continue to wrestle with a problem that has grown larger than they ever imagined and has ballooned far too big to handle. It is time for the Congress to join with the District to take the next inevitable step.

With the District's loss of its credit last week, an oversight board is now the only way for the city to borrow in order to stay in business. Either such a board will ease the way to the Treasury or the Congress will dictate terms of borrowing that will have obvious and painful home rule implications. I prefer a board designed by the Congress in conjunction with the District to waiting for the Congress to act alone if the city goes bankrupt.

I prefer to join the action now rather than to be acted upon later. The District must not be a voyeur watching itself go down.

An oversight board can bring another vital element of relief. Only with a board will we be able to convince this Congress that the District must not be made to eat a deficit that keeps rising like yeast, in a single fiscal year. This necessity goes beyond the impos-
sibility of the short time left to do so much cutting. Cutting is the least of it.

It is the opportunity for improved services that is the silver lining in this crisis. We will miss it entirely if we require the District to slash and burn its government to meet what has become an impossible deadline.

As in other cities, an oversight board could help the District divide the deficit into an enforceable multiyear plan to meet twin goals of equal importance: One, reduce the deficit while balancing the budget; and two, improve the quality of services for schoolchildren and foster children, for the elderly, and for homeowners, for the working poor and the homeless, for families and the middle class. If service improvement is not given equal importance with downsizing, what is left of our middle class will use the occasion of this crisis to make their final exit. Only an oversight board can buy the time and the space to make service improvement and deficit reduction equal parts of the same equation.

Also and ominously, without an oversight board, we are left to wonder how the District will be able to float long-term bonds for an arena and convention center, even one that will be paid for by private parties. These two moneymakers are nothing to fool around with. Almost alone, they make the case for an oversight board.

Finally, only a board can give a credible voice that the Congress will hear to the District’s strong case for greater revenues. The city’s plea that it can no longer carry State and county functions, falls mostly on deaf congressional ears today. No one over here wants to hear that the District gets 50 percent of its revenues from falling, local income, property and sales taxes, while the average city gets only 15 percent from such city sources.

In the House, my bill for tax relief for the District waits in line behind the crisis. And, in the present climate, it has been possible for the Congress to pass over its part of the present crisis, especially the 10 percent of our operating budget that goes to pay for pensions because of a debt created entirely by the Congress and tossed to the District in an unfunded pension plan.

The District has nothing to fear from an oversight board that it has had a part in creating; only from an oversight board that will be inevitably imposed unilaterally if the city suddenly goes bankrupt. Councilmember Kevin Chavous, who has worked for months on his own review board bill, has already shown the way to master rather than succumb to fate. By coming forward now, we assure that the Congress will do what must be done with the District, not to the District.

Throughout this ordeal, my overarching goal has been to help preserve and expand home rule, a temporary board notwithstanding. If an oversight board is established now, it can be designed so as to have minimal impact on home rule. I prefer a model that allows the District to retain all of its powers, with the board working either directly with elected officials or acting as a review body.

We can design a board that leaves home rule entirely intact. What we need, however, is not the home rule status quo but more home rule. Yet we all know that increased empowerment for the District is a lost cause unless we can put this crisis definitively and permanently behind us.
If no city has ever climbed out of a crisis this deep by itself, let us bring on the board, help structure it ourselves, and get past this painful moment.

Let me close with a confession. To tell the truth, I want to do what it takes to banish this crisis quickly, not only to reduce the deficit, or to save home rule, or even to save the children. Like many of my constituents, I want this crisis gone to reclaim the full measure of civic pride in my birthplace and hometown.

Washingtonians have heard me speak about my great-grandfather Richard Holmes, the ancestor who laid down our family roots in Washington before the Civil War. Richard was no heroic runaway slave. I think of him as a walk-away slave. He just walked away from a Virginia plantation to freedom in the District. Great Grandfather Richard did not walk here to freedom only to have his family surrender a century later to the bondage of insolvency. Richard figured out how to pick himself up and move on. We in the District must be ready to do no less.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much.

Chair now recognizes the chairman of our full committee Hon. William Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman.

I just want to very briefly commend you and Mr. Walsh and the members of your committee, subcommittees, for holding this hearing in a very expeditious way. We clearly have a crisis of monumental proportions, and the quicker we begin to deal with it the better for us all.

I have had an opportunity to review the GAO report, which we are going to hear about this morning. It is indeed a chilling document, in my view, and one that calls for very, very rapid action.

I do not view this hearing this morning as a time for finger pointing or laying of blame. That may come later when we review how we got here, but certainly the issue before us today is how do we deal with this immediate crushing crisis that we have in the city. And that is what I hope that we are going to hear addressed by the Mayor and by the council.

Mr. Walsh indicated that Washington is not alone, that many cities are having extremely difficult financial problems, but we are unique because it is the Capital City and, therefore, it gets a greater degree of national attention when the city gets into a fiscal crisis. It is also unique in that it is the only city where there is this Federal presence and the Federal partnership.

I just want to assure you, Mr. Davis, that as chairman of the full committee, I want to pledge you my full support and cooperation as you and Mr. Walsh work toward resolving these problems and coming up with both a short-term solution as rapidly as possible, but also addressing the longer-term problems that we are going to have to deal with down the road.

Thank you very much.

Mr. DAVIS. Thank you, Chairman Clinger.

Ms. Norton.

Ms. NORTON. Mr. Chairman, I ask unanimous consent that the statement of the member of the full committee, Representative Cardiss Collins be included in the record.
Mr. DAVIS. Without objection.
[The prepared statement of Hon. Cardiss Collins follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

I want to thank Rep. Clinger and Rep. Livingston for calling this important joint hearing on the current financial state of the District of Columbia. I also want to commend Delegate Eleanor Holmes Norton and Rep. Tom Davis for their leadership in this area.

I share the concerns over the financial plight of the nation's capital. Sarcely a day goes by that one does not read and hear distressing accounts of the city's financial crisis. Yet I am confident that with the mutual cooperation of Congressional and City leaders, these problems can be faced and resolved.

To honestly address this problem will require a full and accurate accounting of the city's financial position; a credible, realistic and carefully drafted debt resolution plan and serious consideration of additional funding with adequate controls which ensure financial viability without hampering the letter or the spirit of the City's Home Rule Charter.

Each of these components will play a role in the solution of the financial crisis and the ultimate revitalization of the city.

We cannot afford to leave this hearing with a philosophy of punishment and blame. The critical condition of D.C.'s finances can only be healed through sacrifice and cooperation.

Our overriding mission must be to brighten the district's financial picture and those who live and work in this capital city.

Mr. DAVIS. Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman.

I will at this time yield to our distinguished ranking member, Mr. Dixon from California, if he has an opening statement.

Mr. DIXON. Mr. Chairman, I have no opening statement.

Mr. DAVIS. Now, I ask our vice chairman, Mr. Gutknecht, if you have an opening statement.

Mr. GUTKNECHT. Mr. Chairman, I don't want to go on too long, but I do want to say a couple of things. First of all, I don't want to be redundant either. The city faces, I think, immediate cash crunch problems, but long term—and I was privileged to have been in the meeting yesterday with the Speaker, AND he expressed hope that long term, we can once again turn the city of Washington into a city that all Americans can be proud of. And so I think that there will be cooperation from those of us on Capitol Hill as long as there is open and honest cooperation from those in the city, and I want to participate in that. I look forward to this hearing and future hearings to try to get the city back on the right track.

Mr. DAVIS. Thank you.

Mr. Walsh.

Mr. WALSH. Mr. Chairman, I would like to mention that Mr. Kingston of Georgia has now joined us, as has Mr. Bonilla of Texas, who has served on this committee for the last 2 years. I would ask them if they have any opening statements to make at this time.

Mr. BONILLA. Chairman, thank you. At this time, I have no opening statement, but I will have questions after we hear from the witnesses this morning.

Mr. WALSH. Thank you.

Mr. KINGSTON. Mr. Chairman, the only thing I have to say I think has already been said; that Washington is, of course, the U.S. Capital, but more importantly in the down-home sense, it is America's town, and we want it to be great, we want it to be everything that it can be, and look forward to the process. And thank you.
Mr. Walsh. I yield back to you, Mr. Chairman.

Mr. Davis. Thank you.

Mr. McHugh, any opening statement.

Mr. McHugh. Thank you, Mr. Chairman.

I will heed the advice of my good friend and your subcommittee Chairman Walsh when he said this is not a moment for speech-making, and will yield my time to you, Mr. Chairman.

Mr. Davis. Thank you.

Mr. LaTourette, any opening statement.

Mr. LaTourette. Mr. Chairman, thank you for the opportunity.

In the interest and expediency of time, I would also ask unanimous consent to place my opening remarks in the record, and yield back my time.

Mr. Davis. Without objection.

[The prepared statement of Hon. Steven C. LaTourette follows:]

PREPARED STATEMENT OF HON. STEVEN C. LATOURETTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman:

I want to thank you and our esteemed colleagues from the Appropriations Committee for convening this hearing on the current financial crisis facing our nation's capital.

I also want to wholeheartedly agree with your opening statement that this hearing is a beginning, not an end to this process. We are not going to leave this committee with the solutions for solving the city's financial crisis, but hopefully we will leave armed with the information we need to develop those solutions that will restore stability and confidence in Washington's economic viability.

We are faced with a daunting task. The solutions will not be easy or popular. However, they will be necessary. We must find ways to accomplish our goals without sacrificing public health and safety. We must balance the city's books without sacrificing education. We will have to issue pink slips to many of the city's employees while trying to restructure the city's tax structure in order to draw new business into the District.

I believe we will hear testimony about success stories of cities who have been in similar situations and have managed to pull themselves up by their boot straps and continue on the path toward fiscal stability. One such city is very near and dear to my heart: Cleveland, Ohio. Cleveland, a few short years ago, was in such dire straits both fiscally and environmentally (I'm sure you all remember the famous Cuyahoga river fire) the city was forced to take some drastic action to avert bankruptcy. However, through a strong private and public partnership, Cleveland has not only regained its financial footing, it is truly now one of the jewels of the Great Lakes region.

I would like to work with the members of our two Congressional committees and with the Mayor and members of the D.C. City Council to develop programs that will restore Washington D.C. to its rightful place as one of America's jeweled cities and make D.C. a model for emulation worldwide.

Thank you Mr. Speaker.

Mr. Davis. Mr. Flanagan, any opening statement?

Mr. Flanagan. Thank you, Mr. Chairman.

I also would ask unanimous consent to place my remarks in the record.

I thank the witnesses for coming today. It should be a very interesting hearing.

Mr. Davis. Without objection.

[The prepared statement of Hon. Michael P. Flanagan follows:]
PREPARED STATEMENT OF HON. MICHAEL P. FLANAGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

I would like to take this opportunity to comment on the financial crisis facing the District of Columbia and the challenges that Congress, and specifically these two subcommittees, can expect to deal with during this session.

I am encouraged by the vast amount of recommendations, studies, audits, commission reports and spending plans that have been published over the last few years. At the same time, I am very discouraged by the minimal action that has been taken in response to these efforts to help lead the nation's capital to economic health. Representing Chicago, I am familiar with the problems urban areas are forced to contend with and I look forward to bringing to the District some of the solutions that have worked for Chicago.

It is hard for me to believe that there is one District employee for every thirteenth District residents yet no one in this enormous bureaucracy claims to have knowledge or responsibility for the financial problems that have escalated to alarming levels. I think the time has come for solutions as well as defining the roles of D.C. government officials and their responsibilities for the future. Hopefully, in the coming years we can be a society that encourages responsibility and pride in their work, not a society of passing the buck. Congress is taking it's share of the responsibility and will ultimately be held accountable for getting the District back on track. At some point, District officials, be it the Mayor's Office or the City Council, will need to take over this obligation and we need to work together to define this shift in responsibility. Fortunately, along with responsibility comes the reward of a job well done. We all hope to share in the success of the District as it reclaims financial soundness.

My hope is that our subcommittees, in conjunction with Mayor Barry and the City Council, can be part of the beginning of the economic healing process that will lead the District into the twenty-first century a safe and prosperous community.

Mr. Davis. Mr. Walsh.

Mr. Walsh. Mr. Frelinghuysen, do you have an opening statement?

Mr. FRELINGHUYSEN. No statement, Mr. Chairman, thank you.

Mr. Davis. Thank you.

This subcommittee is in receipt of a letter from the chairman of the Government Reform and Oversight Committee, requiring that all witnesses appearing before this subcommittee must be sworn.

So Mr. Hill, if that is all right with you and your colleagues if you could stand and raise your right hand.

[Witnesses sworn.]

Mr. Davis. Thank you.

Thank you for being here today, Mr. Hill. You may introduce the Members with you.

Let me start by saying how thankful we are for the work you and the other folks have done. I think in the long run, the District government will thank you as well, because without your past and future efforts, there is no question that the District of Columbia would be in more dire shape than they are now.

You may proceed.

STATEMENT OF JOHN W. HILL, JR., DIRECTOR, FINANCIAL MANAGEMENT POLICIES AND ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY EDWARD STEPHENSON, ASSISTANT DIRECTOR; TERRY CARNAHAN, ASSISTANT DIRECTOR; AND LAURA TRIGGS

Mr. Hill. Chairman Davis, Chairman Walsh, ranking minority members and members of the subcommittees. Accompanying me at the table are Terry Carnahan, Ed Stephenson, and Laura Triggs.
As I proceed through my statement, Paul Caban and Chris Warweg, also of my staff, will point out important information contained on the charts we will be using.

Although it is a pleasure to appear before you today, and I certainly appreciate the kind words that you have had for the work we have done, I only wish that I could present better news today. The District's cash position is especially precarious. Given the continued spending at current levels it is now clear the District will run out of cash as early as this summer. In fact, the District could be considered insolvent since it does not have enough cash to pay all of its bills and future sources of funds are uncertain.

In our report and testimony of last summer, we explained the phenomenon of the District's dwindling cash balances during periods of balanced budgets. Last fall, in response to the growing financial crisis, Congress mandated $140 million in reductions of expenditures from those requested by the District for fiscal year 1995.

They also reduced the Federal payment by $14 million and took several actions intended to enforce these provisions and improve the quality and timeliness of information reported to the Congress. Despite these actions, the District's financial situation has continued to deteriorate and the quality and timeliness of information provided to the Congress has not improved.

Earlier this month, the District's annual financial statement for fiscal year 1994 reported the largest annual deficit since home rule. The District deferred payment of more than $500 million in bills at the end of fiscal year 1994. Last December, to meet a critical cash need, the District had to obtain $250 million in short-term borrowing months earlier than the cash forecast had shown this money would be needed.

And just last week, two financial investment services lowered the District's bond rating, one of them to below investment grade or junk bond status. Without decisive and immediate action, prospects for the District's future financial condition continue to be bleak.

As I will explain in more detail in a minute, the District has abandoned its earlier plans to close the spending gap on its own and now plans to seek substantial Federal assistance. According to the District's own estimates, fiscal year 1995 expenditures could be nearly $3.9 billion; $631 million above the $3.25 billion congressionally mandated spending cap. At this spending rate, current appropriations law could reduce the District's 1996 Federal payment to zero if the District exceeds its spending caps and its budget authority.

My written statement contains details of the evolution of the District's financial crisis, congressional action related to the 1995 budget, our analysis of the District's 1995 first quarter financial report, the District's recent actions to address the financial crisis, and the District's cash situation.

Over the last several months, there have been many different numbers reported about the size of the District budget and the cash problem. I will briefly summarize the most significant points in my written statement and attempt to shed some light on these numbers.
Our efforts to obtain accurate and reliable data have been hampered by the poor state of the District's financial systems. Some data may need to be adjusted as we continue our work. Included as attachment 1 of my statement and on the chart that is shown on the side here, is a time line of major events that have occurred since we issued our report last summer. As I go through my statement, it may be useful to refer to this time line.

In the 1980's, the District's general fund operated with revenues in excess of expenditures in most years. From 1991 through 1993, the District submitted budgets to the Congress that showed expenditures and receipts in balance.

However, even though the budgets were balanced and despite receiving cash from a $331 million general obligation borrowing in 1991, the city's cash position continued to decline. During that period, various factors helped the District to balance its budget, including nearly $400 million in increased Federal payments and $225 million in additional budgetary authority from transferring money from water and sewer funds, not recording Washington-Metropolitan Area Transit Authority payments when due, and changing the legal definition of the property tax year.

After 3 years of positive general fund balances, the District recorded a $335 million deficiency for fiscal year 1994. Of this total deficiency, $116.8 million was in appropriated funds where deficiencies were recorded in most appropriated expenditures functions and subfunctions, including the schools, Medicaid, fire, police and public works.

The remaining amount resulted primarily from adjustments related to Medicaid and DC General Hospital. The Medicaid increase relates to cost settlements of prior year Medicaid program costs that the District will be required to repay during fiscal year 1995.

The $85 million adjustments for the DC General Hospital receivable recognizes that the DC General Hospital loans from the general fund may be uncollectible since the hospital continues to operate at a substantial loss.

Figure 1 on page 4 of my written statement that is also reproduced in a chart, illustrates the cash problem the District faces at the end of each fiscal year. As you can see, each year a larger portion of the Federal payment is being used to pay the prior year's bills.

Both the Appropriation Act of 1995 and the Federal Payment Reauthorization Act required that the Mayor submit a quarterly financial report. To respond to this requirement, on January 17, the District submitted more than 500 pages of documents.

Although some valuable information was included in this data, for the most part, the information was not in a form that is useful to monitor the District's finances. The quarterly report included a computer run to show first quarter expenditures.

This run did not contain summaries or analyses of data and there were no projections of expenditures for the remainder of the fiscal year. This makes it impossible to use this report to compare actual first-quarter expenditures with budgeted amounts or to project the year-end expenditures.

The legislation called for an aging of payables and an aging of receivables. The list of payables, included the date the voucher was
entered in the District's financial management system rather than the date of the voucher.

Since, in an effort to control cash, vouchers were held for extended periods before being entered into the system, this date does not reflect the true age of the payable. The quarterly financial report included some data on the District's number of FTE personnel for various periods. However, the District did not submit information on the actual number of full-time, part-time and temporary employees and the source of funding for these employees as required by the legislation.

We have agreed going forward that we will assist the District in developing a more useful format for future quarterly financial reports.

Information on the exact number of District personnel is difficult to verify. Different sources of funding and the lack of an integration between the personnel, payroll and budgeting systems makes it very difficult to establish the exact number of personnel on board.

District personnel positions are financed by both appropriated and nonappropriated funds. The District reports personnel data in a variety of ways, including FTEs, the number of personnel receiving paychecks, and full-time, on-board staff. An FTE is used to measure the number of equivalent positions and takes into account how many hours are actually being worked. For example, two employees working half time, would be counted as one FTE.

The DC fiscal year 1995 Appropriation Act required that the number of FTE positions financed from appropriated funds not exceed 33,588, which is 2,000 FTEs below the 35,588 contained in the 1995 budget. Table 2, on page 9 of my written statement, shows information on District FTEs.

On February 17, the District announced that it had reduced the number of FTEs by 3,585, to 32,530. This total is below the 33,588 required in the legislation, but further explanation is needed.

Although the District said it cut more than 3,000 positions, some of these positions were not filled as of the end of fiscal year 1994. Specifically, as of September 1994, there were 33,675 actual FTEs on board. Therefore, the actual reduction since the beginning of the fiscal year in actual FTEs is 1,145.

In making the announcement of February 17, the District outlined specific reductions by agency that had occurred because of incentive retirement programs and attrition. However, the number of reductions reported are significantly higher than the actual decline in FTEs. Several specific examples might highlight these seeming inconsistencies.

Metropolitan Police Department, the District announcement showed 347 staff departures, the actual FTE data showed 162 fewer FTEs. The Department of Human Services, the District's announcement showed 713 staff departures, the actual FTE data showed 464 fewer FTEs. And DC public schools, the District announcement showed 90 staff departures, the actual FTE data showed an increase of 404 FTEs.

The District explained that some vacant positions would be refilled due to court orders or other mandates. We are continuing to develop and review information on District personnel. During the
first part of fiscal year 1995, the District's attention was almost entirely on efforts to obtain the $250 million in short-term borrowing.

The key action during this period of time was a consensus agreement among the DC council chairmen and then Mayor and Mayor-elect, that included management actions and initiatives to reduce potential overspending and cut costs, a budget that would show $140 million in budget cuts mandated by the Congress and a positive cash forecast.

Table 3, on page 11 of my statement, outlines the council actions from last December. The DC council passed a revised budget on December 21 that included expenditures reductions and revenue increases of $448 million and increased agency allocations and reprogrammings of $309 million. The net reduction of $139 million included only $90 million in expenditure cuts and $40 million in additional revenue. The net amount essentially equaled $140 million congressional mandate, but the Congress had ordered that all of the $140 million in expenditure—in cuts from expenditures.

On February 7, the council rescinded the $40 million revenue increase, reducing the net council actions on the fiscal year 1995 budget to $99 million. Although the net result of the council action has been $99 million in cuts, these reductions have not been allocated to approve spending plans.

The District government also adopted an apportionment procedure in an attempt to control spending, but this process does not appear to be reducing spending either. The District directed agencies to limit spending to 25 percent of their appropriation in the first quarter and 15 percent in the second quarter. However, these apportionments were also based on the originally submitted "pre-$140 million cut" budget. In addition, the apportionment process could only be delaying rather than reducing expenditures.

Several district agency officials have told us that personnel expenditures alone in the second quarter would exceed the 15 percent apportionment. For example, DC General Hospital officials said that payroll costs in the second quarter would consume all of their apportionment, and fire and emergency medical services officials said that the February 17 firefighter payroll put them over their allocation. DC schools said that all of their allocation would be expended when they pay the March 1 teacher payroll.

Although the District is continuing to process payroll even though the apportionments are being exceeded, agency officials told us that the result is that they have no funds to purchase supplies. Fire and emergency medical services officials said that their inability to purchase supplies could be an extremely serious condition.

The apportionment process also does not apply to entitlement payments such as Medicaid, as any entitlement in payment is approved regardless of the agency's apportionment limit.

On February 1, 1995, the Mayor announced overspending in the District agencies could result in a $3.89 billion in expenditures or $631 million over the $3.25 billion expenditure limit established by the Congress. The District said that this deficiency was comprised of Medicaid cost settlements and adjustments, agency overexpenditures, and the required $140 million in congressionally mandated cuts. In addition, the Mayor explained that there was a
$91 million cash shortage, making the total shortfall come to $722 million.

Table 4, on page 13 of my written statement, which also has been reproduced as a chart, should be referred to. To address the $631 million in agency overspending, the District has proposed that $267 million of the shortfall be covered by additional funds from the Federal Government and that the Congress rescind the $140 million in budget cuts.

Rescinding the $140 million would allow the District to use the surplus budget authority built into the District budget when the Congress ordered the cuts and eliminate this portion of the penalty outlined in the Appropriation Act.

The remaining $224 million would be addressed by the District’s spending reductions as identified in agency spending plans. However, many of the cuts in these plans are not specific and, in some cases, have already been superseded by other events.

The District has informed us it will formally submit a revised supplemental budget for fiscal 1995 to the District council by March 8. Adjustments to this basic framework could occur.

Table 5, on page 14, discusses some of the issues related to Medicaid spending and budget changes. The largest action in the District’s plan to close the revenue-spending gap in fiscal year 1995, is receiving $267 million in additional Federal payment ostensibly because of Medicaid. The District said that the appropriated portion of Medicaid expenditures would climb to $550 million in fiscal year 1995, or $267 million more than the congressionally approved budget.

The District’s estimate of $260 million includes $152 million that is not needed in cash for fiscal year 1995. Routine Medicaid cost adjustments that occur after the fiscal year has ended are not new and the amount of cost changes have grown.

Until this fiscal year, anticipated costs such as the $82 million, would not be included in current year budget expenditures. The expenditures resulted from such cost settlements—resulting from such cost settlements are rolled forward to the next fiscal year and included in budgets for that year. The net effect of this budget change is an $82 million increase in budgeted expenditures for fiscal year 1995 and a corresponding increase in the projected deficiency.

Furthermore, the $82 million increases the District’s proposed cash needs to $267 million for the Medicaid program while the related payments would not be made until sometime in fiscal year 1996 or later.

The District’s estimated needs of $267 million also included $30 million in cost savings planned for fiscal year 1995, and another $40 million representing Medicaid costs that one District agency pays to a component of that agency. Accordingly, $152 million of the $267 million in cash the District plans to ask from the Federal Government will not be needed to pay for expenditures in fiscal year 1995 and represents cash that has the risk of being used for other purposes.

As we noted earlier, the District has had cash problems over the last few years. The overspending outlined and the District’s own admission that additional Federal revenues are needed to balance
the budget, demonstrate that the District will run out of cash un-
less additional funds are obtained.

The chart in front of you is reproduced from table 6, on page 16 of
my written statement. The District's most recent cash-flow pro-
jections for fiscal year 1995 were included as a part of the quar-
terly financial report.

The statement projected that the ending cash balance for fiscal
year 1995 will be $50 million, but this projection is based on many
unapproved actions, double counting of some items and other un-
supported financial data. When taken together, these questionable
items result in a cash projection of negative $400 million at the end
of the fiscal year. The chart also includes the impact on cash of the
$224 million in additional overspending identified by the Mayor on
February 1.

Because some of this overspending involves a change in budget
procedures, approximately $72 million of this overspending could
affect cash, thus increasing the projected year-end cash deficit to
nearly half a billion dollars if these initiatives are not successfully
implemented.

In summary, Mr. Chairman, and I apologize for the length of
time it has taken for me to deliver this oral statement, the District
is facing an enormous financial crisis which has increased since our
report in June. The District's projected actual spending is signifi-
cantly above the approved budgets, and the District has cash now
only because it is not paying hundreds of millions in bills. The Dis-

District’s plans to address the current financial situation must include
major structural and management initiatives in order for those
plans to be effective. The District faces even greater revenue and
expenditure gaps in the future, so it is important that action be
taken immediately.

That completes my oral statement. My colleagues and I will be
glad to answer any questions you may have.

[The prepared statement of Mr. Hill follows:]

PREPARED STATEMENT OF JOHN W. HILL, JR., DIRECTOR, FINANCIAL MANAGEMENT
POLICIES AND ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION,
U.S. GENERAL ACCOUNTING OFFICE

Chairman Walsh, Chairman Davis, and Members of the Subcommittees:

Although it is a pleasure to appear before you today to discuss the District of Co-

lumbia's financial situation, I only wish the news we have to give could be more

positive. Last summer, we issued a report that discussed the District's cash and

budget situation and concluded that the District is faced with both unresolved long-

term financial issues and continual short term financial crises.\footnote{Financial Status: District of Columbia Finances (GAO/AIMD/GGD-94-172BR) June 22, 1994.} In that report we

explained how cash balances declined even though budgets were balanced. Last fall,

in response to the growing financial crisis, Congress mandated $140 million in re-
ductions to expenditures for the District's fiscal year 1995 appropriation and re-
duced the federal payment by $14 million, and took several actions to strengthen
reporting of information to Congress.

Despite these actions, the District's financial situation has continued to deterio-
rate. Earlier this month the District's annual financial statements for fiscal year

1994 reported the largest annual budget deficiency since Home Rule. The District

defered payment of more than $500 million in bills at the end of fiscal year 1994.

Last December to meet critical cash needs, the District had to obtain $250 million

in short-term borrowing, months earlier than the cash forecast had shown, and just

last week two financial investment services lowered the District's bond ratings, one

of them to below investment grade.
The District's future financial situation continues to be bleak. As I will explain in more detail later, the District has abandoned its earlier plans to close the spending gap on its own and now seeks substantial federal assistance. According to the District's own estimates, fiscal year 1995 expenditures could be nearly $3.9 billion, $631 million above the $3.25 billion congressionally mandated spending cap. The District has proposed to reduce this gap through its own efforts by $224 million and has indicated that the remaining $407 million be closed by $267 million in additional federal funds and the lifting of the $140 million congressionally mandated spending cut.

The District's cash position is especially precarious. Given the continued spending levels above budgeted amounts, it is now clear that the District will run out of cash this summer. In fact, today the District is insolvent—it does not have enough cash to pay all of its bills.

My written statement today addresses the following areas:

1. the evolution of the District's crisis,
2. congressional actions related to the fiscal year 1995 budget,
3. our analysis of the District's fiscal year 1995 first quarter financial report,
4. the District's recent actions to address the financial crisis, and
5. the District's cash situation.

To develop information for this testimony, we met with various District officials, including extensive meetings with the District's Office of Financial Management. We also met with officials of the accounting firms, Bert Smith and Company and Coopers & Lybrand, who audited the fiscal year 1994 financial statements. We are currently evaluating the results of that audit. We began this current phase of our work in October 1994 and our work on both the District's financial situation and the fiscal year 1994 financial statement audit is continuing.

We did this work in accordance with generally accepted government auditing standards; however we did not verify the accuracy of information obtained from the District's financial and management information systems. We have attempted to ensure that data we use in this testimony is accurate, but because of the poor state of the District's information systems, some data may need to be adjusted as we continue our work.

Included in attachment I of my statement is a time line of major events that have occurred since we issued our report last summer. As I go through my statement, it may be useful to refer to this timeline. First, I want to briefly discuss the evolution of the District's financial crisis.

**THE EVOLUTION OF THE DISTRICT'S FISCAL CRISIS**

The District of Columbia is a unique entity, being the only governmental unit with responsibilities traditionally executed by state and county, as well as city, governments. As such, it provides a variety of services and programs for its residents and visitors, including police and fire protection, local transportation, Medicaid, hospital care, sanitation, employment assistance, education, and housing. The District currently provides these services with a total budget of $4.4 billion in general fund revenues. The Congress appropriates approximately $3.8 billion of this total. These appropriated revenues include a federal payment of about $650 million and $2.7 billion of locally generated income taxes, property taxes, sales taxes, and other local sources of revenue. In addition, the District receives approximately $1.1 billion in non-appropriated funds that include federal grants, as well as reimbursements for services. The largest of these non-appropriated funds are the federal portions of the Medicaid and Aid for Families with Dependent Children programs. The District's annual federal payment is intended to compensate the District for nonreimbursed services provided to the federal government and deficiencies in the District's tax base resulting from federally imposed limitations on the District's ability to raise certain tax revenues.

Total District revenues have increased by 27 percent since fiscal year 1989. The largest percentage growth has occurred in the non-appropriated funds and the federal payment which grew at 66 percent and 43 percent, respectively. During the same period, the District's local sources of revenue grew by 13 percent.

The District of Columbia Self-Government and Governmental Reorganization Act (Housing Act), Public Law 93–196, confers limited autonomy to the District and provides for congressional oversight. For example, the act requires the District to submit balanced budgets to the Congress and precludes the District from obligating or expending funds unless approved by the Congress. The District annually prepares budgets that include appropriated general fund revenues and expenditures, a capital projects plan for the next 5 years, and a five year financial plan.
In the 1980's the District's general fund operated with revenues in excess of expenditures in most years. From 1991 through 1993, the District submitted budgets to the Congress that showed expenditures and receipts in balance. However, even though the budgets were balanced and despite receiving cash from a $331 million general obligation bond in 1991, the city's cash position declined substantially. During this period, various factors helped the District balance its budget, including nearly $400 million in increased federal payments and $225 million in additional budgetary authority from other measures. These other measures included transferring funds from the Water and Sewer Fund, not recording a Washington Metropolitan Area Transit Authority payment when due against appropriated expenditures, and changing the legal definition of the property tax year.

After 3 years of positive general fund balances, the District recorded a $335 million deficiency in fiscal year 1994. Of this total deficiency, $116.8 million was in appropriated funds. Deficiencies were recorded in most appropriated expenditure functions and subfunctions, including Health and Welfare (primarily Medicaid), $71 million; Schools, $14 million; Fire, $13 million; Police, $12 million; and Public Works, $21 million. The remaining $218.6 million resulted primarily from adjustments related to Medicaid and D.C. General Hospital. The Medicaid increase relates to cost settlements of prior year Medicaid program costs that the District will be required to repay to the federal government during fiscal year 1995. The $85 million adjustment for the D.C. General Hospital receivable recognizes that the D.C. General Hospital loans may be uncollectible since the hospital continues to operate at a loss.

Although between fiscal years 1991 and 1993, the District's general fund has shown small surpluses, the District's cash position steadily deteriorated. At the end of each year the District has increasingly relied on the federal payment, which is usually received in the first month of the fiscal year, to cover bills from the previous fiscal year. Figure 1 compares the federal payment amount with the bills held over from the previous fiscal year.

**FIGURE 1 PORTION OF CURRENT FEDERAL PAYMENT USED TO PAY PRIOR BILLS**

![Bar chart showing federal payment and prior year bills for fiscal years 1992 to 1996.]

- 1996 Federal Payment includes $132 escrow
- Source: GAO analysis of District Financial Statements and Budget

As is shown in figure 1, in fiscal year 1992 the previous year's bills were about 39 percent of the federal payment. Last fall at the end of fiscal year 1994, the fiscal year 1994 bills were 80 percent of the fiscal year 1995 federal payment. Current trends indicate that the situation could be worse at the end of this fiscal year.
The District has always submitted optimistic cash flow forecasts. As figure 2 shows, forecasted amounts have nearly always exceeded actual amounts in some months by amounts exceeding $200 million.

![Figure 2: Comparison of Actual and Forecasted Cash Balances](image)

Source: GAO analysis of District Treasury data

**CONGRESSIONAL ACTIONS RELATED TO FISCAL YEAR 1995 BUDGET**

The Congress passed the District of Columbia Fiscal Year 1995 Appropriation Act and the Federal Payment Reauthorization Act of 1994 which required a number of actions. Specifically, the 1995 Appropriation Act capped the amount of expenditures for fiscal year 1995 at $3.25 billion, $140 million below the budget that the District submitted to the Congress. It stipulates that total disbursements can not exceed total receipts, and mandates penalties for enforcement of the spending caps. It also limits the total number of full-time equivalent (FTE) positions to 33,585, and required several periodic financial reports.

The potential penalties for overspending contained in the 1995 Appropriation Act are substantial. Assuming that the authorized federal payment for fiscal year 1996 of $660 million is appropriated, the fiscal year 1995 Appropriation Act would require the District to escrow twenty percent of the fiscal year 1996 federal payment or $132 million. The Congress required the escrow to encourage the District to make the spending cuts mandated by the Act and also required the District to pay certain “penalties” to the U.S. Treasury if the fiscal year 1995 spending reductions were not made. As the Act’s conference report explains, the District is to pay from the escrow and, if necessary, other District funds (1) the amount that actual expenditures were not reduced by the $140 million, and (2) the amount, if any, actual disbursements and net payables exceeded actual receipts. Table 1, illustrates the amounts of the “penalties” given various possible spending levels.

<table>
<thead>
<tr>
<th>Hypothetical Examples: Amount that actual expenditures exceed budget and disbursements and net payables exceed receipts</th>
<th>$140 million budget cut penalty</th>
<th>Disbursements over receipts penalty</th>
<th>Total Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 or less</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>$257</td>
<td>140</td>
<td>267</td>
<td>407</td>
</tr>
<tr>
<td>$407</td>
<td>140</td>
<td>407</td>
<td>547</td>
</tr>
<tr>
<td>$631</td>
<td>140</td>
<td>631</td>
<td>771</td>
</tr>
</tbody>
</table>

*These hypothetical examples assume that the amount actual expenditures exceed the budget and disbursements exceed receipts are equal. In actual practice, these amounts should probably be different.*

Source: GAO calculations.
Both acts also require several periodic financial and performance reports. For example, the Federal Payment Reauthorization Act of 1994 requires the Mayor to submit to the Congress:

— an annual performance accountability plan (beginning March 1, 1995) for all departments, agencies and programs, including the performance goals;
— an annual performance accountability report (beginning March 1, 1997) that discusses actual performance achieved compared to the goal and the status of any court orders applicable during the year and actions taken to comply;
— an annual 5-year financial plan for the District (beginning March 1, 1995) that describes the steps to eliminate any differences between expenditures from, and revenues attributable to, each fund of the District during the first 5 fiscal years beginning after the submission of the plan; and
— an annual financial plan report (beginning March 1, 1997) on the extent to which the District was in compliance during the preceding year with applicable requirements of the financial plan.

THE LIMITED USEFULNESS OF THE QUARTERLY REPORT

The 1995 Appropriation Act of 1995 and the Federal Payment Reauthorization Act of 1994 require that the Mayor submit a quarterly financial report beginning January 17, 1995 on the financial and budgetary status of the District. The reports are to include:

— a cash flow statement that includes comparisons of actual to forecasted cash receipts and disbursements for each month and a cash forecast for the remainder of the fiscal year,
— explanations of the differences between actual and forecasted amounts and the impact on cash and the budget,
— an aging of accounts receivable and accounts payable, and
— a report showing full-time equivalent (FTE) positions by type of position and funding source.

To respond to this requirement, on January 17, 1995, the District submitted more than 500 pages of documents. Although some valuable information was included in this data, for the most part, the information is not in a form that is useful to monitor the District's financial situation. A critical part of the report was a revised cash flow statement. We will comment on this cash flow statement later in this testimony.

Another part of the quarterly financial report included a report from the District's financial management system to show first quarter expenditures. The report neither included summaries or analysis of the data, nor projections of expenditures for the remainder of the fiscal year. This makes it impossible to use this report to compare actual first quarter expenditures with budgeted amounts or to project year-end expenditures.

Other parts of the quarterly financial report also did not provide useful information. The lists of unpaid vouchers (payables) and accounts receivable also were not summarized in the report. The legislation called for an aging of payables and receivables. The lists of payables included a date for each line item, but this date is the date the voucher was entered in the District's financial management system and not the date of the voucher. This date is even more meaningless for this listing, because in the first quarter, as a part of the District's efforts to control cash, vouchers were held for extended periods before being entered in the system.

The quarterly financial report also included some data on the District's number of FTE personnel for various periods. However, the District did not submit several categories of required information on personnel, including information on the actual number of full-time, part-time, and temporary employees, and the source of funding for these employees.

We have agreed to assist the District in developing a more useful format for future quarterly financial reports.

DISTRICT DATA ON PERSONNEL IS CONFUSING

Information on the exact number of District personnel is difficult to verify. Different sources of funding compounded by the lack of integration among the payroll, personnel, and budgeting systems makes it very difficult to establish the exact number of personnel on board. District personnel positions are financed by both appropriated and non-appropriated funds. The District reports personnel data in a variety of ways including FTEs, the number of personnel receiving paychecks, and full-time on-board staff. An FTE is used to measure the number of equivalent positions and takes into account how many hours are actually being worked. For example, two employees working half-time would be counted as one FTE.
Reducing the number of District personnel has been a stated management initiative for several years. Based on information from the District, between the first quarter of fiscal year 1993 and the first quarter of fiscal year 1995, the number of actual FTEs decreased from 46,422 to 44,438. During this period appropriated positions decreased from 36,475 to 34,394 and non-appropriated positions increased from 9,947 to 10,044.

Section 141 of the District of Columbia Fiscal Year 1995 Appropriation Act required that the total number of FTE positions financed from appropriated funds not exceed 33,588, which is 2,000 FTEs below the 35,588 contained in the original fiscal year 1995 budget. On February 17, 1995, the District announced that it had reduced the number of FTEs by 3,058 to 32,530. This total is below the 33,588 ceiling, but the number of reductions needs further explanation. Although, the District said it cut more than 3,000 positions, some of these positions were not filled as of the end of fiscal year 1994. Specifically, as of September 1994 there were 33,675 actual FTEs on board. Therefore, the actual reduction since the beginning of the fiscal year in actual FTEs is 1,145. Table 2 shows this data and also provides the number of actual FTEs during the period the fiscal year 1995 budget was being developed.

<table>
<thead>
<tr>
<th>Table 2: District of Columbia FTEs</th>
<th>Original Fiscal Year 1995 Budget</th>
<th>Actual FTEs on board when budget was developed (1st Quarter of Fiscal Year 1994)</th>
<th>Actual FTEs on board as of September 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FTEs</td>
<td>35,588</td>
<td>34,482</td>
<td>33,675</td>
</tr>
<tr>
<td>Current FTEs</td>
<td>32,530</td>
<td>32,530</td>
<td>32,530</td>
</tr>
<tr>
<td>Difference</td>
<td>3,058</td>
<td>1,952</td>
<td>1,145</td>
</tr>
</tbody>
</table>

Source: District of Columbia personnel data.

In making the announcement on February 17, the District outlined the specific reductions by agency that had occurred because of incentive retirement programs and attrition. However, the number of reductions reported are significantly higher than the actual decline in FTEs. Several specific examples highlight these seeming inconsistencies:

—Metropolitan Police Department: the District’s announcement showed 347 staff departures, the actual FTE data showed 162 fewer FTEs;
—Department of Human Services: the District’s announcement showed 713 staff departures, the actual FTE data showed 464 fewer FTEs; and
—D.C. Public Schools: the District’s announcement showed 90 staff departures, the actual FTE data showed an increase of 404 FTEs.

The District explained that some vacant positions would be refilled due to court orders or other mandates. We are continuing to develop information on District personnel.

**DC HAS NOT ADDRESSED THE SPENDING PROBLEM**

Even though mandated by the Congress to cut its spending by $140 million from its fiscal year 1995 budget submitted to the Congress, the District has not reduced spending. The Congress mandated that total appropriated expenditures not exceed $3.25 billion in fiscal year 1995, but according to the District’s own estimates, District appropriated expenditures this year could be nearly $3.9 billion. District officials said they would reduce this overspending by $224 million, but planned to ask the federal government to cover the remaining $407 million. Various actions have been taken by the previous and current Mayor and the District Council to address overspending, but very little actual spending reduction has occurred. Even though the sixth month of the fiscal year begins next week, District agencies are still operating on spending plans based on the originally submitted budget before the congressionally-mandated $140 million in cuts.

**INITIAL DISTRICT ACTIONS TO ADDRESS OVERSPENDING**

During the first part of fiscal year 1995, the District’s attention was almost entirely on what was necessary to obtain the $250 million in short-term borrowing. The key action during this period was a consensus agreement among the D.C. Council Chairman and the current and former Mayor that included management actions and initiatives to reduce potential overspending and cut costs, a budget that would show $140 million in budget cuts mandated by the Congress, and a positive cash forecast based on the two aforementioned items. The D.C. Council passed a revised
budget on December 21 that included (1) expenditure reductions and revenue increases of $448 million and (2) increased agency allocations and reprogrammings of $309 million. The net reduction of $139 million included only $99 million in expenditure cuts and $40 million in additional revenue. The net amount essentially equaled the $140 million congressional mandate; but the Congress had ordered that all of the $140 million be in expenditure cuts.\(^2\) Table 3 outlines the Council's actions last December.

Table 3: Summary of DC Council Actions

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council actions:</td>
</tr>
<tr>
<td>Council cuts</td>
</tr>
<tr>
<td>Net revenue increases</td>
</tr>
<tr>
<td>Unallocated budget reductions</td>
</tr>
<tr>
<td><strong>Total actions</strong></td>
</tr>
<tr>
<td>Council reallocations:</td>
</tr>
<tr>
<td>Additional cash needs</td>
</tr>
<tr>
<td>Increased agency budgets</td>
</tr>
<tr>
<td>Reprogrammings</td>
</tr>
<tr>
<td><strong>Total reallocations</strong></td>
</tr>
<tr>
<td><strong>Net impact of council actions</strong></td>
</tr>
</tbody>
</table>

Source: GAO analysis of data from the D.C. Council

Although, the net result of Council actions has been $99 million in cuts, these reductions have not been allocated to approved spending plans. As a result, District agencies are still operating on "pre-$140 million cut" spending plans.

The District government also adopted an apportionment procedure in an attempt to control spending; but this process does not appear to be reducing expenditures. The District directed agencies to limit spending to 25 percent of their appropriation in the first quarter and 15 percent in the second quarter. However, these apportionments were also based on the originally submitted "pre-$140 million cut" budget. In addition, the apportionment process could only be delaying rather than reducing expenditures.

Several District agency officials told us that personnel expenditures alone in the second quarter would exceed the 15 percent apportionment. For example, D.C. General Hospital officials said that payroll costs in the second quarter would consume all of the apportionment, and Fire and Emergency Medical Service officials said that the February 17 firefighter payroll put them over their allocation. D.C. Schools said that all of their allocation would be expended when they pay the March 1 teacher payroll.

Although, the District is continuing to process payroll even though the apportionments are being exceeded, agency officials told us that the result is that they have no funds to purchase any supplies. Fire and Emergency Medical Services officials said that their inability to purchase supplies could be extremely serious. The apportionment process also does not apply to entitlement payments (e.g., Medicaid), as any entitlement payment is approved regardless of the agency's apportionment limit.

THE $722 MILLION PROBLEM

On February 1, 1995, the Mayor announced that overspending in District agencies could result in $3.89 billion in expenditures or $631 million over the $3.25 billion expenditure limit established by the Congress. The District said that this deficit was comprised of Medicaid cost settlements and adjustments, agency overexpenditures, and the required $140 million in congressionally mandated cuts. In addition, the Mayor explained that there was a $91 million cash shortage, making the total shortfall $722 million.

To address the $631 million in agency overspending, the District has proposed that $267 million of the shortfall be covered by additional cash from the federal government and that the Congress rescind the $140 million in budget cuts. Rescinding the $140 million would allow the District to use the surplus budget authority built

\(^2\) On February 7, 1995, the D.C. Council rescinded the $40 million revenue increase, reducing the net Council actions on the fiscal year 1995 budget to $99 million.
into the District budget when the Congress ordered the cuts and eliminate this portion of the penalty outlined in the Appropriation Act. The remaining $224 million, would be addressed by District spending reductions as identified in agency spending plans. However, many of the cuts in these plans are not specific and in some cases have already been superseded by other events. Table 4 shows how the District is budgeting for fiscal year 1995.

Table 4: How the District Is Budgeting for Fiscal Year 1995

<table>
<thead>
<tr>
<th>Description</th>
<th>Dollars in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Current Spending Budget:</td>
<td></td>
</tr>
<tr>
<td>The District's for spending</td>
<td>$3,394</td>
</tr>
<tr>
<td>Congressional mandated cuts</td>
<td>(140)</td>
</tr>
<tr>
<td>Budget appropriated by the Congress</td>
<td>3,254</td>
</tr>
<tr>
<td>How the District Responded:</td>
<td></td>
</tr>
<tr>
<td>Rescinding the congressional cuts</td>
<td>$140</td>
</tr>
<tr>
<td>Requesting federal relief for Medicaid</td>
<td>267</td>
</tr>
<tr>
<td>Total federal actions anticipated by the District</td>
<td>407</td>
</tr>
<tr>
<td>Additional overspending</td>
<td>224</td>
</tr>
<tr>
<td>Total overspending</td>
<td>631</td>
</tr>
<tr>
<td>Total projected expenditures</td>
<td>3,885</td>
</tr>
<tr>
<td>District proposal to reduce spending</td>
<td>224</td>
</tr>
<tr>
<td>Resulting budget</td>
<td>3,661</td>
</tr>
</tbody>
</table>


The District has informed us that it will formally submit a revised supplemental budget for fiscal year 1995 to the District Council by March 8, 1995. Adjustments to the basic framework outlined in table 4 may occur.

MEDICAID SPENDING AND BUDGETING CHANGES

The largest action in the District's plan to close the revenue-spending gap in fiscal year 1995, is receiving $267 million in an additional federal payment ostensibly because of Medicaid. The District said that the appropriated portion of Medicaid expenditures would climb to $550 million in fiscal year 1995 or $267 million more than the congressionally approved budget. However, as shown in Table 5 below, the District's estimate of $267 million includes $152 million that is not needed in cash in fiscal year 1995:

Table 5: Analysis of Increase in Medicaid Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>Dollars in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revised Medicaid budget:</td>
<td>$550</td>
</tr>
<tr>
<td>Less: Original Medicaid budget</td>
<td>283</td>
</tr>
<tr>
<td>Amounts over original budget</td>
<td>267</td>
</tr>
<tr>
<td>Portion of revised budget not affecting fiscal year 1995 cash:</td>
<td></td>
</tr>
<tr>
<td>1995 estimated cost settlements</td>
<td>$82</td>
</tr>
<tr>
<td>Cost savings planned during 1995</td>
<td>30</td>
</tr>
<tr>
<td>Expenses the District pays itself</td>
<td>40</td>
</tr>
<tr>
<td>Portion of budget increase that affects cash</td>
<td>152</td>
</tr>
</tbody>
</table>

Source: GAO analysis of District of Columbia Department of Human Services data.

Routine Medicaid cost adjustments that occur after the fiscal year has ended are not new and the amount of the cost changes have grown. Until this fiscal year, anticipated costs, such as the $82 million mentioned above, would not be included in current year budget expenditures. The expenditures resulting from such cost settlements are rolled forward to the next fiscal year and included in budgets for that year. The net effect of this budget change is an $82 million increase in budgeted expenditures for fiscal year 1995 and a corresponding increase in the projected deficit. Furthermore, the $82 million increases the District's proposed cash needs to $267 million for the Medicaid program while the related payments would not be made until fiscal year 1996 or later.

The District's estimated needs of $267 million also included $30 million in cost savings planned for fiscal year 1995 and another $40 million representing Medicaid costs that one District agency pays to a component of that agency. Accordingly, $152 million of the $267 million in cash the District plans to ask for from the Federal government will not be needed to pay for any expenditures in fiscal year 1995 and represents cash that has the risk of being used for other purposes.
WHEN WILL THE DISTRICT RUN OUT OF CASH?

As we noted earlier, the District has had cash problems over the last few years. The overspending outlined above and the District's own admission that additional federal revenues are needed to balance the budget demonstrate that the District will run out of cash unless additional funds are obtained.

The District's most recent cash flow projections for fiscal year 1995 were included as a part of the quarterly financial report. The statement projected that the ending cash balance for the fiscal year on September 30, 1995, will be $50 million. But this projection is based on many unapproved actions, double counting of some items, and other unsupported financial data. When taken together, these questionable items result in a cash projection of negative $400 million at the end of the fiscal year. The chart also includes the impact on cash of the $224 million in additional overspending identified by the Mayor on February 1. Because some of this overspending involves revised budget procedures, approximately $72 million of this overspending could affect cash, thus increasing the projected year-end cash deficit to nearly half a billion dollars. These analyses are shown in Table 6.

Table 6: Analysis of Cash Flow Projections

<table>
<thead>
<tr>
<th>[dollars in millions]</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECEMBER 12, 1994</td>
</tr>
<tr>
<td>Cash balance projected at 9/30/95 .............................................. $50</td>
</tr>
<tr>
<td>Cash flow assumptions at risk:</td>
</tr>
<tr>
<td>Congressionally mandated cuts ................................................. $140</td>
</tr>
<tr>
<td>Federal payment reduction .................................................................. 14</td>
</tr>
<tr>
<td>Transition initiatives 1 ..................................................................... 253</td>
</tr>
<tr>
<td>Additional unallocated cost reductions ............................................. 100</td>
</tr>
<tr>
<td>Less: Errors in forecast 2 ................................................................... (65)</td>
</tr>
<tr>
<td>Total reductions not made ................................................................. 267</td>
</tr>
<tr>
<td>Net assumptions at risk that could reduce cash .................................... (442)</td>
</tr>
<tr>
<td>Adjusted cash balance based on December 12, 1994 actions .................. (392)</td>
</tr>
<tr>
<td>FEBRUARY 1, 1995</td>
</tr>
<tr>
<td>Additional overspending ..................................................................... $724</td>
</tr>
<tr>
<td>Portion of spending not affecting cash ............................................... (152)</td>
</tr>
<tr>
<td>Total overspending affecting cash in fiscal year 1995 .......................... 72</td>
</tr>
<tr>
<td>Potential cash balance at September 30, 1995 ..................................... (464)</td>
</tr>
</tbody>
</table>

1 Transition initiatives are actions and cost reductions reported and counted in the District's cash flow projections; but District officials have acknowledged that these initiatives have not been approved for implementation. These initiatives included such items as wage adjustments, agency consolidations, and employee furloughs.
2 Represents amounts used in transition estimates that decrease agency spending estimates (disturbances). Some of these decreases were included twice in the District's cash forecast.
3 Source: GAO analysis of District's cash flow forecasts.

In summary, Mr. Chairman, the District is facing an enormous financial crisis which has increased since our report in June. District spending is significantly above approved budgets, and the District only has cash now because the District is not paying hundreds of millions in bills. The District's plans to address its current financial situation does not include any major structural and management changes even though the District faces even greater revenue-expenditure gaps in the future.

We are continuing to monitor the District of Columbia's finances as the District addresses these financial challenges. That concludes my statement, my colleagues and I will be glad to answer any questions that you or other Members of the Subcommittee may have at this time.

KEY DISTRICT EVENTS SINCE JUNE 1994

June 24, 1994—GAO Report
July 14, 1994—Fiscal Year 95 appropriations bill introduced to House
September 7, 1994—District mayoral primary
September 30, 1994—Appropriations Act requires cuts of $140 million
October 19, 1994—1996 federal payment authorized
October 29, 1994—Incumbent mayor submits budget to Council with $140 million cuts
November 8, 1994—District mayoral election
November 15, 1994—District accelerates plan to borrow $250 million
December 12, 1994—"Consensus" plan to Wall Street with transition team cuts
December 21, 1994—Council passes separate set of budget cuts
January 3, 1995—District borrows $250 million
January 17, 1995—District first quarter financial report
February 1, 1995—Comprehensive Annual Financial Statements released
February 14, 1995—Standard & Poor's lowers District bond rating
February 15, 1995—Moody's lowers bond rating below investment grade
March 8, 1995—1995 Supplemental Budget and 1996 Budget to Council
April 17, 1995—Second quarter financial report due

**Portion of Current Federal Payment Used to Pay Prior Bills**

*in Millions of Dollars*

![Chart showing portion of current federal payment used to pay prior bills from 1991 to 1996, with 1996 estimated at $132 Escrow.]

* 1996 Federal Payment includes $132 Escrow

Mr. **Davis**. Thank you very much for that testimony, Mr. Hill. I hope every Member here, as well as the District officials, and residents of the city, listen well, because this may be the first time they can truly understand how badly off the District of Columbia is and what actions have to be brought to remedy this situation.

I will start the questioning by having you go over the $335 million deficit for fiscal year 1994 reported in the comprehensive annual financial report. Could you break those numbers down and explain the components of that total?

Mr. **Hill**. Yes, there are a number of pieces in the $335 million deficiency. Several of the pieces related specifically to Medicaid accruals that were being made in order to account for expenditures that had not been paid yet but that were certainly due to Medicaid activities in the prior year and for that current year.

Also, there were amounts, there was a reserve for the DC General receivable of $85 million, which was basically loans that were made to the DC General Hospital. Actually, we consider those loans to be made in lieu of subsidies given to the hospital.

It became clear to us last year that these amounts were not indeed loans, but they were actually subsidies that were being made to the District—to the General Hospital.
Mr. Davis. The fiscal year 1994 deficit, as it actually impacts 1995 spending, would be reduced to $250 million because $85 million would be taken out of it.

Mr. Hill. It would be reduced if you took the $85 million out of it.

Mr. Davis. The $103 billion in Medicaid costs added to the 1994 deficit, are those real numbers that have a cash impact on 1995 spending?

Mr. Hill. Yes.

Mr. Davis. OK, what is the fiscal year 1994 deficit carryover that actually impacts on fiscal year 1995 spending? Do you have a ballpark figure?

Mr. Hill. It would pretty much be some of the allowances and accruals that they are making. In fact, we have referred to the total amount on one of the charts, and it might be a good idea to go back to the Medicaid chart, which is included in the testimony.

Mr. Davis. I guess the other question is how do you run deficits in nonappropriated accounts?

Mr. Hill. Well, one of the ways that you run a deficit in a nonappropriated account is by actually recording the accrual in that account in lieu of recording that accrual in the appropriated funds. If they had actually budgeted for those amounts in the appropriated funds, then those would be recorded in the appropriated funds. The $85 million is a very good example.

Since we view those as basically amounts that should have been considered subsidies to the hospital, those amounts, we feel, should have been included in the appropriated funds.

Mr. Davis. Are you going to go back to the deficit carryover, impact on the fiscal year 1995 spending.

Mr. Hill. Yes, I am going to let, Laura, could you? On the Medicaid spending.

Ms. Triggs. The $103 million that you see in the $335 is the amount estimated to be paid in 1995. The difference between what is here on the deficit and 1995 budget is there is an additional $82 million added into the 1995 expenditure budget that may or may not affect cash, so the number that you see in the 1994 statements could affect cash in 1994, but it is an additional piece that is added to the budget for 1995. Basically, you have 2 years in 1995, and it is this additional piece that may not affect cash in 1995.

Mr. Davis. OK. My last question has to do with what you alluded to it in your remarks. I wondered if you could clarify it. Right now, under the Appropriations Act that Congress passed in the last session and was signed by the President, the extent to which the District spends over $3.25 billion, the District must return back to the Federal Treasury dollar for dollar for every dollar they are over-spending.

Mr. Hill. Well, certainly it is a return dollar for dollar, but it is also a cut—and it could very well, at the rates that we are looking at now, it could very well eat up the entire Federal payment for 1996.

Mr. Davis. OK. That is the current state of the law. Any change in that, would have to come from DC appropriations committee.

Mr. Hill. Exactly.
Mr. Davis, I will yield to Mr. Walsh, recognize the gentleman from New York.

Mr. Walsh. Thank you, Mr. Chairman. I would like to thank the GAO for their testimony and for the work they have done. I know it is not fun to be coming up with this kind of information, but you have done an excellent job, and it has helped us enormously.

I would like to ask a rather obvious question to me, but the answer I think is obvious. In any event I would like to ask it again. Has the District government met its commitments to the Federal Government based on the 1995 Appropriations Act, which called for a cut of $140 million, a reduction of 2,000 full-time filled positions and submission of quarterly financial reports, those three?

Mr. Hill. We would see—we see no plans that indicate that the District will only spend $3.2 billion this year. In fact, the plans indicate that they will go over, so in that regard, no, they have not met that commitment, and we saw some deficiencies, a number of deficiencies in the report, the first quarter report, and so we do have problems with them having met that requirement as well.

Mr. Walsh. So it is clear to you based on your analysis that the District has not met its commitments to the Federal Government that are required by the 1995 Appropriations Act?

Mr. Hill. Yes, and I think it should be pointed out as well that the budget that the Congress started with was a budget that was the request from the District, so that the Congress cut what was requested only by $140 million, so, but that starting point was an amount given from the District.

Mr. Walsh. That is not a cut in the Federal payment. That is a cut in the total appropriations since we appropriate both Federal and local revenues.

Mr. Hill. Yes, that is true.

Mr. Walsh. I would like to focus just for a second, since the time is so limited, on one issue, and that is on page 5 of your statement, regarding the escrow requirement. The more I look at your statement, the more I believe that this is what has brought us to this point.

As I understand it, assuming the Federal payment would be $660 million, the District would be required to put in escrow 20 percent of that amount in order to cover any overage in spending that they would be penalized for in 1995. So, in fact, referring to the chart on page 6, if the District were to overspend by $100 million, the total penalty is actually closer to $200 million.

Based on your projections, if there is no Federal intervention and we make it through the end of the year without a bankruptcy of the District, what would you estimate the penalty on the District would be, including the escrow in order for us to process an FY 1996 appropriation?

Mr. Hill. It would be the last item on that chart, $631 million overspending. It would be $771 million, which is in excess of the Federal payment.

Mr. Walsh. Coincidentally, that is the same number that the Mayor presented to us several weeks ago as the deficit, but they are totally different numbers, are they not?

Mr. Hill. The $631 million or the $771 million?

Mr. Walsh. I believe it was $722 million.
Mr. HILL. The $722 million, yes, they are different numbers.
Mr. WALSH. Very different numbers.
You have said several times that the District is, for all intents and purposes, insolvent and the cash shortfall is severe. Do you believe that the District—can you tell us right now how much you believe, how much cash you believe the District has on hand today?
Mr. HILL. No, I don't have that number. One of the issues with respect to the amounts that the District has on hand is the actual cash system that they use in order to determine what their cash is. The District certainly knows the amounts that are in their bank accounts. They do know that information.
However, they have some difficulties in determining the outstanding checks, so it would be hard to get an exact number. They basically get a ballpark number. Also, you would have to look at the payables that are outstanding, and we have asked, but have not received a total amount of the payables that are outstanding as of a given day.
Mr. WALSH. Several weeks ago, when we met with Mr. Pohlman, I asked him if he knew how much money the District owes to vendors—how many bills have been held to maintain whatever positive cash-flow there is. And he said he could not answer that question.
Based on your assessment, should the District be able to answer that question?
Mr. HILL. Yes, I think that someone should be able to answer that question. That is an important question to answer. However, because of the systems that the District is using and also because of the fact that basically the Controller's office really would not know the bills that have come in until they are sent from the agency, it would be very difficult for them to find out exactly how much is there unless they go into each individual agency and then really do a search for these bills.
Mr. WALSH. Thank you, Mr. Hill. I am going to run out of time real fast. We will have another opportunity to ask more questions on Friday when our subcommittee meets, and I thank you for your testimony and for all four of you being here today.
Mr. DAVIS. Thank you. I now recognize Ms. Norton for questions.
Ms. NORTON. Thank you, Mr. Chairman.
Mr. Hill, your team also did a report on the District and unfunded pension liability, did it not?
Mr. HILL. Yes.
Ms. NORTON. Do you know of any city which is operating at the moment with a pension fund that is totally unfunded?
Mr. HILL. No, I am not aware of any that is.
Ms. NORTON. So that is unique in the United States for the District. How much of the $5 billion or so unfunded liability is due to costs that go straight to retirees?
Ms. TRIGGS. As you know, the District funds the payments every year that go directly to retirees on an annual basis. The accumulation of the fund balance, the unfunded portion of the fund balance is the estimated payments going forward, and I think that approximates about $3 billion. The current payments have been between $290 million and $310 million a year for the last few years.
Ms. NORTON. What amount does the Federal Government put into this to reduce this unfunded pension liability?
Ms. TRIGGS. They are putting in $52 million a year, which represents the present value of a certain portion of the payment when the pension plan was set up at the beginning of home rule.

Ms. NORTON. What is the total amount that the District has put to reduce this liability as compared with the Federal Government since the matter was transferred to the District?

Ms. TRIGGS. Well, the actual computation for the District is that they are not reducing the unfunded liability, but they are paying the current portion plus some interest on it, so in actuarial terms the unfunded portion stays even, but they have paid what we considered interest over the last 10 years.

Ms. NORTON. Has the District taken what steps it can in order to resolve this unfunded pension problem?

Mr. HILL. I am not aware of all of the steps that the District has taken to resolve the unfunded pension liability problem.

Ms. NORTON. You are not aware of the bill that the District has enacted?

Mr. HILL. Yes, I am aware of the legislation that has been enacted, but you had asked has the District done everything they could in order to solve the problem, and I have not reviewed that specifically.

Ms. NORTON. How much has the District paid out in pension costs that it would not have paid out had the pension plan been fully funded when it was transferred to the District by the Congress?

Mr. HILL. I don't have that information.

Ms. NORTON. I wish you would provide that information for the record.

Mr. HILL. Sure, we would be more than happy to.

[The information referred to follows:]

How much has the District paid out in pension costs that it would not have paid out had the pension been fully funded when it was transferred to the District by Congress?

The District's annual pension expenditure for police officers and fire fighters, teachers, and judges included in the District's annual appropriation does not include any costs that affect the unfunded liability for that pension plan. As we reported in 1992 (GAO/HRD-93-32) and in 1994 (GAO/HEHS-95-40), the District is paying only costs needed to pay retirees expenses in the current year (pay-as-you-go).

The District of Columbia Retirement Reform Act, passed in November 1979, outlines the portion of the unfunded liability of these three plans deemed to be the federal share. The administration indicated at the time the act was passed that a larger payment by the federal government to the fire, police, judges and teachers plan was not warranted because it:

— would overstate the federal government's liability due to abuses in the disability retirement statutes and

— did not take into account federal contributions for District employees covered by the Civil Service Retirement System (CSRS).

In other words, the federal share was considered to be less than 100% of the projected liability because other District employees receive retirement benefits that are subsidized by the federal government.

Since the passage of the act, the portion paid by the District for police officers and fire fighters, teachers, and judges has been comparable to subsidy received for District employees covered under CSRS. Therefore, the District may not have paid out any pension costs that it would not have paid out if it were funding its own pension plans.

Ms. NORTON. Your report does not speak in any detail to court orders. How much of the District's budget is tied up in court orders?
Mr. Hill. Back in our report in June we had actually looked at the amount of the District's budget that was tied up in court orders, and it was a significant portion. It was a hard number for us to come up with because there are several whole programs that are tied up in court orders, so that we couldn't really assess the pieces of the program that were under court order or the actions that had to be taken if it was the whole program.

Back in our report in June we did have some information on that. As a matter of fact, we saw that a significant portion of several activities within the District are covered under court orders, such as some of the things that they are doing with corrections certainly, and, but it was difficult for us to come up with a specific number on that.

Ms. Norton. So even with the best financial management system, it would be difficult to discover that amount? I mean is the financial management system that keeps you from knowing that amount or are there other factors.

Mr. Hill. It is the pervasiveness of some of the court orders as part of the problem because it is hard to determine which portion of the program is under court order, and generally the actions that have to be taken to solve the court order in many cases involve the entire program.

For instance, some of the activities that the District is providing under Medicaid right now in terms of optional payments are indeed under court order, so that any changes in some of those requirements would have to be reconciled with the court order in some way.

Ms. Norton. Can I ask you more about that? These are optional payments that the District is making to residents on Medicaid, and those are mandated on the District so it couldn't get rid of those optional payments at the moment?

Mr. Hill. It couldn't by itself get rid of those optional payments. There would have to be some reconciliation with the court order and probably some involvement specifically with the court specifically.

Ms. Norton. Would there be any way for it to get out of those payments without, in fact, passing a law to handle the problem in the future, to withdraw it from those payments in the future?

Mr. Hill. We have specifically requested that information from the district, and we have not received it yet to take a look at it, and as soon as we do, though, we will be glad to provide our comments for the record.

Ms. Norton. Thank you, Mr. Chairman. My time has run out.

Mr. Davis. Mr. Walsh.

Mr. Walsh. Mr. Dixon.

Mr. Dixon. Yes, Mr. Hill, I want to join the members of the committee in congratulating you on the fine work that you have provided us.

Mr. Hill. Thank you.

Mr. Dixon. You made comments about the nonappropriated budget, but they were very brief, and I am wondering as we talk about some kind of financial oversight whether you would recommend that there be additional controls placed on the nonappropriated budget.
Mr. Hill. I would recommend that the nonappropriated budget also be included with the appropriated budget. The District is somewhat unique in terms of having so much of its budget outside of the appropriation, at least that the Congress would look at, so I would recommend that the two be included together and especially, certainly because of the size, it is a very large portion of the activity that the District undertakes.

Mr. Dixon. I believe the appropriated budget deficit for 1994 was $117 million; is that correct?

Mr. Hill. Yes.

Mr. Dixon. In your professional opinion do you believe that this overspending violated the Antideficiency Act?

Mr. Hill. We are currently looking into that, and one of the reasons that it is very difficult to tell is because with the Antideficiency Act you have to consider whether or not the payments were made for programs that would be considered entitlement-type programs, and so a definition of entitlement programs as it relates to the District, we would have to first come to grips with that definition, and then apply that to the District, so we have not determined that, although clearly with the magnitude of the overspending it appears that there may have been violations.

Mr. Dixon. In the main, those entitlement programs would be in the nonappropriated budget, would they not?

Mr. Hill. Yes, some of them.

Mr. Dixon. Are you familiar with the statement on page 24, paragraph D, the third section of the CAFR?

Mr. Hill. Yes.

Mr. Dixon. Assuming that it is in violation of the Antideficiency Act, would you say that this would warrant a qualified audit opinion?

Mr. Hill. In terms of the opinion on the financial statement, I can only speak in terms of what GAO would have done on that opinion, and GAO would have brought that information up to the opinion. We would have certainly had a middle paragraph in the opinion stating that the District was under severe cash constraints, and we would have considered qualifying the opinion.

Mr. Dixon. And in past years have there been such opinions written?

Mr. Hill. Yes, there was. There was an opinion that was written on the 1990 financial statement by Peat Marwick and a number of other CPA firms that were part of that that it was not a qualified opinion, but it did have a middle paragraph that indicated that the District was under severe cash constraints. At that time the deficit was smaller than the deficit is right now, and the cash problems were less severe than the cash problems are now.

Mr. Dixon. Representative Norton has raised the issue of the unfunded liability in the pension plan, and I agree with her that Congress has to do a better job of funding that. I believe there is $2.7 billion in the fund at the present time. Did your report indicate that it was unfunded?

Mr. Hill. Which report?

Mr. Dixon. She asked you about whether you had examined the pension plan, and you said you had, in fact, written a report. She used the term, "unfunded," and I just——
Ms. TRIGGS. There is a portion that is unfunded and there is a portion that is funded; that is correct.

Mr. DIXON. The question to you, do you know of any jurisdiction, in fact, that has an unfunded plan, your response was, no. But would that include Washington? My only point is that we have to do a lot better job, but I wouldn't want anyone to go away to think that the $52 million a year and the $2.7 billion is a totally unfunded program.

Ms. TRIGGS. That is correct whether we are talking about any other city. The total liability is about $5 billion.

Mr. DIXON. Thank you, Ms. Triggs. I am rather fuzzy, and I have asked this question many times. To what extent is the unfunded liability, which I think is the Federal Government's responsibility, causing either the cash problem or the long-term problem of the District's finances?

Ms. TRIGGS. Well, it certainly is a contributor since it is about 10 percent of the expenditures every year. There are other cities that have comparable numbers. I don't have all those with me, but——

Mr. DIXON. I am sorry, Ms. Triggs.

Ms. TRIGGS. There are other cities that do have large pension payments that they make on an annual basis. I would have to look at, get some statistics on that, but it certainly is a contributor, being such a large percentage.

Mr. DIXON. In other words, if they didn't have to pay roughly $300-some-odd million to the pension plan in any given year, that they could apply that to other parts of the budget, is that——

Ms. TRIGGS. That is correct.

Mr. DIXON. Thank you, Mr. Chairman.

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

Mr. Gutknecht.

Mr. GUTKNECHT. No questions.

Mr. DAVIS. Mr. Frelinghuysen, do you have any questions?

Mr. FRELINGHUYSEN. Thank you, Mr. Chairman. What currently exists in the way of a clearinghouse for debt issuances? Is there such a clearinghouse?

It seems that the District has been borrowing quite a lot of money, short-term and long-term borrowing. Is there actually a central point where all of these borrowings are reviewed?

Ms. TRIGGS. You mean from the District's standpoint?

Mr. FRELINGHUYSEN. Yes.

Ms. TRIGGS. Well, yes, the Office of Treasury, you could ask the District exactly how they go about doing that.

Mr. FRELINGHUYSEN. Well, I am asking you. Is there a central clearinghouse through which all these——

Ms. TRIGGS. Yes.

Mr. FRELINGHUYSEN. There is. To your mind, what is your view of that operation?

Mr. HILL. We haven't specifically looked at that particular issue. We would be more than happy to——

Mr. FRELINGHUYSEN. You have in your June 1994 report on the financial status of the District of Columbia finances, a section on debt issuance, borrowings. That whole area raises some questions about the level of debt.
Could you quantify for me what, on an annual basis, the District has in the way of short-term borrowings? Putting aside the issue for which the dollars are used, it seems to me that one of the things that appears to need some controls is debt issuance. How much in any given year for short-term borrowing and how much in terms of long-term debt?

Mr. HILL. I don’t have those numbers at my fingertips, and I would prefer to provide that for the record, if that would be—

Mr. FRELINGHUYSEN. I would be happy to have you provide that for the record. In your own report it says here, “The District’s annual appropriation specifically states that the mayor shall not expend any moneys borrowed from capital projects for operating expenses of the District of Columbia government.”

It goes on “However, in recent years the District has borrowed from the capital projects fund.” And then it goes on to detail those types of borrowings. Is this a problem area and could you expand on that?

Mr. STEPHENSON. Their own counsel has said that that is appropriate as long as the money is paid back before the end of the fiscal year.

Mr. FRELINGHUYSEN. I saw that statement in this document. Do you agree with that?

Mr. HILL. It specifically says, “The District corporation counsel has concluded the District does not violate its appropriation so long as borrowings from the capital projects fund are repaid before the end of the fiscal year in which the borrowing is made.” That is in quotations.

Mr. FRELINGHUYSEN. Now, general practices of good government are that you don’t borrow money from the debt issuance, especially from a capital account for operating purposes. The General Accounting Office, I assume, agrees with these general principles.

Mr. HILL. Yes. The thing that we would look at and the thing that we are currently looking at at the request of Mr. Dixon last year was what happens in terms of capital borrowing and does that have an impact on the ability of the capital fund to actually then go forward with some of the projects that they have, and we are still looking at that issue right now, and so I would be more than happy to provide that information.

Mr. FRELINGHUYSEN. Putting aside, obviously, the fact that the city still has to run and fund various programs, from my perspective, coming from a State where a number of cities have gotten into fiscal trouble, this is one of the areas which most of the people who do those reviews point to is that there has never been a single group that reviews these types of bond issuances. But you would think that that, perhaps, would be incorporated in what may be developed here?

Mr. HILL. Yes.

Mr. FRELINGHUYSEN. OK. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you very much, Mr. Frelinghuysen. The gentleman from Ohio any questions?

Mr. LaTourette.

Mr. LATOURETTE. Thank you.

Mr. Hill, I want to join my colleagues in thanking you for not only your report today, but your previous appearance. I would like
to follow up on some of the observations you made the last time, if I could, and then ask you about a prospective rather than what is wrong maybe what could be done to fix the problem.

When you were here on February 3, I believe, you made an indication that some of the difficulty you were having in the audit procedure was that documents that had been requested were not forthcoming from the District. Has that situation been rectified since your last appearance?

Mr. HILL. There has been an improvement in the speed with which we are getting those documents. We met directly with the Mayor and the Mayor has made it a priority with his staff to get us documents. However, we still have documents that we have not received yet, and we provide a listing and a status report to the District on a regular basis on the status of whether we have received documents that we have asked for, but there has been some improvement.

Mr. LATOURETTE. Thank you. I think also last time you were here and briefing this committee there was a suggestion that in spite of the fact that the District had been required to trim $140 million and make close to $140 million in spending cuts, the District agencies were still operating on budgets and spending plans that gave no indication that those spending cuts were going to be implemented.

Is that still the case?

Mr. HILL. That is still the case.

Mr. LATOURETTE. During your testimony today, unless I misunderstood you, did I hear you say that your review of the records of the District, based upon that review you are not able to determine how many people are employed by the District?

Mr. HILL. Well, in fact, it might be good to have Ed Stephenson answer that question because he is the person that did a lot of the work on FTEs.

Mr. STEPHENSON. The data the District has is payroll data. It has budget data. We will take a look at FTEs, which is the full-time equivalent that is used in the Federal Government. They also have personnel records that we have tried to get. We have gotten some data from them on FTEs to get an indication of actually how many people were on board, and that is why we believe there hasn't been the kinds of reductions that they pointed out there have been. That is basically what we looked at.

We looked at the number of FTEs during various periods over the last 3 years. Frankly we didn't see the kinds of cuts they were pointing out. We still are pursuing that issue because we don't know. The personnel office has said there has been 1,850 people leave the District of Columbia from appropriated funds, but we only identified 1,145 cuts in FTEs. There is obviously some kind of difference there and we are just trying to work on that right now as we continue to look at the personnel issues.

Mr. LATOURETTE. Thank you. I think last in the few moments that I have remaining, there have been some questions already indicating that perhaps the unfunded pension liability is a contributing cause, but one of the solutions that have been suggested in documents that we have had the opportunity to review, may take a multifaceted approach. One, the spending cuts which are envi-
sioned by Congress that the District should engage in; two, some type of scheme to permit the District to recapture nonresidents' taxes as the individuals who work in the District go back to Virginia or Maryland; and, three, that there be a realignment of the Federal payment to compensate the District, for instance, military personnel that don't pay sales tax and things of that nature.

Has there been any part of your charter to do, other than to analyze the books, but to look prospectively as to whether or not some of the solutions, for instance, floated in the McKinsey report of October 1994, would solve or move toward solving the dilemmas.

Mr. Hill. What we have been asked to do is to look at what other cities who were involved in financial crisis have done in order to solve their financial problems. One of the difficulties, however, when you take that information and translate it into the District or to the District of Columbia is that the District is certainly a unique entity and so currently we are assisting the Congress in its decisionmaking as to what solutions might have an impact on the problem, but we have not come up with a solution ourselves to this problem at this point.

Mr. Latourette. Have you reviewed or had made available to you the McKinsey report of October 1994?

Mr. Hill. Yes.

Mr. Latourette. Would it be possible, if asked, to make some comments on their suggested solutions?

Mr. Hill. Yes, we would be more than happy to comment on that.

Mr. Latourette. Thank you, Mr. Hill. Thank you, Mr. Chairman.

Mr. Davis. Thank you very much.

Mr. Chrysler, the gentleman from Michigan.

Mr. Chrysler. Mr. Hill, do you know how many people are employed by the District of Columbia in all capacities?

Mr. Hill. No, I do not.

Mr. Chrysler. Anybody?

Mr. Stephenson. No, we really do not, but we could tell you how many FTEs we think there are, and that is some 44,000. Of those, 10,000, the difference in numbers I mentioned before, 10,000 are funded by nonappropriated funds, mainly Federal grants.

Mr. Chrysler. So, then, the District has almost one employee for every 10 residents; is that right?

Mr. Stephenson. That is what the math would work out to, yes.

Mr. Chrysler. Well, the almost 20,000 employees paid from the nonappropriated funds, they are still paid with DC checks, and they still receive DC benefits and pensions?

Mr. Stephenson. It is 10,000, but we think it is 10,000, yes. They are still paid through the same payroll systems. That is true, most of them, most of them. There are different payroll systems in the District, but I believe most of them are paid through the same payroll system.

Mr. Chrysler. To your knowledge, do the Federal programs and other grants that are used to pay these employees come from mandatory hiring programs or do Federal education grants or housing grants require the District to hire a certain number of employees with the money?
Mr. Stephenson. I do not believe they require that, no, but there are programs where, for example, chapter I programs in the schools, those are many times positions that are funded out of chapter I Federal money.

Mr. Chrysler. Then would it be correct to say that every employee paid with grant funds means that less money is actually going to the people that it is intended to serve by the programs and is eaten up by the so-called overhead, as I recall it?

Mr. Stephenson. I wouldn't agree totally with that, no. I think there are valuable programs that are being funded by Federal grants in the District, and it is a very important component, for example, of the schools programs that not only the District gets, but every school system in the country gets, so that is not unique for them to have chapter I programs in the schools.

Mr. Chrysler. OK, thank you.

Mr. Davis. OK. Yield back?

Mr. Chrysler. Yes.

Mr. Davis. I would just like to ask a couple questions on the second round, if I could. First of all, to go back to the pension obligations, is the city still paying two COLAs a year or did they move that to one COLA a year for its pensioners? Anyone know the answer?

Ms. Triggs. We will have to get that information.

Mr. Davis. Will you get that to us. I will ask the Mayor and the council the same.

Mr. Davis. Mr. Hill, I want to explore the $722 million that this city has claimed to be their fiscal year 1995 deficit. Are you familiar with those numbers?

Mr. Hill. Yes.

Mr. Davis. Can you give us a breakdown of how the city comes up with these figures?

Mr. Hill. The first part that I should point out on the $722 million, if you take a look at, we have a chart that would show you the composition within our testimony.

Mr. Davis. Could you tell me which chart?

Mr. Hill. It would be on page 13.

Mr. Davis. That is table 4?

Mr. Hill. OK. You have to understand that the way that the District comes up with the $722 million, first, is to project what their spending levels currently are, and that, the spending projections that we saw had a total projected expenditure of $3,885 million, and then you would subtract from that the budget approved by the Congress, and that gives $631 million, and then the District would add to that or had added to that $91 million in additional cash that was going to be needed in order for them to fund one of their reserves.

Mr. Davis. So they have added the $631 million and the $91 million together, basically?

Mr. Hill. Right, and that basically gives you $722 million. So that obviously any problems that exist in the spending plans would affect the size of that number, any savings that the District expects to have on its own would affect the size of that number as well.

Mr. Davis. Mr. Hill, my question, then, is when you take a look at those component parts of the $722 million, how much of that is
actual cash that the District would have to pay out in fiscal year 1995? For example, we talked about some of the Medicaid numbers and the $85 million from the hospital; is that included in there?

Mr. Hill. Yes. If we would go, on page 14, and part of the spending plan that comes up with the $3.8 billion includes $550 million expected from Medicaid, and if we just take a look at that alone, we can see that $82 million plus the $30 million in cost savings and the $40 million, so at least $152 million of that would not be cash that was needed in 1995. There are some other amounts also that are in there that we are currently looking at and going through the spending plans.

Mr. Davis. OK. Could you tell us on a cash or accrual basis what you believe the actual deficit is today as we look at it, and the projected deficit in 1995 in real numbers?

Mr. Hill. In terms of the potential cash balance problem, and the reason I have to say potential problem is because there are a number of initiatives that are out there that we don’t know whether they are going to be successful or not.

If you go to page 16 of the testimony, on a cash basis the potential problem would be $464 million, a deficit on a cash basis at the end of fiscal year 1995. On an accrual basis, that number would be somewhat higher because of expenditures that would be recorded in the year that wouldn’t result in cash in that year.

Mr. Davis. Let me turn for a moment to the subject of the downtown arena and the projected convention center which, as I understand it, you are familiar with it. It would require an added tax to pay for these projects. Given the current status of the city’s bond ratings, is there any way to finance that at this point without some kind of intervening help from the Congress?

Mr. Hill. Well, it is really hard to say. Certainly, the District’s bond rating will be a major factor in any financial package that might be put together on the arena. However, I think that they will also look to how solid the projections are of revenues for that arena and whether or not there are pieces of it that can be self-financed, so it is really hard to say right now.

Mr. Davis. So that revenue stream standing alone may be able to carry the day?

Mr. Hill. We don’t know because the reason why is, that many of those projects are so early on, that they don’t have the total cost associated with the actually building of those projects as a result of not having done some of the major studies, like engineering and architectural studies.

Mr. Davis. I guess, conceivably what you are saying is because of additional revenues that could be generated, and if it equaled the carrying costs for the cost of the convention center, then, financing would be available outside of the Federal Government?

Mr. Hill. That is certainly a possibility.

Mr. Davis. OK. I yield back. Mr. Dixon, do you have additional questions?

Mr. Dixon. Just one. Mr. Hill, in your June 1994 report, you pointed out, I believe, I have been searching for the exact figures, but I think you pointed out that Medicaid was running at a rate of $51 million per month, but the District, in fact, was budgeting at somewhere, as I recall, around $40 million. And then I asked
you to track that for 2 months, and it came out $52 million in each of those months, and you, I believe, in a private conversation with me, indicated that since it was not a real figure that, in fact, the Medicaid would be responsible for a substantial deficit unless other cuts were made; is that correct?

Mr. HILL. That was correct. One of the things that we have to consider, though, in terms of the District’s projected Medicaid number, they project $550 million and then they subtract off the budget number from last year or from the 1995 budget.

That 1995 budget number is clearly understated, and therefore that $267 million, which is the result of the two, includes amounts that are really underbudgeting of current expenditures.

Mr. DIXON. Right. When the Mayor and Ms. O’Connor appeared before the committee, I pointed out to her that the 1995 number was lower than the 1994 number, and since they were running in the current year $10 million over their projection how she could come up with that, we have been looking for her testimony there.

I think, basically, she said that there was no point in suppressing the number, that she wouldn’t do that because it was an entitlement program that spoke for itself, in essence.

Mr. HILL. I think that she also said that there were some management initiatives and some savings as a result of reducing some of the options in the plan that they expected to implement.

Mr. DIXON. So from your perspective, when the new administration said that a lot of the deficit was due to Medicaid, that came as no surprise?

Mr. HILL. It came as no surprise that a portion of the amount was a function of Medicaid; that is true. It does come as a surprise if we characterize the entire $267 million as an amount that is due to past Medicaid problems.

Mr. DIXON. I think you went, in testimony when, in explaining a new accounting procedure at least as relates to the 82?

Mr. HILL. Right.

Mr. DIXON. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. To follow up on the chairman’s questions on the arena and the convention center, this is money that apparently the District is continuing to collect as we speak.

Is this money being segregated and escrowed for the purposes intended?

Mr. CARNahan. Yes, the money is in an escrow and is not available for other purposes.

Ms. NORTON. This money has not been used for any other purpose?

Mr. CARNahan. That is correct.

Ms. NORTON. If the Congress acts, then the preliminary work that Mr. Hill just spoke of could proceed because the money would be there to initiate that work.

Mr. CARNahan. Yes, the funds are available.

Ms. NORTON. Mr. Hill, when did you begin work on this preliminary, this quarterly report.
Mr. CARNAHAN. We received the report on January 17 and began work on it immediately.

Ms. NORTON. So you began work on it only after the new administration?

Mr. CARNAHAN. That is correct, as soon as they had it available, yes.

Ms. NORTON. Had any work been done on the report before the new administration came into office?

Mr. CARNAHAN. By GAO, no.

Ms. NORTON. No, by the city.

Mr. CARNAHAN. In discussions with District officials, what was indicated to us was that there had been a minimal amount of work performed in developing that quarterly report up until the new administration had come into office.

Ms. NORTON. So in getting information to you, they had essentially to start from scratch?

Mr. HILL. Well, I don't know if it is accurate to say they had to start from scratch. There was a transition team that was in place. There was a significant amount of information that they had access to prior to the time that they took office, so someone could have been working on the report at that point in time.

Ms. NORTON. Let me ask you about the required escrow amounts the District must collect. You discuss in your report the mandate of our Appropriation Act for the District to escrow 20 percent of the fiscal year 1996 Federal payment or $132 million.

Are you satisfied that the District is able to do that and is doing it or will do it?

Mr. HILL. I don't know what the District will do, I mean, in terms of that. It is a requirement. Clearly because a large portion and an increasingly large portion of the Federal payment is used to pay prior year bills, it will create a tremendous financial stress on the District to have to escrow that money.

Ms. NORTON. With the cash position of the District now, is it conceivable that they could pull out $132 million to set aside in that way?

Mr. HILL. Well, it is possible that in terms of giving that particular Federal payment, that amount could be withheld from the District. I mean, it conceivably——

Ms. NORTON. If it did not escrow it?

Mr. HILL. It could be conceivably put into place. It would certainly have a tremendous impact.

Ms. NORTON. Could you explain the requirements of the District to begin setting aside repayment of the $250 million it borrowed recently?

Mr. HILL. Yes, Laura.

Ms. TRIGGS. The $250 million borrowing has some specific provisions for repayment. I believe it is August 1, we can get you the exact dates, they have to start escrowing property tax or any of the tax payments that come in to the extent they have not already escrowed money for that $250 million.

Ms. NORTON. Let me put the same question to you, then. Is it conceivable that the District can simply put aside $250 million beginning in August to assure repayment?
Mr. HILL. It can be done, but, again, it would have a tremendous impact on the cash-flow of the District.

Ms. NORTON. It can be done, given the city’s present cash position.

Mr. HILL. If the money before or that relates to that before it goes to other purposes is put aside, yes, that could be done. However, the cash position of the District is such that it would have a tremendous impact.

Ms. NORTON. Is there any way that the District could corral spending in areas that have been unbudgeted perhaps because they are virtually mandated areas such as corrections, Medicaid, expenditures, police overtime?

Mr. HILL. We haven’t specifically looked at that issue, but we will be glad to if you would like us.

Ms. NORTON. Well, these are where the real burdens in the budget, of course, are with spending that must occur, and essentially my question, I suppose, for you when you can get back to me is given spending that must occur of this kind, what steps could the District take to rein in that mandated spending.

Mr. HILL. Yes, there is a small amount in terms of the percentage of the budget that either isn’t personnel or related to some type of entitlement-type program, and if you were to concentrate all of the cuts in that area, that small piece of the budget, you would not come up with $631 million clearly.

Ms. NORTON. So this becomes something close to impossible to do without some kind of long-term plan to try to get that mandated spending under control?

Mr. HILL. Well, I think probably one way to look at this is that certainly this is a financial crisis for the District, but I think the solutions are beyond financial solutions. I think that there are political solutions that have to be—

Ms. NORTON. There are what?

Mr. HILL. Political solutions that have to be looked at as well.

Ms. NORTON. What do you mean by that?

Mr. HILL. Such as some things that have been put on the table already about the possibility of restructuring. One thing that we have seen is that through the Rivlin report and a lot of the other reports that the changes that have to be made in the future concerning the District’s expenditures are such that next year the problem gets worse than it is this year. The year after that it gets even worse, and the year after that it gets even worse.

In terms of the gap between revenues and expenditures as they are projected out, so that any solutions that are put in place now certainly have to be solutions that address the current problem, but also solutions that will provide changes in the projections out in the future because the problems get worse in the future.

Ms. NORTON. But you don’t think that the District could rein in that spending by cuts in its budget alone?

Mr. HILL. We haven’t made that assessment at this point. I will tell you that it is a very, very large piece of the District’s budget, obviously, and that it would be impossible to do that without a large change in the employee costs and other costs because there isn’t a large enough portion of the budget that is outside of those areas.
Ms. Norton. Thank you, Mr. Chairman.

Mr. Davis. Thank you very much.

The gentleman from Minnesota, Mr. Gutknecht.

Mr. Gutknecht. Thank you, Mr. Chairman. As a new member of this committee, I have had a difficult time sort of getting my arms around what really Washington, DC is because in many respects, I understand now that it has some elements that many of the States have. It delivers services that many counties, for example, in Minnesota do. It also has a relationship with the school district. I am trying to sort all this out.

One of the things that I am having difficulties, I think, and I would like to focus for a minute or two on the school district. The first question I have is exactly how independent are the Washington, DC schools relative to the city? Do they have their own levy, for example?

Mr. Stephenson. No, they do not have their own authority to borrow.

Mr. Gutknecht. They have their own levy for property taxes?

Mr. Stephenson. No.

Mr. Gutknecht. Do they have to go to the city council to get their money?

Mr. Stephenson. That is correct.

Mr. Gutknecht. The other question I have, and I am having trouble sorting this out, exactly how much money they really spend per pupil unit. According to some published reports, it is as much as $9,549 per pupil unit. I think according to your report from last summer it is $7,383 per pupil unit. I am wondering if anybody on the panel can sort of rectify those two numbers.

Mr. Hill. One of the differences is that when you compare the amount of moneys that the District is spending as compared to other jurisdictions, you have to consider the fact that the District, unlike some other jurisdictions, would incur most of the curricula development expenditures, and so in making those comparisons, and I am not sure where the other numbers are coming from, so it is hard to know what the other—what is included in those other numbers, but it may be the types of activities that they are comparing to comparable jurisdictions.

For instance, in some jurisdictions there are, the development of curricula is a State function and not a county function, and so they may have pulled out the cost associated with the District's curricula development. That is only speculation on my part since I don't know what went into the other numbers.

Mr. Gutknecht. Well, the real question I want to get at, and somehow I want to ultimately sort that out, exactly what the expenditures are per-pupil unit compared to a school district, for example, in Minnesota or Montana or somewhere else?

Mr. Hill. Sure.

Mr. Gutknecht. But I also want to know—one of the most troubling things in your report is on page 9, relative to the school districts. On one hand, the announcement showed 90 staff departures, but the actual FTE data that you report shows an increase of 404 full-time equivalents. Can you put a little more flesh on that?

Mr. Stephenson. Yes. The fiscal year for the schools is the same as the fiscal year for the District, and it begins on October 1. That
is unusual for a school district, to have a fiscal year begin on October 1. Typically, the District does do some hiring at the beginning of the fiscal year, so there may be positions that were not filled before they fill after the beginning of if fiscal year. Where that accounts for why there are 404 more FTEs on board now than there were as of the last pay period in fiscal 1994, I don't know. But that could be a little bit of it. That is possible.

Mr. Hill. It also could be that the numbers that the District is using are actual employees versus the FTE change. And that certainly would be something that we are looking into further because our work is continuing in the area of FTEs. They have to produce a report every quarter that would have that information in that, so certainly we will look into it in a lot more depth when we get the second quarter report.

Mr. Gutknecht. The reason I raise this question, Mr. Chairman, I think we have to find out where the buck stops, and apparently the school district is not independent. They have to come to the city council for their funding, so they should be part of the solution as well as a part of the problem. And I want to delve into this a little more. I want to get some backup on exactly what the per-pupil expenditures are, what the staffing levels are and whether or not they are being as cooperative as they should be.

Mr. Hill. We will do that to you.

Mr. Davis. Thank you very much.

Any other questions?

Mr. LaTourette, would you like to ask additional questions?

Mr. LaTOURETTE. No.

Mr. Davis. Mr. Chrysler, additional questions?

Mr. Chairman, everybody has been through a second round except for you, if you want to ask any additional questions.

Mr. Walsh. I apologize for having been absent for a few minutes. It was not for lack of interest, I assure you. We have a markup going on also in the Agriculture Subcommittee. Rather than prolonging this hearing, we will have an opportunity to talk with you again on Friday and I want to take that opportunity to probe a little more deeply. I very much appreciate your testimony today.

Mr. Hill. Thank you, Mr. Chairman.

Mr. Davis. Mr. Hill, let me just say on behalf of all of us, we appreciate the work you and your staff have done on this. I think it sheds a lot of light on the District’s financial situation. I know the District appreciates it as well. We are trying to get to the bottom line so we can work on it from here. We thank you very much.

Mr. Hill. Thank you for your kind comments.

Mr. Davis. Before we get to the next panel, Mr. Mayor and Mr. Chairman of the council, we may have a vote right after the bell rings, at which point, I would recess before you start rather than interrupt your remarks. So let us give the panels a minute to set up.

Would Mr. Pohlman please sit with the panel as well.

Mr. Mayor, do you have any objections with Mr. Pohlman sitting with you, because we may have some questions for him? He is not going to present testimony, but we want to question him and we want to have him sworn in, too.
We have had our photo-ops. It looks like we will not have a vote, although you never know. What I want to do is ask the Mayor, Chairman Clarke, and Mr. Pohllman, if you would all please stand and raise your right hands, so I can swear you in.

[Witnesses sworn.]
Mr. DAVIS. Thank you.
Be seated.
Let me get some order, Mr. Mayor, before I call on you. I want to get some order in the room. May we please have order in the back. If we can close the doors and please have order.
Mr. Mayor, it is a distinct pleasure to welcome you here before this committee. You have been kind enough to meet informally with the committee a couple of weeks ago to share some of your thoughts and comments, and we have had a continuing dialog. It is in that spirit that we welcome you here today. If you want to introduce your staff with you, we would be happy to have you introduce them to committee. We welcome you and thank you for being with us.

STATEMENT OF MARION BARRY, MAYOR OF THE DISTRICT OF COLUMBIA; DAVID A. CLARKE, CHAIRMAN, COUNCIL OF THE DISTRICT OF COLUMBIA; AND ROBERT POHLMAN, ACTING CHIEF FINANCIAL OFFICER, DISTRICT OF COLUMBIA

Mr. BARRY. Mr. Chairman, members of the committee, let me first of all say, good morning, and on behalf of the citizens of the District of Columbia, Washington, DC, and its residents, I want to thank Chairman Jim Walsh and Chairman Tom Davis, the committee members and other Members of Congress for this special opportunity to share information and seek new ways to ensure the financial stability and healthy future of our Capital City.

Mr. Chairman, members of the committee, Washington, DC does not just belong to those of us who live here, it belongs to all Americans. As partners in responsibility for the District of Columbia, we are in a new place in our relationship, a place I believe is full of opportunity as well as challenge.

Mr. Chairman, I am going to take a considerable amount of time to talk about our city because I think it is important that we look at the opportunity for new opportunities, recognizing that old views must change and currently realities embraced. And I am confident working with you and with the citizens of Washington and the city council that we will meet this challenge.

Also, I am sure that we are all anxious to move past our present challenge. Our challenge of the budget is important, but we would rather put all of our energy into transforming our educational system, making it work for our children, ensuring the public safety of our citizens, building a vibrant business community and making our government more responsive and more responsible. In other words, we would all like to get on with building a city that we can all be proud of. We will meet this challenge, and I am confident with a lot of work and a lot of sacrifices, this challenge can be conquered.

Today is a turning point in the life of our city. We are at the doorway of opportunity. Mr. Chairman, members of the committee, my testimony this morning will address five questions providing
historic references as well as the current facts of our situation: Why are District finances so fragile; what is precisely the financial condition of the District government at this moment; what are we in government doing to restore control and rebuild credibility in our fiscal affairs; how can and how must Congress participate in this recovery; and what needs to be addressed in our partnership with Congress to ensure that a year from now we are not sitting at this same table trying to wrestle with these same kinds of problems, or 2 or 3 years from now.

I know that you are anxious to get on with where we are today. While I appreciate that, we must look at some historical chronology. It was only in 1973 that the citizens of the District of Columbia were given some measure of self-government. I want to congratulate Congressman Diggs and others, who worked awfully hard to get us to that point, but they had no model to go on.

Washington, DC is the only city that is constitutionally constructed so that the Congress has a bottom-line role in our legislation and in our budget. They put together what they thought to be the best deal that they could, but looking some 20 years later, it is clear to me that that charter, which was imposed upon us by the Congress, was flawed. It was not a perfect union. In fact, it was an imperfect union.

First of all, what should have happened? Our books should have been audited prior to the 1974 election. January 2, 1975, Walter Washington took office as Mayor as did many of us as members of the council. In 1975, the then Mayor Walter Washington attempted such an audit. Arthur Andersen indicated that the books could not be audited in 1975. It was with the help of a financial oversight commission appointed by the Congress that we were able to overcome the financial challenge.

The Congress appropriated over $60 million to help us build what was then called the financial management system, which, at that time, was one of the finest financial management systems in the country. Also in 1974—let me just make this point very, very clearly, that the Congress had managed the District prior to that time—we were given 44,000 positions; 44,000 positions with the authorized budget strength of the 1994 budget.

Also, when we finally were able to audit the books in 1979, my first year as Mayor of our great city, we found that there was a $279 million deficit. In other words, $279 million in bills that the Federal Government should have paid before we took over. And that $279 million is still due us from the Federal Government because that was that we inherited.

The second problem with our charter, and Mr. Dixon spoke a little bit to this earlier, was our pension funds. We have 11,700 firefighters, police officers, judges, and teachers in a pension fund that is a pay-as-you-go system. All of you know that, actuarially, a pay-as-you-go system is a flawed system.

You say, well, how does that affect us now? It affects us very specifically because this very year the DC government, the taxpayers of the District of Columbia are paying $295 million of hard-earned taxpayers' money into a pension system that only pays those retirees. It does not get at the unfunded liability.
And if we had the $295 million that the District is paying for these retirees, 99 percent of whom retired under the Federal congressionally mandated system, that $295 million could be used to either reduce the property taxes on our commercial property, reduce our income taxes, or reduce spending in other areas, and thereby not being required to have that burden on our backs. That is $295 million.

You say, well how does that relate? Since 1980, the DC government has paid over $2 billion—$2 billion of our hard-earned taxpayers' money—into our pay-as-you-go system.

So at the end of my testimony, one of the things I am going to ask that the Federal Government do, is beginning October 1, 1996, to begin to pick up its share of this pension bill, which means if we are not required to pay the $341 million in 1996 that gives the DC government some latitude and some cash availability, because our revenues will remain the same as though we were going to pay that out.

The third situation, which we all talk a lot about, is that the District was given State functions without conferring State authorities. Let me pass out to you a list of what we call State functions. And I am not going to read them all but I will read a few of them.

Medicaid, Saint Elizabeth Psychiatric Institution, AFDC, emergency assistance, general public assistance, supplemental income, energy assistance, day care, foster care, service to the aging, University of the District of Columbia, State educational services, teachers pensions, arts and humanities, State prisons. No other city in America operates a State prison with 9,000 sentenced prisoners, parole system, pretrial services, public defender system, DC court system, unemployment compensation. This list goes on and on.

I have not added it up, but I suspect—somebody add this up while I am talking about this, Bob.

There are about 50-odd functions here that are truly State functions without State authority. And I don't—in order to bring this home a little bit, let me suggest, and Congressman Walsh was president of a city council in Syracuse, and I am told you were an outstanding president of the council while you were there, but let me just use Syracuse's budget.

It is typical of Trenton, it is typical of New Orleans, it is typical of Chicago, it is typical of most cities. And when we add up the functions of the Syracuse district, they have police, fire, public works, parks and recreation, law, finance, community services, engineering, community development, development, executive elections, employee benefits, police and fire, and capital probation and school districts, I think the budget comes to about $376 million.

But when you look at the county functions, which are also a part of what happens in Syracuse, you find that—I hope I pronounce this right, Mr. Walsh, Onondaga County. It is an Indian name.

Mr. WALSH. Onondaga.

Mr. BARRY. Onondaga County. You find that the county is picking up aging and youth, mental health, health department, department of corrections, district attorney's share, parks and recreation, transportation, probation, library, long-term care, community care, etc. cetera. When you look at the source of funding for the city of
Syracuse, the State provides about 40 percent of it and the property taxes about 53 percent. The rest of it is Federal grants.

The only point I am making is that to drive this home, we have over 54 functions that we outlined that are State functions, that no other city in America has to deal with. Not to mention the county functions.

You say, well, how does this affect our situation here? It affects our situation here, when you look at our employees, the great majority of the employees, with the exception of the school district, are performing State functions, and if we did not have those State functions to perform, we would not need all those employees or to spend this money.

The other issue which I am sure Mr. Davis can appreciate, the District is the only State in America, with State functions, that was not able to tax income at its source. If we were able to tax income at its source, let me demonstrate what we mean by that—in 1996, Maryland residents will earn $12.6 billion in the District, while Virginia residents will earn $9 billion. DC residents are will earn $3.1 billion by working in either Maryland or Virginia. In other words, $18.5 billion will be earned in the District, yet 70 percent of that income will not be taxable by the DC government.

If the DC government were to tax this nonresident income at 2 percent, we would get in $370 million, or we would do it at 4 percent, we would get in over $720 million. Again, $720 million would go a long ways in helping us to balance our budget.

The other area, and we are moving rather rapidly, is the property. The DC government can only tax about 43 percent of all the land in Washington; 43 percent. The Federal Government owns over 50 percent of that land. I estimate that the property, its worth, and our finest revenue officers estimates over $1 billion. Which means the Federal payment is only about 60 percent of what it ought to be in terms of the land.

The other area, Mr. Chairman, I want to introduce for the record is the McKinsey report. Here is an outstanding financial consultant group that did a report for the city. It came to the conclusion that if the District government did everything everybody asks us to do, even be it draconian in our cuts, if we cut to the bone, the District government could only solve one-third of this problem.

This report says that the District government could only solve one-third of its problem, which means that two-thirds of this problem has to be solved by the Federal Government. This is an independent accounting firm, independent consultant and I would like to introduce into the record the McKinsey report which says if you did all you ask us to do or we want to do ourselves, this would not solve our problem.

One of the Congress people asked the question about whether or not we could solve all our problems. I know Ms. Norton has asked that question repeatedly, so for the record, I want to indicate that we cannot solve this problem by ourselves because of the structural inequities.

Now, recapping the first question, we have talked about what the problems are and how we got there. Let me also say in listening to the GAO report, this report, when you read it and look at it, it covers—99 percent of this report covers the years 1991, 1992, 1993,
and 1994. I was not Mayor during those years. I have only been in office 1 month and 21 days. And I think when you look at the report, you will see not only spending habits but spending patterns started in 1992. But, on the other hand, we are forced to deal with them in 1995. I think it is important.

So in 1994, an audit showing a deficit of $335 million was in a report I gave on February 1, but it was not during the years that the Barry administration was in office.

You say, why do you say that? We have a strong mayoral form of government, where the Mayor keeps all of his spending books, keeps all the checkbooks, keeps all of the contract authority, and those of us on the council only get reports when we can find out what happens from the executive.

Mrs. Smith and I were trying last fall to find out the extent of this 1994 deficit. We were told all along, this deficit probably was no more than $140 million.

If you look at either the November 2 letter, which I want to introduce from Mayor Kelly to the council, it indicated that—November 2, 1994, indicates that the basic problem is $140 million. We all thought the problem was $140 million. The council thought so. I was a member of the council. I thought so.

So on November 9, when Mrs. Smith and members of my transition team sat down with members of Mayor Kelly’s team and Mayor Kelly, and we were told we had a $291 million potential overspending problem in 1995, we were shocked. Because we had never heard that number before. We thought we were dealing with $140 million that the Congress had asked us to cut. That is manageable.

So we came to the conclusion we had a $431 million problem, if we kept spending. So on October 1, 1995, on to November; then on January 2, when the Barry administration took over, and I asked Bob Pohiman to be my interim financial chief financial officer, we found ourselves in a mess. For instance, the GAO had asked for 55 reports from October 1 to December 31. Only 9 reports had been completed during that time; 46 reports were outstanding.

The GAO asked us, the General Accounting Office asked us on January 3 to February 17, for 93 reports; 139. We are happy to report to you that as of February 17, all due dates were met except three items for which we were informed of on February 16.

And so we found ourselves in a situation where nothing had been done on this report which was due, you all, January 17 until January 2, when Bob Pohiman under my instruction was asked to get this information and bring it forth and give it to the Congress on January 17.

We also started digging into the Medicaid reports and found another mess of a situation, in the sense that audits had not been done in 1991, 1992, 1993, and 1994. The hospital association had sued the city for payments owed for 1992 and 1993. And so our Medicaid problem came to be a $261 million problem of past due bills on an accrual basis. Mr. Nunn, from Coopers & Lybrand, gave us a report on that in our audit. I have a copy which I would like to share with you that shows we were behind $261 million in the Medicaid budget; $261 in the Medicaid budget.
On the question of whether or not we have met the congressional mandate, it is my interpretation that what the Congress wanted us to do was start at the city's requested appropriation of $3 billion—the Congress was working on a figure of $3,394 million request from the city. If you reduce that by $140, the Congress came to a point where we had an authorized budget of $3,254 million. $3,254 million. But what is clear now, members of the committee, is that the city was spending considerably above that in 1994.

In fact, in 1994, the city overspent its operating budget by $154 million. $154 million of moneys were being spent in 1994 by the previous administration, and we thought the budget had been cut to the $3,394 million figure. Moreover, I was a member of the city council, and with Mr. Clarke's leadership, and others of us, we reduced the 1994 budget by $130 million.

Only the Mayor can really cut the budget. The council can urge it, can put it into law, the Congress can put it into law, but only the Mayor can actually say stop spending this money. And we found out in 1994 that the budget was not reduced. I will give you an example. The Alcohol and Drug Abuse Administration was a $30 million budget; cut to $27 million. Not 1 cent had been cut in 1994.

So one of the things we are going to ask the Congress to do is to increase our budget authority to be in line with the reality of spending in 1994 that will carry on in 1995.

The other thing we found when we came in office in January 2, was that over $70 million of bills that were due in 1994 had not been paid. Mr. Hawkins just informed me a few minutes ago that he went into their files in looking at the bills when he got there on January 2, and found $5 million of bills that had not been paid in the last 9 months prior to October 1. That is why these vendors are screaming.

I have ordered them all put in the system now and paid. Another $20 million of unpaid bills. So we had $70 million of unpaid bills, pension payments carried over should have been paid in 1994; $63 million in escrow carried over. And so we found that we were facing a cash crunch because of the carryover.

A little later on I will share with you our actual cash-flow for 1995, which I would like to do.

Does the committee have this? What it shows, in actual spending for October, November, December, and January—I would like for the committee to look at this and I will just give you the bottom line numbers.

In October, we had total receipts of $935.6 million; in November—no, in October, $935.6 million, and we disbursed $743 million, leaving a cash balance of $235 million. And to give you an example of how serious the problem was, members of the committee, that was left over from the previous administration, we disbursed $192 million in October. Many of those were these overdo bills we are talking about, compared to disbursing $62 million in November and $38 million in December, and $88 million in January. That is more normal in terms of our cash-flow, but we had to put in almost $100 million of expenditures in October for carryover bills.

Also, Mr. Chairman, and members of the committee, let me just indicate to you that the District of Columbia government knows
how much money we have in the bank on a daily basis. I get a report every morning which tells me exactly our investment balance, our book balance, number of outstanding checks, number of checks cleared the day before, how much we collected the day before. So we know on a daily basis what our cash position is.

What GAO, the General Accounting Office, was speaking of is we do not know the total amount of cash—I mean, of accounts payable. We will talk about that a little bit later.

So now we are at a point of what are we doing to solve this problem? In conjunction with the DC council we are moving dramatically to reduce our work force and cut our spending. Since we are talking about the work force, we have met the congressionally mandated reductions to go no higher than 33,588. We are required to get down by the end of fiscal year 1995 to 33,588 FTEs.

We have more than met that as of last week and this is a number that the General Accounting Office agreed to. We were down to 32,530 full-time equivalencies, which is 1,000 lower than required.

Moreover, we have plans to further reduce the FTEs by a 750-person reduction-in-force. We have laws which say you have to give 30 days notice before you can terminate anyone. We also have to make sure our rolls are correct, because too often we do it hastily and people go to court and sue us and come back on the payroll. We have now done that, and we are starting March 1 will be our first round of letters that will go out to these employees.

But since we are talking about the number of employees, let me call to the committees' attention where are all these employees are that people keep talking about. Where do they work? If you take the 32,530 FTEs, you will find that 36.8 percent of all of our employees are in public safety, and 37.9 percent are in education. Of the 32,530 FTEs, over 11,000 is in our——

Mr. DAVIS. Mayor, excuse me, these are from the appropriated funds; not nonappropriated?

Mr. BARRY. Appropriated, yes. Since we are talking about that, let me say the District of Columbia government, like any other city, county, State is entitled to certain Federal funds. We are entitled to AFDC, Medicaid, Ryan White aid, HIV, all the other funds. And I maintain that is what we should be getting.

And our problem in the appropriation is not caused by the number of Federal grants we get. So to cut employees off of the Federal grants is not solving our problem. In fact, it is discriminatory and it is unfair to suggest that we are not getting these funds that any other State, county, and city gets, because we pay $1.6 billion in Federal income taxes.

And so I would like for the committee to look at ways our employees are also—you will see we started with 44,000 in 1974, and we have an additional 12,000 that are on the Federal funded positions. I can tell you how many people we have on the payroll as of last week, how many FTEs and how much money we have in the bank.

So I am not going to go through all the pain we are suffering here. DC General Hospital, where we are firing 240 workers. Let me say something about the firing of people. They say you ought to just arbitrarily fire people tomorrow morning. My view is that
these are human beings, too, and that we ought to be very careful about doing it that way. They have mortgages to pay and people to take care of. What we need to do is to do it in an orderly fashion. That is why it has taken from January 2 to March 1 to put it together, so we can do it the right way. So we can do it in a way so you can prepare, if you can ever prepare to fire; for these people to get additional moneys.

We are doing all kinds of things; limiting emergency services. You have this in your testimony. We are closing one of our two drug-alcohol centers. We are closing five public health clinics. I estimate at this point, Mr. Chairman, members of the committee, with our program actions, with our personnel actions, we have, from a bottom-line point of view, reduced this $224 million part of the problem, which I think we can do by $70 million.

We sent legislation to the council yesterday. We have been working with our unions on this to get an additional $70 million out of our employee wages. So if you add the $70 million which we want to start April 1 of this year for 6 months, we have more than met the $140 million situation. Then you add our specific spending plans. When we came in on January 2, there were no spending plans, no ideas as to how to do this.

We are confident that the executive branch of this government, unless a court stops us or the council does not cooperate with us, can reduce this budget in 1995 by $224 million. That is an incredible amount to do in about 7, 8 months. I don't think any other city, county, or State could come to the table and do that in 7 or 8 months, reducing the budget by $224 million; service cuts.

Our other proposal is to restructure our debt to give us an additional $70 million. We have $224 million, $70 million from our employees contributing their fair share, $70 million of restructured debts. That then leaves us with a problem of $267 million. That is the area we are asking the Congress to look at.

We ought to begin in 1995, the transformation of our government where the Federal Government takes over the complete management and funding of Medicaid by 1998. $267 million in 1995, $141 million for the growth, for 1996. $141 for growth in 1997. So by 1998, we are proposing that District government no longer funds or manages our Medicaid program. We need to focus on the State functions being transferred to the Federal Government.

Second, we are proposing that we begin a 5-year phaseout of the State's responsibility for the funding and control of our State prisoners. We want the Federal Government starting October 1, 1995, to begin to manage and fund a portion of our 9,000 State prisoners.

Third, we would like for the Federal Government to look at our debt. We have over $3.2 billion of capital debt. In 1983, we were able to get an "A" rating for our debt. The reason we could not get a higher rating was the unfunded pension liabilities—by that time, almost $3 billion, the uncertainty of the Federal payment, the narrow economic base of the District, and our inability to tax the income at its source.

Our view is that there is a portion of the $3.2 billion capital debt, if it were backed by the full credit and faith of the Federal Government, which would get us a low interest rate. I am in the process now of getting numbers on what it would look like if we were to
take that portion of the debt whose interest rates are above the
going interest rates, refinance that with the full faith and credit of
the Federal Government. Again, that would save us some money in
1995 and to the year 2013.

I indicated earlier we are asking the Congress for budget author-
ity of $3,521 million. That is the $3,254 million added on to the
$267 million that will give us that budget authority.

Finally, as I conclude in this direction, let me say that I am com-
mited, and we have at this table and this administration some of
the best talent in America in public service committed to doing our
share in this equation. We are prepared to make the tough deci-
sions to reduce this budget, as I said earlier, by $224 million in
service cuts. Our employees are being asked to do $70 million, and
the Congress is being asked to do $267 million. And we will talk
about the Medicaid budget in a few minutes.

I would like to ask Mr. Pohman to talk about that, and then
after I conclude this—but the view has been that home rule for the
District established a clean financial slate for DC residents. The re-
alit is that when audits were finally possible in 1979, it was found
that more than $279 million in unpaid bills were carried over from
the Federal Government.

In addition, as I documented earlier in this testimony, unfunded
pension responsibilities for Federal employees were transferred to
future District taxpayers. As I said earlier, it is time for the Fed-
eral Government, starting October 1 to begin to address its share
of this $295 million pay-as-you-go system.

The view that DC has a large and prosperous tax base is not
true. As we have seen, we can only tax 43 percent of the property.
We can still negotiate shared responsibilities. We also have to work
at how we become more efficient in our own operation. We also
have to move toward transferring a significant number of State
functions to the Federal Government with the DC government
doing the rest.

The view also is we are not responsible managers. Let me say
that we have a financial management system that is antiquated.
It was the state-of-the-art in 1980–81. But I am here to tell you
that we need reinvestments in it. We need technology improve-
ments in it. We need to look around and find out who has a state-
of-the-art financial management system that can give us on-time,
on-line information.

Someone told me the other day, last night, one staff member
said, if the script is badly written, you can have the best managers
in the world and we guarantee you the page is going to turn out
bad. The same is true of our financial management system. It is
not adequate to meet our needs in 1995–1996. On the other hand,
it does give us some basic information about our obligations and
our spending. We need to invest in infrastructure in that.

Also, there has been some discussion about the relationship be-
tween our citizens. We are forging a new relationship with our citi-
zens in the sense that a number of people are coming forth to vol-
unteer to help out. In fact, my wife heads a group called the Wish
Foundation, which has forged a new partnership between citizens
and the recreation department and they have donated over
$200,000 of money and time and other things to what we are doing and we encourage our citizens to step forward.

But with all of that, with the citizens stepping forward, with the DC government doing its share, we still need two-thirds of this problem be to be solved by structural reform, by transferring functions from the DC government to the Federal Government, and also by becoming a more efficient government.

And in closing on my part of this, before I ask Mr. Pohlman to talk a little bit about Medicaid, we come together today seeing Washington, DC as both a national problem and a national treasure. Our city has some of our Nation's cruelest challenges; homeless mothers with babies, drug trafficking, illiteracy and teenage hopelessness. We also carry our Nation's greatest hopes, personal prosperity, freedom of spirit and a right to self-determination.

Members of the committee, we have a theme in our government, the theme is simply that everyone matters. This theme is more than articulating care for each other, as important as that may be. It states the belief that everyone has value, everyone has something to give, everyone is responsible and everyone contributes to the whole.

I have a vision for Washington. I see a city where children are born healthy, and grow up healthy, and in safe conditions. I see a city where young people go to college and older people also continue to learn.

I see a city of thriving industries of tomorrow, including healthcare, music, tourism, publishing, as well as government. I see a city where service in the public and private sector is considered honorable. And I see a city where faith abounds and where faith is rewarded. I think that gives you a little bit about my philosophy. We talked about that yesterday with the Speaker.

And finally let me take about 4 or 5 minutes to ask Bob Pohlman to talk about Medicaid and then we are ready for questions.

[The prepared statement of Mr. Barry follows:]

**PREPARED STATEMENT OF MARION BARRY, JR., MAYOR OF THE DISTRICT OF COLUMBIA**

Good morning.

On behalf of the city of Washington, D.C., and its residents, I want to thank Chairman Jim Walsh, Chairman Tom Davis, the committee members, and other members of Congress for this special opportunity to share information and seek new ways to insure the financial stability and healthy future of our Capital City.

Washington, D.C., does not just belong to those of us who live here. It belongs to all Americans.

As partners in responsibility for the District of Columbia, we are at a new place in our relationship—a place I believe that is full of opportunity.

Aldous Huxley wrote that:

"Experience is not what happens to you;
"It is what you do with what happens to you."

I come today as a new, yet experienced Mayor dedicated to new opportunities, recognizing that old views must be changed, and current realities embraced. We must and we will meet our challenge.

I am sure we are all anxious to move past our present challenge. We would all rather put our energy into transforming our educational system, insuring the public safety of our citizens, building a vibrant business community, and making our government more responsive and more responsible.

In other words, we'd all like to get on with building a city we can all be proud of. And we will. This financial challenge will be conquered. Today is an important turning point. We are at a doorway of opportunity.
My testimony this morning will address five questions, providing a historical reference as well as the current facts on our situation:

1. Why are District finances so fragile?
2. What is precisely the financial condition of the District government at this moment?
3. What are we in government doing to restore control and rebuild credibility in our fiscal affairs?
4. How can Congress participate in this recovery?
5. What needs to be addressed in our partnership with Congress to insure our future viability?

The first question goes to the core of our problem: the lack of clearly defined roles for the Federal and District government. And the answer can only be developed from a careful look at the history of our home rule charter.

This charter is the result of negotiations that took place here on the Hill in the early 1970s. Congressman Diggs and his team had no models to go by. This was a first time experience for everyone. Those of us in the District were not consulted in an organized way.

Very early, it became clear that the home rule charter was not workable. It was flawed in five important ways.

First, to draw a clear line between the old federal responsibility and the new district responsibilities, an audit of the books should have begun the process. In 1975, when Mayor Walter Washington attempted such an audit. The Arthur Anderson Co. determined that a true audit could not be accomplished at that time.

It was with the help of a financial oversight commission appointed by the Congress that we were able to overcome the financial challenge of that time. With a $60 million appropriation from Congress, the commission facilitated the development of the current Financial Management System. That commission worked with us to produce the first audit of the district. This was done in partnership because the financial problems of the District were not of its own making. It was a shared responsibility.

In 1979, my first term as Mayor, we were able to accurately reconstruct our accounting with the help of the special commission, and found that $279 million in bills should have been paid by the federal government prior to home rule.

Secondly, with home rule, the Federal government transferred to us an unfunded liability of $2.2 billion in retirement and pension benefits. Since 1980, the citizens of the District have paid $1.2 billion out of our tax revenues to replace obligations which everyone agrees was a federal responsibility.

If the Federal government had fully funded the systems in 1979, the District could have saved $1.2 billion and the assets would currently total approximately $8 billion instead of the current $2.8 billion.

Equally significant, the charter obligated the District to perform state functions, without conferring state authority.

Let me give you an idea of what is involved: Public assistance, Medicaid, mental health, corrections, state courts, higher education, motor vehicle regulation, banking regulation, insurance regulation, community physical and mental health services, are only a partial list of the state-type services we must perform.

Fourth, we are specifically prohibited from taxing income at its source as is done in 45 states. Two dollars out of three that are earned in the District leave town without making any contribution toward our survival. These dollars are taxed, but not in ways that benefit the city or the region.

Failure to provide logical and traditional revenue authority to match our responsibilities has been a chronic weakness in our financial picture.

Let me illustrate what this means to DC. In 1996, Maryland residents are projected to earn $12.6 billion in the District while Virginia residents will earn $9.0 billion. DC residents are forecast to earn $3.1 billion by working in either Maryland or Virginia, leaving a net outflow of earnings from the District of $18.5 billion.

If the District were to tax this non-resident earning at a flat 2% rate, we would raise about $370 million in FY '96, or about 15% of all tax collections and about 11% of all General Fund revenues expected for the year.

For example: a 2% tax on non-resident income in Cleveland, Ohio, raises about 60% of all taxes; and in Detroit, Michigan, a 1.5% tax raises about 30% of all taxes.

Finally, while DC contains very valuable property, only 43% of it is taxable. Not only is federal land exempt from our rolls, but hundreds of tracts have been exempted by specific congressional privilege or categorical exemptions such as non-profit organizations.

According to a recent McKinsey & Company study, the District loses an estimated $450 million in revenue annually due to tax-exempt properties—primarily the Fed-
eral government. The same report said that DC relies on its local tax base for 49% of its revenue, compared to only 15% in other cities.

The loss of property tax revenue to embassies is compounded by an estimated loss of $70 million in sales taxes each year from diplomatic and military customers who, by law, are exempted from paying sales tax.

Recapping the answer to the first question, I have demonstrated that our fragile economic condition is due to carry over debt from Federal control, transferred pension liabilities from Federal control, demands for state services without state authority, the prohibition to tax income at its source, and our severely restricted property tax base.

Many experienced professionals in government management look at the original home rule document with considerable skepticism.

We were blessed, however, with good management in an expanding economy. I take great pride in the financial administration of my earlier service as Mayor. I truly demonstrated my ability to be fiscally responsible and to balance budgets. In 10 of my 12 years, we managed with surpluses.

The second question, then, is what is our situation today?

The economic fortunes of DC, as well as many other cities, turned sour rapidly in the late 80s, and because my administration was too slow to react, we left a deficit in my last year.

Because Congress advanced money to cover that 1990 deficit, the city once again began with a clean slate. In 92 and 93, the city appeared to have a balanced budget, but in hindsight we certainly must question that conclusion. The Kelly Administration then transferred $173 million in cash from the first quarter of 1994 to the last quarter of 1993.

While the Council approved this action as the best of bad choices, a parallel move to cut expenses did not happen. 1994 pension payments were then delayed to 1995.

Finally, under Congressional pressure, specific limits on spending were ordered, and the DC Council began to pass legislation demanding reduced personnel and spending. These initiatives to curtail government were largely ignored by the previous administration.

On February 1 of this year, it was my job to deliver the bad news about the city's performance under my predecessor, releasing the results of the 1994 audit showing a deficit of $335 million. I also reported the expenditure ceiling set by this Congress for FY '95 would be overspent by $631 million without significant spending and management changes, and that an additional $91 million in cash would be needed to end the fiscal year with an acceptable cash balance.

The third question is "What are we doing to solve this financial crisis?"

In cooperation with DC Council, we are moving dramatically to reduce our workforce and cut our spending.

You may well ask if we have the technical ability to accomplish reduced spending and to monitor the government actions that will be required to enforce change. I can assure you that our technical ability—though it must be improved—is not the problem. It is the political resolve that is required, and I and the Council are pledged to provide that resolve in this crisis.

We have already complied with the Congressional mandate to reduce our appropriated full-time-equivalent positions from 35,588 to 33,588. In fact, as of today, we have 32,530 FTEs, more than 1,000 lower than required—all of this seven months ahead of the deadline of September 30.

I have in place, or have committed to, plans for additional personnel actions that bring this total down to 31,588 by the end of this fiscal year.

I realize that these position counts are confusing at best. The counts here refer to appropriated positions—not grant funded jobs. But the drop of 4,000 authorized positions that I have pledged in FY '95 is truly significant.

It should be noted, however, that these personnel actions do not produce a lot of immediate savings. Inventive costs, severance pay, and other termination costs preclude savings benefits to this year's budget. I am committed, however, to bringing our workforce down dramatically. And—with Council support—I am doing it.

To reach the $3,254 billion ceiling Congress has set for FY 1995, I am putting in place agency cuts of more than $224 million for the remaining seven months of FY '95. Contracts are being cancelled, services terminated, entitlements curtailed, and purchases cut in every department and agency. These new spending plans are being monitored for compliance.

There is skepticism I know about whether action to cut spending is underway right now. I understand why you and others would have doubts about our resolve to act. Let me share with you the pain occurring at the citizen level right now. Here are a few samples of the cuts we have made that will affect FY '95:
+ At DC General Hospital, where 240 workers have left the rolls since October, 90 physicians and 170 others will leave their jobs in April. A total restructuring will reduce care to trauma, pediatrics, OB/GYN, and other specialties.
+ We are eliminating AFDC benefits to 19 and 20-year-olds, as well as women in their first and second trimesters of pregnancy.
+ We are placing a limit on emergency assistance payments, and burial assistance.
+ We are increasing charges for city-provided day care.
+ Over 100 correction officers have been redeployed and other work changes have reduced overtime by nearly $300,000 per pay period.
+ Rotating fire engine companies out of service is also saving overtime at the rate of approximately $200,000 per pay period.
+ We have closed five public health clinics.
+ More than 40 contracts with health service vendors are being cancelled or renegotiated, cutting more than $5 million in FY '95.
+ We are closing one of our two drug and alcohol detoxification centers.
+ We are eliminating manual street cleaning and reduced bulk trash collection.

We estimate that FY '95 savings due to employee departures to date, vacant positions remaining unfilled, and actions to curtail spending that has already taken place, such as eliminating contracts, reducing program funding, and curtailing overtime, amount to more than $70 million.

This amount does not include many actions in progress, and cuts in services and contracts that will be completed in the near term. I will continue to implement and monitor our spending reduction plans. I know that it is only through credible cost cutting and management changes that I can earn your confidence to seek and negotiate systemic change. And I earnestly ask that you look at what I am doing—not just at what I say.

In addition, my plan for this year includes a $70 million savings in wages. Our first furlough day is next Monday, and another is scheduled for March 13. I would prefer across the board salary adjustments which would be fairer to all workers, and I am working with DC Council to achieve savings through that method instead furloughs. But we will achieve the $70 million one way or the other.

I have been specifically encouraged to report on behalf of our various employee representatives that our workers are prepared to be cooperative during this period of financial crisis.

Our long range capital debt of more than $3.2 billion is unusually front loaded and given normal credit considerations I believe $70 million could be cut from this year's spending through restructuring our capital debt. Obviously there are some concerns with this approach due to our rating in the market, but this avenue is fiscally sound and I plan to pursue it with your help.

All of these actions will bring our spending to within $267 million of the Congressional spending authority. This amount relates directly to our increased Medicaid costs—costs accumulated due to lack of timely audits, but costs which are determined by entitlement, not by budget authorizations.

This suggests the third question, "What participation do we need from Congress to meet our financial needs?"

We need for Congress to assume responsibility either through increased appropriation, or direct payment of $267 million in Medicaid expenses in FY '95, and $141 million for these costs in each of FY '96 and FY '97.

In addition, I would propose that the federal government furnish the faith and credit backing for our capital debt as is done for many enterprise budgets. Yes, our credit in the market place is fragile. But by Congress insuring our debt, millions in debt service will be saved for taxpayers in the District and throughout the nation.

Question Four addresses the chronic imbalance of our relationship with Congress. And I am extremely grateful for the leadership here today that is willing to put our whole relationship on the table for discussion.

Again, I believe it will be instructive for me to take a moment to describe the context of this relationship as it has developed over time.

The view has been that home rule for the District established a clean financial slate for DC residents.

The reality is that when audits were finally possible in 1979, it was found that more than $279 million in unpaid bills were carried over from period of federal control.

In addition, as I documented earlier in this testimony, unfunded pension responsibilities for federal employees were transferred in whole to future District taxpayers—costs which today take $260 million every year from our treasury.
The opportunity is that it is not too late to clear the slate and remove these 90-year-old federal responsibilities from our plate.

The view is that DC has a large and prosperous tax base supported by the federal presence.

The reality is that only 43 percent of our property can be taxed at all. In addition, though 45 states legally mandate taxing income at its source, we are prohibited from taxing two thirds of the income generated in DC.

The opportunity is that we can still negotiate shared responsibility for shared benefits in the District, in the region, and in the nation.

The view is that Washington, D.C., performs comparable services to other municipalities, but at hugely higher costs. The reality is that less than half of our budget goes to typically municipal functions, with the rest going to pay for functions normally performed by county, state, or federal governments.

I am attaching a report which specifically outlines the municipal and non-municipal functions we perform. I have picked Syracuse, New York, as a typical municipality for comparison. Like many urban areas, you will find that 74% of Onondaga County's poor residents live within Syracuse. Yet most services for the poor are assumed by Onondaga County and the State of New York, as well as the federal government.

The opportunity is for DC and the Congress to review these functions realistically and to make new determinations about who should perform these tasks and who should pay for them.

The view is that DC created a huge workforce and bloated payroll. The reality is that when the federal government turned DC government over to us, there were nearly 43,000 appropriated and non-appropriated workers.

In 1980, they turned over almost 4,000 additional workers associated with St. Elizabeth's Hospital. Today, we have less than 43,000 workers, over 10,000 of whom are grant-supported (non-appropriated).

The opportunity is that we are committed to not only lowering the number of workers, but to redefining work, implementing data-driven management, and privatizing appropriate functions.

The view is that we have not been responsible managers. The reality is that while we have a structural imbalance between our resources and our obligations, we have the tools, the skills and the will to balance budgets, change direction, decentralize control, and dramatically improve management.

But another reality is that we have not faced bad times well at all. As Mayor in 1980s, I used our prosperity to develop innovative and in many cases nationally recognized programs to help young people and seniors. I remain proud of many of these accomplishments, but with the benefit of hindsight, I also wish I had taken a longer term view into these harder times.

After many years of surpluses, I did leave a deficit in my last year. As revenues continued to drop and costs escalated in the 90s, our city continued to spend, not seeing the trends that were shaking up business and government throughout America.

The opportunity is that we are a strong community, a vital partner in the nation's life, and we have the will and the determination to put our house in order. I have put in place a leadership team of experience and excellence that will lead our city to prosperity.

The view is also that DC government cares too much, is too generous, and helps too many.

The reality is that we do emphasize people services. Like many of you, I have carried a calling to serve "the last, the lost, and the least." Our compassion in times of prosperity, however, has turned into a double-edge sword in times of hardship.

We are out of step with our neighbors in terms of eligibility and benefits. We not only pay out more than we should, we attract many from other areas who should not be our responsibility.

The opportunity is that we will get in step with other jurisdictions, and find better ways of helping than through cash payments and high cost services.

How do we make the most of our opportunities?

I believe we are making a step in that direction today, working as partners in a new way to constructively face our realities and build a new future for a solvent, healthy Capital City.

On the table is our new commitment to manage government functions within authorized limits.

On the table is a review of county and state functions we now perform that perhaps should be performed or paid for in some other way.

On the table is the issue of old liabilities, inherited from before home rule.
On the table is the question of debt guarantees, shared resources, and a realistic tax base.

We must jointly work through these issues. That was not done in 1973. As careful as Chairman Diggs was in negotiating the original home rule charter, there was no avenue for local input or participation.

As Mayor, I pledge to work in concert with the DC Council to make this Congress our working partner to transform District government. I look to the day when this transformation moves beyond these discussions on money and budget. Our partnership must be about more than money. It can and must be about how the nation's capital city can overcome the urban challenges of our time, and in fact become a pilot example on how best to face these challenges.

We can use the present mechanisms, or we can create new ones. I have expressed support for our Congresswoman Eleanor Holmes Norton's idea of an Oversight Control Board, with resources being included with the oversight.

We come together today seeing Washington, D.C., as both a national problem and a national treasure. Our city has some of our nation's cruelest challenges: homeless mothers with babies, drug trafficking, illiteracy, and teenage hopelessness. We also carry our nation's greatest hopes: personal prosperity, freedom of spirit, and the right to self determination.

We have a theme in our government. The theme is simply that "EVERY ONE MATTERS."

This theme does more than articulate our caring for each person, as important as that is. It states the belief that every one has value, every one has something to give, every one is responsible, and every one contributes to the whole.

I have a vision for Washington, D.C.

I see a city where children are born in wedlock.

I see a city where young people go to college, and older people also continue to learn.

I see a city of thriving industries of tomorrow, including health care, music, tourism, and publishing—as well as government.

I see a city where service—in the public and private sectors—is considered honorable.

And I see a city where faith abounds... and faith is rewarded.

I come today not with all the answers, but with a deep desire to partner with you to see this vision become the new reality for America's number one city—Washington, D.C.

City of Syracuse Budget 7/1/94-6/30/95

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education—City School District</td>
<td>$174,560</td>
<td>53.5</td>
</tr>
<tr>
<td>Water Fund (entirely financed through rents and other revenues)</td>
<td>9,723</td>
<td>2.98</td>
</tr>
<tr>
<td>Sewer Fund (entirely financed through rents and other revenues)</td>
<td>3,261</td>
<td>1.0</td>
</tr>
<tr>
<td>Aviation (completely financed through user fees and aviation revenues)</td>
<td>16,639</td>
<td>5.1</td>
</tr>
<tr>
<td>Total (Special Districts)</td>
<td>$204,203</td>
<td>62.56</td>
</tr>
<tr>
<td>Police</td>
<td>$21,934</td>
<td>6.7</td>
</tr>
<tr>
<td>Fire</td>
<td>20,280</td>
<td>6.2</td>
</tr>
<tr>
<td>Public Works</td>
<td>24,221</td>
<td>7.4</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>5,496</td>
<td>1.7</td>
</tr>
<tr>
<td>Law (Corporation Council)</td>
<td>1,167</td>
<td>0.4</td>
</tr>
<tr>
<td>Finance, Audit, Assessment and Purchase</td>
<td>1,952</td>
<td>0.6</td>
</tr>
<tr>
<td>Community Services</td>
<td>322</td>
<td>0.1</td>
</tr>
<tr>
<td>Engineering</td>
<td>800</td>
<td>0.25</td>
</tr>
<tr>
<td>Community Development</td>
<td>1,738</td>
<td>0.53</td>
</tr>
<tr>
<td>Development</td>
<td>225</td>
<td>0.07</td>
</tr>
<tr>
<td>Executive</td>
<td>1,581</td>
<td>0.48</td>
</tr>
<tr>
<td>Elections, City Clerk, Council and Citizen Review Board</td>
<td>767</td>
<td>0.24</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>19,314</td>
<td>5.9</td>
</tr>
<tr>
<td>Police and Fire Retirement</td>
<td>6,050</td>
<td>1.86</td>
</tr>
<tr>
<td>Capital Appropriation</td>
<td>3,554</td>
<td>1.09</td>
</tr>
<tr>
<td>Principal and Interest on Bonds</td>
<td>11,964</td>
<td>3.67</td>
</tr>
<tr>
<td>All Other Appropriations</td>
<td>566</td>
<td>0.17</td>
</tr>
<tr>
<td>Category</td>
<td>Amount (in thousands)</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Total City (Without Special Districts)</td>
<td>$121,931</td>
<td>37.36</td>
</tr>
<tr>
<td>Total (City + Special Districts)</td>
<td>$226,135</td>
<td>100</td>
</tr>
</tbody>
</table>

City of Syracuse Source of Revenue 1994–1995

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in thousands)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Aid</td>
<td>$127,824</td>
<td>39.2</td>
</tr>
<tr>
<td>School Property Tax</td>
<td>52,757</td>
<td>16.18</td>
</tr>
<tr>
<td>City Property Tax</td>
<td>18,876</td>
<td>5.79</td>
</tr>
<tr>
<td>Payments in Lieu of Taxes</td>
<td>9,031</td>
<td>2.77</td>
</tr>
<tr>
<td>Tax Fees and Penalties</td>
<td>1,770</td>
<td>0.54</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>49,232</td>
<td>15.10</td>
</tr>
<tr>
<td>Utilities Gross Receipts Tax</td>
<td>2,405</td>
<td>0.74</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>54,237</td>
<td>19.7</td>
</tr>
<tr>
<td>Total</td>
<td>$226,134</td>
<td>100</td>
</tr>
</tbody>
</table>

County of Onondaga Budget 1995

[Includes only items which benefit the residents of Syracuse]

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in thousands)</th>
<th>Amount attributable to City of Syracuse based on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Population (34.9%)</td>
</tr>
<tr>
<td>Social Services Dept, include: Medicaid, Public Assistance, CENTRO, Assigned Counsel, Hospitalization, Education of Physically Handicapped, and other social services programs</td>
<td>$227,920</td>
<td>$79,544</td>
</tr>
<tr>
<td>Aging and Youth</td>
<td>1,584</td>
<td>588</td>
</tr>
<tr>
<td>Mental Health</td>
<td>19,846</td>
<td>6,926</td>
</tr>
<tr>
<td>Health Dept</td>
<td>36,982</td>
<td>12,907</td>
</tr>
<tr>
<td>Department of Corrections</td>
<td>15,092</td>
<td>5,267</td>
</tr>
<tr>
<td>District Attorney</td>
<td>5,726</td>
<td>1,998</td>
</tr>
<tr>
<td>Sheriff</td>
<td>41,664</td>
<td>14,541</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>9,021</td>
<td>3,148</td>
</tr>
<tr>
<td>Transportation Dept</td>
<td>35,282</td>
<td>12,313</td>
</tr>
<tr>
<td>Probation Dept</td>
<td>5,767</td>
<td>2,013</td>
</tr>
<tr>
<td>Library</td>
<td>10,665</td>
<td>3,729</td>
</tr>
<tr>
<td>Long Term Care Services Dept</td>
<td>27,909</td>
<td>9,740</td>
</tr>
<tr>
<td>Community College</td>
<td>38,652</td>
<td>13,490</td>
</tr>
<tr>
<td>Functional Total</td>
<td>$476,230</td>
<td>$166,204</td>
</tr>
<tr>
<td>Government Support (Executive, Finance, Council, Budget, Elections) and Others (Water, Sanitation, etc)</td>
<td>250,517</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>$726,747</td>
<td></td>
</tr>
</tbody>
</table>

County of Onondaga Source of Revenue 1995

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in thousands)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$170,304</td>
<td>23.4</td>
</tr>
<tr>
<td>Special District Taxes</td>
<td>42,478</td>
<td>5.7</td>
</tr>
<tr>
<td>State Aid</td>
<td>112,376</td>
<td>15.5</td>
</tr>
<tr>
<td>Federal Aid</td>
<td>77,983</td>
<td>10.7</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>54,300</td>
<td>7.5</td>
</tr>
</tbody>
</table>
County of Onondaga Source of Revenue 1995—Continued

[Table]

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other Revenue</td>
<td>270,125</td>
<td>37.2</td>
</tr>
<tr>
<td>Total</td>
<td>777,562</td>
<td>100</td>
</tr>
</tbody>
</table>

GOVERNMENT FUNCTIONS IN WASHINGTON, DC

by typical governmental level responsibility (draft)

STATE:
Health & Welfare: Medicaid; St. Elizabeth’s Psychiatric Institution; Mental Retardation/Developmental Disabilities; Health Policy, Standards and Education; Other Health Services; AFDC; Emergency Assistance; General Public Assistance; Supplemental Security; Paternity and Child Support Enforcement; Energy Assistance; Other Income Maintenance; Foster Care and Adoption Services; Day Care; Other Child & Family Services; Homeless & Emergency Shelters; Services to The Aging; Other Social Services
Education & Culture: University of the District of Columbia; District of Columbia Law School; State Educational Services (Student Loans, Certification, etc.); Educational Institution Licensure; Teachers’ Pensions; Arts & Humanities
Public Safety: Juvenile Services; Prisons; Parole; Pretrial Services; Public Defender Services; DC Court System; Judicial Nominations; Judicial Pensions; Law Revision Commission; Human Rights; National Guard; Emergency Preparedness
Employment Security & Business Regulation: Unemployment Compensation; Workers Compensation; Disability Compensation; Occupational Safety & Health; Wage-Hour Enforcement; Labor Standards; Employee Appeals; Apprenticeship Programs; Job Training & Development; Placement & Employer Services; Insurance, Corporations & Occupational Licensing; Banking & Financial Institutions; Public Service Commission; Environmental Regulation; Other State Economic Development
Miscellaneous: Motor Vehicle Registration; Environmental Regulation; Sales & Income Tax Collection

COUNTY:
DC General Hospital; Nursing Homes; Ambulatory Health Care; Community Mental Health; Alcohol & Drug Abuse Services; Preventive Health/Social Services; Other County Health Services; DC Jail; Public Libraries

SPECIAL-DISTRICT:
DC Public Schools; Mass Transit (WMATA/WMATC); Water & Sewer Services; Council of Governments

CITY FUNCTIONS:
Public Safety; Police; Fire & Emergency Medical Services; Police & Fire Retirement; Civilian Complaint Review Board
Community Development: Public & Assisted Housing; Housing & Community Development; Building/Business Permits & Inspections; Planning & Zoning; Recreation & Parks; Convention Center; Tenant Assistance; Minority Business Development; Diversity Programs; Job Development; Other Community Development Services
Public Works: Solid Waste; Engineering & Construction; Streets & Bridges; Parking; Traffic Operations; Traffic Adjudications; Fleet Maintenance; Facility Management; Taxi Regulation; Other Public Works Services
General Government: Mayor & City Administrator; Administrative Services; Administrative Oversight; Finance & Budget; Personnel; Corporation Counsel; Settlements & Judgements; Real Property Tax Collection; Other Support Services; Debt Service; Optical & Dental Benefits; Pay Adjustment; DC Council; DC Auditor

District of Columbia Current Appropriated FTE Count

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current FTE Count</th>
<th>Percent Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council of the District of Columbia</td>
<td>155</td>
<td></td>
</tr>
<tr>
<td>Office of the District of Columbia Auditor</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

GOVERNMENT DIRECTION AND SUPPORT:
## District of Columbia Current Appropriated FTE Count—Continued

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current FTE Count</th>
<th>Percent Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory Neighborhood Committee</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Office of the Mayor</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Office of the Secretary</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Office of the Inspector General</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Office of Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Intergovernmental Relations</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Office of the City Administrator</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Department of Administrative Services</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Contract Appeals Board</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Office of the Dept. Mayor for Finance</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Office of the Budget</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Office of Financial Management</td>
<td>194</td>
<td></td>
</tr>
<tr>
<td>Department of Fin. &amp; Revenue</td>
<td>472</td>
<td></td>
</tr>
<tr>
<td>Board of Elections &amp; Ethics</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Off. of Campaign Finance</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Public Employee Relations Board</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Office of Employee Appeals</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Office of Grants Mgmt</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total**                                                                 | 1,245             | 3.8           |

**ECONOMIC DEVELOPMENT AND REGULATION:**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current FTE Count</th>
<th>Percent Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Off. of Dept. Mayor for Econ. Development</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Office of Banking &amp; Financial Institutions</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Office of International Business</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Office of Tourism &amp; Promotion</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Office of Planning</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Office of Zoning</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Department of Housing and Community Development</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Department of Public &amp; Assisted Housing</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Board of Appeals &amp; Review</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Board of Real Prop. Assessments &amp; App</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Department of Consumer &amp; Regulatory Affairs</td>
<td>482</td>
<td></td>
</tr>
<tr>
<td>Public Service Commission</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>Office of the People’s Council</td>
<td>36</td>
<td></td>
</tr>
</tbody>
</table>

**Total**                                                                 | 711               | 2.2           |

**HUMAN RESOURCES DEVELOPMENT:**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current FTE Count</th>
<th>Percent Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Assist. City Administrator for Human Resource Development</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>DC Office of Personnel</td>
<td>229</td>
<td></td>
</tr>
<tr>
<td>Department of Employment Services</td>
<td>233</td>
<td></td>
</tr>
<tr>
<td>Education Lic. Commission</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

**Total**                                                                 | 479               | 1.5           |

**PUBLIC SAFETY & JUSTICE**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current FTE Count</th>
<th>Percent Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Police Department</td>
<td>4,820</td>
<td></td>
</tr>
<tr>
<td>Fire and Emergency Medical Services Department</td>
<td>1,523</td>
<td></td>
</tr>
<tr>
<td>Police and Fire Retirement System</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Judges’ Retirement System</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>District of Columbia Court of Appeals</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Superior Ct. of the District of Columbia</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>District of Columbia Court System</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>Office of the Corp. Counsel</td>
<td>213</td>
<td></td>
</tr>
<tr>
<td>Settlements &amp; Judgments</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Public Defender Service</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Detention Services Agency</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Department of Corrections</td>
<td>3,785</td>
<td></td>
</tr>
<tr>
<td>Parole Board</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>District of Columbia National Guard</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Office of Emergency Preparedness</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Commission on Judicial Disabilities &amp; Tenure</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Judicial Nomination Commission</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

**Total**                                                                 | 4,820             |               |
Mr. DAVIS. Mr. Mayor, I want to move to Chairman Clarke first and then Mr. Pohlman. The chairman has a brief statement, then we will go to Mr. Pohlman, and then we will ask questions.

Mr. BARRY. Of course, Mr. Davis. If you say so.

Mr. DAVIS. We want to follow protocol, Mayor.

Mr. BARRY. Mr. Pohlman is part of my testimony. I was not trying to take your time, Mr. Clarke.

Mr. CLARKE. I appreciate the Chair people recognizing—Mr. DAVIS. You need to turn on your microphone.

Mr. CLARKE. Thank you, Mr. Chairman.

Mr. Chairman, and also Chairman Walsh, and members of the committee, I do appreciate the opportunity to testify before you, this joint hearing today. I am not joined at the table by any of my colleagues, but when last I looked around, I saw five of my colleagues, Councilmember Frank Smith, Councilmember Kathleen Patterson, Councilmember Hilda Mason, Councilmember Charlene Drew Jarvis and Councilmember Harry Thomas in the audience. And I am joined by the budget director for any kind of technical questions that we might have.

The District's fiscal crisis presents tremendous opportunity for change, growth and development of our Nation's Capital. The council recognizes the full dimension of the crisis we now have. We have an immediate problem and we have a long-term challenge, and we are facing it.
Yesterday, the council took action to reduce the base wage rate for all District employees. We expect that this will result in a $70 million savings for this fiscal year. It also began a process for an elimination of 1,200 positions beyond the 2,705 positions the council cut in the fiscal year 1995 supplemental. The council had cut the personnel line by $30 million in anticipation that the Mayor would renegotiate the contracts with collective bargaining units. The negotiations were proceeding but with no concrete results.

I must tell you that as a friend of labor, our decision to roll back employee wages was one of the most difficult decisions I have ever made, I have ever had to make. Among the other actions the council has taken to address the immediate fiscal problem are: to provide for early easy-out and early out retirement programs and a voluntary severance program for fiscal year 1995. The early out and easy-out have been extended, and as of our emergency legislation yesterday, if the Mayor signs it, the voluntary severance is to be extended as well.

We adopted the fiscal year 1995 supplemental budget, which cut and reallocated $278.9 million in appropriations and 2,705 positions cut. We went into very difficult areas. Areas of entitlement; Aid to Families of Dependent Children; to some extent into Medicaid. We took away the supplement that the District of Columbia was giving to recipients of special security income, SSI. We eliminated much of our emergency assistance program.

We took away the stipends that members of our boards and commissions receive unless they are in a full-time board or commission. We eliminated the funding for the Commission on Women. We had already eliminated the funding for the Commission on Men. I guess we have at least been consistent with the Equal Rights Act there. We reduced substantially the Commission on Latino Development. We eliminated funding for the Commission on Arts and Humanities to that which would be necessary to match with Federal funds.

In the fiscal year supplemental budget, we did something with those funds that we had to cut. The first thing that we did was we budgeted. A budget item. We budgeted $140 million not to be spent on anything, but to be reserved to meet what we understood to be your—the requirement in the fiscal year 1995 Budget Act and its report.

We also budgeted, and this becomes important, very important in understanding what we did and in reading the GAO report, because I would like to make this reference, particularly here in recognition of what the GAO has reported. We budgeted $79 million not to spend for anything but as a cash reserve. If you look on page 11 of the GAO report, it shows that. But it shows it as an expenditure. As an additional cash need.

If you read the language of the fiscal year 1995 supplemental we sent up, it is a budgeted item not to spend. And if you add that to the $139 there at the bottom of page 11, you come up with $200 and some million.

Similarly, if you look on page 12, it says that on February 1, 1995, the Mayor announced that overspending in his agencies could result in $3.89 billion in expenditures or $631 million over the $3.25 billion expenditure. Recognize again that we budgeted $79
million not to spend on anything; subtract it from that $3.89 and we are at $3.1. So I make that point.

We took that task, which I hope those of you who have come from local and State legislatures might appreciate as a matter of discipline. If you simply do not budget the money to spend for something, to set aside in some way, some of my colleagues are all trying very hard, now somebody might I might catch hell for that, but somebody might just go and spend it. So we budgeted that. Now, it looks like for that discipline we might be getting a bad report card here, but $79 million of that money that we budgeted was for that specific purpose.

We also provided for a tax amnesty program for fiscal year 1995, which is expected to generate $12 million. That added to the $79 million that we budgeted not to spend will create a cash reserve of $91 million.

We did not just stop or hit the gavel with respect to the budget and transmit it to the President. We went on watching what was happening. The committees, the council's Committee of the Whole, held an oversight hearing on February 8, and was ordered to receive testimony from the administration on their progress toward meeting the budget cuts and reallocations of the fiscal year 1995 supplemental.

I am providing you for your record with a copy of the transcript of that hearing. And the reason I am doing it, and I would like you to look at it, it might be—you have an awful lot of other things to do, but if you would glance through it, you will see that the kinds of questions that my colleagues and I asked in the course of looking at the implementation of that budget, are much like the questions that you have asked here today and that which you have asked the General Accounting Office to look at for you. We are trying to stay on the case, we are trying to watch what will happen.

Not only has the council's Committee of the Whole looked at the whole situation, our council's Committee on Human Services and the Judiciary, together responsible for oversight of 55 percent of the appropriated budget, have held further oversight hearings on these matters. I have asked all of our committee chairs to regularly review the financial reports of agencies under their oversight. The council is on the case and wants to stay on that case.

I would like to note that from what we saw, we were pleased with the administration's report on the employee buy-out programs, early out, easy-out and voluntary severance. We were told that 1,920 positions had been vacated with no backfill. We continue to be concerned with respect to some issues, particularly regarding contracts, and we are going to be watching those very carefully. And as I will mention in a moment, we may need some of your assistance in that regard.

We have examined the Mayor's plans for $224 million in reductions, and we are pleased that our fiscal year 1995 supplemental laid out much of the foundation for his plans. We look forward to working with him in this regard.

As a matter of fact, in 23 of the agency lines, the Mayor has the same reductions, which we already budgeted for on our fiscal year 1995 budget. And in 49 of the agency lines, we have made a larger reduction than has he. And in 17 of 2 agency lines, he has proposed
a larger reduction than us. So we are working together with our Mayor. We have already laid the budget basis for some of what he says he is going to be doing now.

Compounding the immediate fiscal crisis we face in the District of Columbia are major structural problems. Much reference has been made to the McKinsey report. We would commend that to your attention as well. These include the inability to tax income at its source and unfunded pension liability inherited from the Federal Government, and the responsibilities for carrying out State, county, and municipal functions.

As is noted in the Rivlin Commission report in 1990 and in the McKinsey report in 1994, the excess tax burden of DC residents and businesses is caused, to a large extent, by the limitations in the home rule charter that prevent us from taxing 60 percent of the income earned in the District of Columbia and 55 percent of our property, much of it that is Federal that is tax exempt.

As the Mayor and several studies have noted, our assumption of State functions is quite costly. In the District of Columbia Department of Human Services alone, the costs for Medicaid, AFDC, and foster care are over $414 million. Meanwhile, however, we are building for our future, and here we need your assistance as well.

We have begun planning for expanded convention structures for a new arena to bring professional sports back to our city and for a municipal parking authority like those of our neighboring Prince George's and Montgomery Counties. Congressional legislation is needed to proceed.

We have reduced the franchise, gasoline, and sales taxes thereby reducing some of the tax burden on business to stimulate job creation.

Now, as we have plowed through these grounds, we are seeing many areas where Congress can be of help in our journey. For instance, although we are not a State, the Constitutional injunction against State laws impairing the obligation of contracts may well stop some of the efforts that we are undertaking to review our contracts. That provision does not apply to the Congress.

We are prohibited by the Home Rule Act from treating any employee hired before 1980 differently now, 15 years later, than we would have treated him then. That, for instance, if we wanted to furlough on a holiday, we would have to culled the personnel records for each employee to see whether that employee came on before 1980 because of this provision, a 15-year-old provision.

We are not only interested in looking at employment contracts, but at contracts for goods and services. Our Court of Appeals has said that we must be authorized by Congress to review contracts made by the executive, as it is part of the determination of the separation of powers.

We have, in the fiscal year 1995 supplemental pending before Congressman Davis' subcommittee, a section, which if enacted by the Congress as part of the Budget Act, would give us the ability to review contracts worth over $1 million and get some of the information that we have not always been able to have and would like to see.

Indeed, while we respect that the Congress may want to look at our budget request more carefully under the current conditions, I
respectfully, and I do it respectfully, submit that it would help if it did so more quickly. It is very difficult to question administrators regarding spending plans for a budget that has not yet taken effect.

There has been a lot of references here to the pension problem, and there has been a lot of references to Medicaid, there has been a lot of references to what other States do. One thing different about the pension problem. There is clearly a role in which the Congress can help. It is not something that every other State is having a problem with.

It is not one that if you came to our assistance you might have to say, explain how you did not come to some other State’s assistance. This is one, which by the General Accounting Office’s own analyses, is based upon what the Congress did or did not do going back to the beginning of the century.

Congressman Dixon asked whether the amount of the District’s annual payment to the pension fund might be some source of relief. And it may be that that would be the way that your relief could be help given to us rather than some other hook upon which you might want to hang that. But it is clearly one where I think that you maintain some responsibility.

We may be coming to you with further information with respect to something that we are going to hold a hearing on in the city council tomorrow, nine Members have cosponsored a resolution to ask you—we have not voted on this yet—but to ask you to look at the corporate property tax exemptions of organizations that are federally related in their home jurisdictions. These do not exist across the Nation, but we have one here and I believe there is one over in Virginia, and there are some other places where they pay no corporate tax funds. We will be looking at that and sending you our advice on that as well.

Congressman, you were asking about the schools. They do come to the city council for their funding, but under a provision that the Congress wrote that is in the congressional law, we cannot have any line-item review of their expenditures. That has been a matter of intense frustration.

We get to do the taxing and they get to do the spending. We have the political dichotomy in this city where I get one job and they get another. And I don’t want to tax and they sure want to spend, and so it builds that tension in there and sometime somebody somewhere is going to have to look at that problem.

I thank you very much and am available for questions.

[The prepared statement of Mr. Clarke follows:]

Prepared Statement of David A. Clarke, Chairman, Council of the District of Columbia

Good morning Chairman Davis, Chairman Walsh and members of the Committee. I appreciate the opportunity to testify before your joint hearing today. The District’s fiscal crisis presents tremendous opportunity for change, growth and development of our nations capital city. The Council recognizes the full dimension of the crisis we now face. We have an immediate problem and we have a long term challenge. Just yesterday, the Council took action to reduce the base wage rate for all District employees. We expect this will result in $70 million in savings for FY 95. It also began a process for an elimination of 1200 positions beyond the 2705 positions we cut in the FY 95 Supplemental. The Council had cut the personal line by $30 million in anticipation that the Mayor would renegotiate the contracts with collective bargaining units. The negotiations were proceeding but with no concrete re-
sults. I must tell you that as a friend of labor our decision to roll back employee wages was one of the most difficult decisions I have ever made.

Among the other actions the Council has taken to address the immediate fiscal problem are:

- Easy-out and early-out retirement programs and a voluntary severance program for FY 1995 to reduce staffing levels.
- FY 95 Supplemental Budget, which included a reallocated $278.9 million in cuts and a net increase of $39 million in revenues.
- In the FY 95 Supplemental Budget, the Council first budgeted $140 million as a reserve, in response to the Congressional directive, and also budgeted another $79 million as cash reserve.
- A tax amnesty program for FY 1995 that is expected to generate $12 million making a total cash reserve of $91 million.

In accord with its oversight mission, the Council's Committee of the Whole held and oversight hearing on February 8 in order to receive testimony from the administration on their progress toward meeting the budget cuts and reallocations of the FY 95 supplemental. I am providing you and your committee members with a transcript of that hearing, at which we went over the status of each cut we had made. As you will note from the transcript, we asked tough questions that got to the critical issues of actual implementation of the budget directives. In addition, the Council Committees on Human Services and on the Judiciary—together responsible for oversight of 55% of the appropriated Budget—have held further oversight hearings on these matters. I have asked our Committee Chairs to regularly review the financial reports agencies under their oversight.

I would like to note that we were pleased with the Administration's report on the employee buy-out programs—early-out, easy-out and voluntary severance. We were told that 1921 positions have been vacated, with no back-filling.

We have examined the Mayor's plans for $224 million in reductions. We are pleased that our FY 1995 Supplemental laid much of the foundation for his plans, and we look forward to working with him as he proceeds.

Compounding the immediate fiscal crisis we face in the District of Columbia, are major structural problems. These include the inability to tax income at its source, an unfunded pension liability inherited from the federal government, and the responsibility for carrying out state, county and municipal functions. As noted in the Rivlin Commission Report (1990) and the McKinsey Report (October 1994) the excess tax burden of DC residents and business is caused to a large extent by the limitations in the Home Rule Charter that prevent us from taxing 60% of the income earned in the District of Columbia, and the 55% of our property—much of it federal—that is tax exempt.

As the Mayor and the several studies have noted, our assumption of state functions is quite costly. In the Department of Human Services alone the costs for medicaid, AFDC, and foster care are over $414 million.

Meanwhile we are building our future, and here we need your assistance as well. We have begun planning for an expanded convention center, for a new arena to bring professional sports back to our city, and for a municipal parking authority like those of our neighboring Prince George’s and Montgomery Counties. Congressional legislation is needed to proceed.

We have reduced the franchise, gasoline, and sales taxes thereby reducing some of the tax burden on business to stimulate job creation.

As we have plowed through these grounds, we are seeing many areas where the Congress can help us in our journey:

- For instance, although we are not a state, the Constitutional injunction against state laws impairing the obligation of contracts may well stop some of the efforts we are undertaking to review our contracts. That provision does not apply to the Congress.
- We are prohibited by the Home Rule Act from treating any employee hired before 1980 any differently now that we would have treated him or her then. For instance, if we wanted to furlough on a holiday, we would have to cull personnel records to see how to treat each employee.
- We are not only interested in looking at employment contracts but at contracts for goods and services. Our Court of Appeals has said that we must be authorized by Congress to review contracts made by the executive. A provision to allow us to do that is included in the FY Supplemental Budget request.
- Indeed, while we respect that the Congress may want to look at our budget requests more carefully under the current conditions, I respectfully submit that it would help if it did so more quickly. It is very difficult to question and administer regarding spending plans for a budget which has not taken effect.
In August, 1994, the Council made the following requests of the Congress which I will take the opportunity to repeat here:

- Allow the government of the District of Columbia to tax sales at the Smithsonian;
- Increase the Federal Medicaid match to 66 2/3% (from 50%);
- Allow prison industry sales to non-profits;
- Amend the charter to permit us to enter into lease-purchase contracts.

We have enjoyed your sharing your perspective on our financial conditions on an annual or semi-annual basis as budgets and supplementals go through, but we invite you now during this period of special attention to walk through trying to do a long-term plan, plotting both the revenues and the expenditures. The experience will give you a great insight into the infirmities of our financial structure.

The Council and the Mayor look forward to working with the Congress to resolve the immediate and long term problems. We are resolved to face the difficult issues, make the tough choices create a city we can all be proud of. We believe the District of Columbia can be the premier capital city in the world.

Mr. Davis. Thank you, Chairman Clarke.

Mr. Pohlmatt, we would like to call on you now. You are going to shed some light on the Medicaid situation. Please take as much time as you need.

Mr. Barry. Mr. Davis, before that, let me add one point about our money and our accounting.

Someone asked the question about insolvency, and we could define it different. But let me just say to the Congress and to the citizens of Washington, we know how much money we have in the bank and how many bills are outstanding.

I will just give you an example. As of February 21, which was yesterday, we had almost $125 million of available money. We had almost $400 million of funds, but some are in escrow, et cetera, as you very well know. We had bills of $42 million. Which means that we have enough money in this bank and will have it until the middle of May to pay our bills on a regular basis.

Mr. Davis. OK, we will have some questions on that, but I appreciate that clarification.

Mr. Pohlmatt.

Mr. Pohlmatt. Thank you very much.

My name is Robert Pohlmatt. I am interim chief financial officer for the District of Columbia. I want to make a few comments on the Medicaid program because it is such a major factor, both in the audit results for 1994 and in the increase in the District's budget problem in 1995.

Between 1990 and 1994, there was a 93 percent growth in expenditures and a 36 percent growth in the number of recipients who utilized medical services paid for by Medicaid. Hospital expenditures have increased by 50 percent between 1992 and 1995; expenditures for nursing facilities increased by 13 percent between 1992 and 1994; and expenditures for intermediate care facilities increased by 24 percent between 1992 and 1994.

Costs have been rising rapidly in this program due to inflation in medical services area; increased utilization; more people coming on to the rolls; and greater utilization by the facilities the hospitals involved. And so we have been playing catch-up, as it were, with the Medicaid program for some time now.

Original budgets submitted or developed some 12 months in advance for Medicaid, rarely end up being the budgets that have to be used, or rarely end up being adequate to cover the actual expenditures that result.
One of the things that we tried to do in January, besides go through the audit reports that were supplied to us by the auditors for nursing homes, intermediate-care facilities and hospitals, was to total up all of the costs, $260 million from accrued costs from settlements or from estimated settlements from 1991 through 1994.

And then we turned that into looking at the 1995 budget problem, adding that to our 1995 budget problem. And we did one other thing, and this is an important change in our approach toward looking at Medicaid, we added in an estimate for 1995 of what we called an accrual for $82 million. And when we presented the problem on February 1, we put an asterisk next to that $82 million and said that the cash effect would be uncertain.

But what is important is that we really, by doing that, said that we need to put our budget on an accrual basis for Medicaid; that when the auditors get done looking at the Medicaid results each and every year, they book a charge against us based on an accrual, based on an estimate of how much more we might have to pay out for Medicaid costs.

And so in doing our 1995 projection, we went to an accrual basis budget estimate and added an accrual in the budget itself, because if we do not have that kind of budget authority, and if we don't provide for that, at the end of the year when we get audits and a large charge is booked against the District, we are going to have operating deficits like we had in 1994.

To prevent that, we want to get ahead of the curve, put that estimate out in advance, put it in the budget, not have it as a nonappropriated charge after the end of the year, not find out about it later when the auditors do an audit. So that is a fundamental change in approach that we have made to try to get ahead of the rising Medicaid cost curve.

Thank you.

Mr. Davis. Thank you very much. We will start with questions at this point.

Let me just start by thanking everyone for coming here. I know this has been a difficult period for the District but, as you know, we have a constitutional oversight responsibility, and in these tough times we want to work with you every way we can to try to help bring the city back. We are not going to agree on everything, but we are going to sit down and work through these problems together.

Let me address quickly the State functions, county functions issue that the Mayor brought up and that pension liability—I think you make some good points. I think these are issues we have said we will revisit with you.

This is not any desire on the part of Congress to take over the city, but maybe basically to restructure the relationship in a way that is compatible for both of us. And I will just say publicly, I think these are on the table and we are going to look at these issues through time. But that is not the fundamental problem that brings us here today, the problem that brings us here today is particularly over the last couple of years looking at what the District has proposed to Congress and then how they have gone ahead and spent their money. Therein lies the difficulty for many of us on these panels.
We talked earlier about the $140 million in cuts that was last year, the Appropriations Committee and the Congress passed on to the Mayor and the council. They also, though, I think probably because they were a little suspicious of what the actual numbers were coming from the District, put a cap of $3.25 billion in terms of the city's spending. That is the current law in the land today, that to the extent you exceed that your future payments may be deducted.

And we, at this point, are facing that. As I understand your proposed solution to that, if you are saying to us it is basically do not penalize the city by deducting future payments and, in addition to that, we want you to pick up $267-odd million in the Medicaid payments that the District cannot afford to make; is that fair?

Mr. BARRY. Mr. Chairman, again to reiterate, the Congress was acting on the basis of what it considered accurate information. The Congress and the council is acting the same way. But we now know that information was not accurate; that the previous administration had not been forthcoming with accurate information.

And so since we now know what the truth is, I think GAO, the General Accounting Office, has agreed with us that this—they disagree on the accrual and the cash part, but they agree the Medicaid budget has an accrual of $261 million, and so it is accurate to say we are asking for budget authority to take us up to $3,521 million.

Also, I know why the Congress put the penalty in it, because they did not believe the District was disciplined enough to cut itself. Therefore, when you do that, you put people in a penalty box. It is a two-way sword.

If we overspend by $40 million, it means our cash is $40 million less; then we get $40 million of reduced Federal payment, we have an $80 million penalty as opposed to $40 million. So we are asking that the limits be looked at and that we revisit the penalty part of this.

We are convinced, Mr. Chairman, that the General Accounting Office will be getting these reports if we, on the short-term, deal with the District government in reducing this budget, as I say we are going to have to do and will do, and if the Congress steps up to the plate on the authorization of $267 million.

We do not need $267 million of cash for 1995. We can work out what that means in terms of cash. Then we can begin to look at the structural relationship. So you are right, what brought us here is the fact that we were spending in 1994 far above what the Congress thought, far above what the city council thought was happening, and, second, the penalty box that we will be in.

We took the opportunity to talk about the larger issues we would like to work on that are more structural in nature. But the immediacy is the $267 million.

Mr. DAVIS. Well, that falls under Mr. Walsh's committee jurisdiction. It actually came from them and they are going to have to explore that a little bit further as we move forward. It was based on numbers given to us by the city and not by you as I understand. Those numbers were based on that and now it puts the Congress in a very difficult light of where the existing law is right now which penalizes the District even further.
Mr. BARRY. Mr. Chairman, our approach to that is we are going to submit a supplemental budget to the city council on March 8 with these numbers in there. The U.S. Government has a supplemental, as it does in this cycle or as in 1991, there can always be emergency legislation that would seem to me originate maybe in your committee, because it is authorizing and up in the appropriation part of it, so I think the Congress and the Federal Government have the mechanisms to technically and legally solve this problem if it desires to do so because the fiscal year doesn’t end until September 30, that is when the penalty starts.

Mr. DAVIS. I only get 5 minutes. Right now under your current projections, either you or Mr. Pohlman can answer, when do you see the District literally running out of cash?

Mr. Pohlman. Our projections are that if we don’t get assistance we are going to have severe cash problems in May. I want to indicate that we are paying bills with a 30-day lag time from date of acceptance right now. We would need to continue that kind of policy. We could not simply bring all of our bills off quickly, but if we maintain the current cash management policies, we believe that we can continue having adequate cash until May.

Mr. DAVIS. OK. I have other questions, but I will get them on the next round. Thank you very much, I will turn it over to Chairman Walsh.

Mr. WALSH. Thank you, Chairman Davis. I would like to thank the Mayor and the council chairman as well as the members of the District government for coming here today and expressing very forthrightly their concerns.

We, too, are deeply concerned. I applaud the actions that you all have taken thus far. Hopefully, we will be able to go around again for questions because there is a lot of ground to cover.

I would like to take my first 5 minutes to respond or comment on some of the things the Mayor said in his opening statement that I think were important. First, the Mayor mentioned that in 1975 when Mayor Washington became Mayor, an audit was requested and the books couldn’t be audited.

I would suggest that based on what the GAO told us today some things just haven’t changed in 20 years. The books still can’t be audited.

Regarding the pension situation, the Federal Government’s commitment to the pension program was $52 million a year for 25 years. That totals $1.3 billion. That is a substantial commitment, and part of the problem, the structural problem that hasn’t even been mentioned today is the fact that this is probably the only pension that I know of where two cost-of-living allowances a year are provided. That is not affordable.

The District fought for home rule, and fought the good fight and won. It made commitments when they got home rule, and now those commitments, quite clearly, have not been met. We are told the Congress has not met our commitments. It is pretty clear that the District has not met theirs.

Part of home rule was presenting balanced budgets, and the GAO has shown us that at least in the last 4 years balanced budgets have not been presented. The Mayor mentioned that 44,000 positions were authorized in that home rule bill 20 years ago. Since
then the population of the District has decreased dramatically, as has the tax base, so commensurate reductions in employment are required.

I thought it was very interesting that the issue of the Syracuse area was used. I use that all the time because that is my experience. And, Mayor, I congratulate you. You come well prepared. We had your testimony about 10 minutes before the hearing, and you had GAO's 2 days before. You are very good at this. I would like to raise my hat to you.

Syracuse's tax base is about 47 percent tax exempt. The District of Columbia is 42 percent, something like that. Most major American cities have the same problem. Even though they are not the seat of the Federal Government, they are the seat of city, county, sometimes State government, with churches and parks and colleges and hospitals and all the things that the District has, so it is not unusual in that sense.

Another problem that was not mentioned in the Mayor's statement this morning but was mentioned by the Mayor's transition team back in November is a structural problem. The District of Columbia pays extremely high amounts for public assistance. That is not an entitlement. That is a discretionary spending decision by the District, and recently the Mayor used the figure of about $30,000 as the average public wage in this city. That is a high amount of money for a public employee.

The McKinsey report was cited, and it is very clear that there is a tremendous burden upon the District to perform these other functions, but if you buy the McKinsey report, which says that two-thirds of these financial obligations should be the Federal Government's and only one-third should be the city's, the question is why should there be home rule if two-thirds of the responsibility is ours? I ask that rhetorically.

Regarding the previous administration, even though the Barry administration presented balanced budgets most of the time during its administration, the cash supply dwindled year after year after year. No money was spent on school maintenance. They are full of fire code and housing code violations that are dangerous to kids. Even city hall, a magnificent building we visited the other day, is in such bad shape that the prior Mayor moved out. The council, to their credit is still there. As a former city councilor, I empathize. There are problems with the financial management systems. My question is why weren't they reinvested in prior administrations? My mother, God have mercy on her soul, when I would complain about how things were, she would say to me, "Jim, you made your bed, now you have to lie in it," and that is exactly what is happening.

The last year of the Barry administration there was a $118 million deficit. The last year of the Kelly administration there was a $335 million deficit. It is pretty obvious that what has happened in both administrations masked the problem, and when there was a change in administrations, it became clear. No surprise.

Regarding the work force issue, the GAO says that the cuts have not been made, and I am hopeful that we can get a list of the individuals who have left city employ, names, addresses, and former positions. It looks like Mr. Pohlman has that list. Great. We will
review that because it will be interesting to see where those cuts were made and what sort of planning went into those layoffs.

Part of the city's commitment to resolve this fiscal problem was a requirement to cut $140 million. GAO says that has not been done. In fact, about $99 million in cuts have been implemented. The transition team headed by, I believe, Mr. Elijah Rogers, the former city administrator, suggested in November 1994 that the District needed to come up with not only $140 million in cuts, but an additional $260 million in cuts.

They saw the train wreck coming back in November, yet the cuts haven't been made. Am I out of time here? All right. Let me just wrap up, and then I will come back for questions.

I will not bring an appropriations bill to give the District more money this year to the Congress. I can't do it, it won't pass. Even if I wanted to, I couldn't get it done without structural changes in the way the District government operates.

We will not remove the escrow account and the penalty require-ment, because I think that is what has brought us to the table today and I can't speak for anybody else on the subcommittee, but it would be next to impossible for us to accomplish that task. I will leave it at that, and give somebody else an opportunity to speak.

Mr. DAVIS. Ms. Norton.

Mr. BARRY. Mr. Chairman, could I comment at some point?

Mr. DAVIS. We will give you an opportunity.

Mr. WALSH. I have no objection.

Mr. DAVIS. We will give you an opportunity to comment now and not take it out of Ms. Norton's time.

Mr. BARRY. I appreciate Mr. Walsh's observations. Let me just make a couple of points. I said to everyone who would listen that in 1990, the last year of my administration, I had lost control of the government because of my personal difficulties, so that $118 was forecast early in March, couldn't get the council to act to reduce, but anyway, that was then, but the big issue I think, Mr. Walsh, is these pensions.

The two COLAs and anything else that goes with it were set into law by the Congress, and the Congress has to change that benefit for those who came under that law prior to 1980. Second, the 11,000——

Mr. DAVIS. Mr. Mayor, would you support those changes?

Mr. BARRY. Absolutely I would support that. This pension situation was generous in America. You could be a fine firefighter or police officer, which we certainly admire and respect, you come on the force at age 21, retire at 41, 20 years, about 60 or 70 percent of your pension for another 25 or 30 years of life, it is very generous, but if you take the 11,700 retirees, 99 percent of them came on the force under the federally mandated system, and what is missing here is that the Federal Government actuarily should pick up all of that.

The District should pick up any new people coming on after 1980, and the point we were making here is that even the $52 million just scratches the surface, so if the District didn't have to pay the retirees, which we shouldn't have to pay for, we would have about $295 million of taxpayers' cash to be used either to cut our tax rates or to balance our budget.
I think that is very important that that be looked at; the District government needs relief in the pension area. It will be more difficult probably because it is such a large amount, but certainly philosophically the DC government should not be paying for those retirees. They deserve to be paid, but not by us. The other part of this is that——

Mr. DAVIS. Excuse me, Mr. Mayor. I want to give you time to respond. If I could, with regard to the pension issue, for current employees before they become pensioners and for new employees it is within your purview to pass a law, could you not?

Mr. BARRY. Yes, Mr. Clarke had introduced a law last year. I supported it. I hope we can try to work on getting it through the Congress where new employees will have a defined contribution and it will be much more manageable without all these other things. I just want to continue to say that those 11,700 that are now there and retired ought not to be the financial responsibility of the DC government.

Mr. CLARKE. Thank you, Chairman Davis and Chairman Walsh. Yes, I did introduce legislation——

Mr. DIXON. My concern at this hearing is that the information that is disseminated be totally accurate. Mr. Clarke’s bill provided for a roll back on condition, a condition precedent that Congress do certain things: Extend the pension program for 30 years, and increase it at 5 percent each year after the 25th year, as I recall.

I think if we are going to resolve these problems, we have to be totally accurate as to what the facts are, and I am not criticizing you, Mr. Mayor, but I notice that a lot of conversation here has been very loose and general which are not the facts, and so when we say that we have to do something, it isn’t totally accurate, and it is not fair to Congress. It is not fair to the District to——so I would just say let’s slow down here and get the total accurate facts.

That is one of the problems around here as it relates to the relationship between the Federal Government and DC. You know, it depends on how deep you have your ear in the water as to how hard you want to pull, and I mean I have noticed the conflict this morning, if I may just take a minute, between the things that the council chairman has said and the conflict between the executive branch here.

I just think enough of this is enough. This is very serious. I am referring to your opening statements which said well, you know, we are doing a good job. We made the cuts. I am sorry, I don’t—I will amplify on it when it is my time.

Mr. DAVIS. Mr. Clarke, you wanted to respond.

Mr. CLARKE. On the pension question, I think it is in the line, not saying that there was any inaccuracy, but in the line of clarification that I wanted to say the council did pass legislation. It did address the COLAs and it did provide that there would be only one COLA. It also provided that our employees would go from 6 percent contribution to 7 percent contribution each year, excuse me, from 7 to 8 each year. The city has to match that, of course.

It was presented and all the time understood there, that collaterally, the delegate in Congress would be introducing legislation in the Congress. It was a program always presented as a joint program. The point is that the receiving of the money that we get is
balanced in the program that is now existent, which does include the two COLAs. We have laid out together with the delegate a new program that had another approach, and it did have associated with it the repeal of the two COLAs. If we were to go with the two COLAs and eliminate them alone, which I do believe is in our jurisdiction to do, that would further aggravate the unfunded liability in that pension program.

Mr. DAVIS. Thank you very much.

Mr. DIXON. Mr. Chairman.

Mr. DAVIS. Yes, Mr. Dixon.

Mr. DIXON. It is my understanding that that is not totally accurate, either. If I could Mr. Clarke, isn't it true that the roll back in the COLAs would not take effect until such time as the Congress acted and enacted into law a 30-year extension of 5 percent? So when you say that it was understood that the delegate was moving legislation, it was more than any understanding, it wouldn't take effect until such time.

Mr. CLARKE. That is my point, sir. My point is that it wasn't like any kind of running from that point—we have been saying that all along. My point to you, sir, is we have been saying that all along, that that would be part of the program.

If we were to go and stop the COLAs now ourselves without waiting for the congressional act, that would have a more serious aggravating effect upon the pension fund because that is part of how it gets its moneys now or, excuse me, no, I am sorry. That is not going to be the case. Let me turn that around. The point is if we go start making changes in there now, then it would not be—

Mr. DIXON. In other words, if you took one COLA away, it would exacerbate the problem rather than help solve it?

Mr. CLARKE. I retract that statement. Let me just go back and say this part, that we have been forthright all the way along, that what we were doing was a program to try to at the municipal level and the congressional level deal with this pension problem, so thank you.

Mr. DIXON. I can't argue with that.

Mr. BARRY. Mr. Dixon, I was speaking of the locally introduced legislation to take care of future employees which we had. I wasn't getting into the complexities of these other things. I don't think it goes far enough.

Mr. DAVIS. I think you have clarified it. Clearly, this is a subject of interest to the committee, and I hope to the council in the future. We will have further discussions and hearings on that issue.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Just for the record, the Delegate did introduce that bill. The bill did not move forward, and I am hoping that the Delegate will have better luck this year. It also should be said that the retirees and the employees and the council and Mayor Kelly deserve a lot of credit for having worked with the Congress for over a year in order to get an agreement that would have rolled back COLAs, would have, or at least one COLA and would have increased the contribution of employees, and I do want to say for the record that I asked a search to be done to see whether or not any existing pensioners had ever been asked to do that, and no one could find an instance
of where people who thought their rights were accrued had been asked to make those kinds of sacrifices, and our retirees and our employees did agree and out of respect for them, it seems to me, we really should move forward.

I do want to clarify something, Council Chairman Clarke. Could the District move with a new plan? Let me preface this by saying when we had our hearing on my bill last year, not only did all of you testify, but my good friends from the police and the firefighters unions testified and we had a very interesting conversation. And I said to them, hey, fellows, you have got enough of a problem. Now, you seem to be defending against employees you don't even represent because their initial notion was that there should not be a different plan for new employees who, of course, were not their members, and we had an interesting discussion back and forth.

Let me ask you this. Does the District have the authority without additional congressional action to put in place right now a new plan for new employees in those four categories?

Mr. Clarke. Yes, ma'am. The answer is, yes. We did have legislation introduced last year. The legislation was essentially to apply to the new employees in those four categories: teachers, police, fire, and judges. Well, no, we couldn't go to judges. By Congress' prohibition, we couldn't go to judges, but teachers, fire, and police. The same standards that we apply to our regular work force.

As expected, the testimony came back that you can't really apply the same standards as are applied to a clerk or a secretary or a carpenter or a city councilman, that you can to the police and fire because the police and fire tend to retire earlier because of the strenuous activity. You have got to have different standards.

So what we put to work, Mr. Pohlman was working for the prior administration and Mr. Pohlman did a very good job of bringing together the experts from all those resources to get to the agreements that we had in what we talked about about the past program, and they have been working to try to work on a new program for the future.

Most of the testimony seemed to say, well, if we just had to do something, just go with the program we have now with a cap on the COLAs, you know, the COLAs could only grow at a certain rate, not just the number of COLAs, but a cap on them, that is what most of the testimony said.

The council has just retained the services of a new budget person who has come to us from Peat Marwick, and as I have indicated, he came last week and I indicated one of his first assignments is to meet with GAO to get their views as to the proficiency of this kind of idea of a cap on COLAs for a new program, but we are intending to move that forward this spring.

Ms. Norton. How soon do you think that could move?

Mr. Clarke. I hope we can get another round of hearings maybe the first of the spring. We still have our budget.

Ms. Norton. There was some discussion in our countless meetings that perhaps to move forward after the unions had already taken a hit on the existing employees, then to pile on top of that new employees was to ask for a lot and we put that off. Frankly, all of us agreed, all right, let's put that off and deal with what is here.
It occurs to me that is far easier to do than what we have done to our own employees and our own retirees because we are talking about people who are not even in existence now. We are talking about new employees. It is the kind of thing that when we get to hearings and we go to the floor, that is what is going to smack us right in the face unless we have that to show for it, and I am sorry that in an area where I think the city has really performed and the Congress has been slow to act, I am sorry that this issue could, indeed, stand in the way, but I believe it could.

I encourage you to proceed, as you are, to try to move forward with that program. I do want to take note of something that Mr. Walsh has said in his testimony because I want to certify what he said and to say how dangerous it is to the city. I have proposed an oversight board which could take any form that we decided at this time, and I am pleased that the Mayor has indicated some support for the idea.

You know that I had extensive discussions with both of you before coming forward with the idea, but Mr. Walsh just said, as he completed his testimony, that he could not get an appropriation through the House of Representatives. Now, I indicated that the two major reasons that I came forward publicly and urgently with the notion of a control board were, one, we can't borrow, so we won't exist in a few months unless there is some intermediary to help us get to the Treasury. The Treasury will not lend us money without the most severe restraints on us.

They will be at least as severe as the market and probably more so. Then there was a second that you can't do it in the remaining months, not when you compare what the GAO says you have to do.

Now, there is a third notion on the table, and that one is true death to the District, and that is we don't control these 435 Members and their votes. We cannot deliver those Members, and yes, we delivered the appropriation last time in the most amazing way. I have never heard of an appropriation getting through here only with three votes because every Member knows that the appropriations have to get through. There are 13 of them, so you just as well fess up and get them through. We now have three reasons that indicate that the District has no choice.

I want to say how much I appreciate the discussions I have had with Mayor Barry and Council Chairman Clarke and how much I appreciate the accelerated action of both branches, but I want to reemphasize the danger and to say that I think this simply has to be done immediately to save the city.

Mr. Davis. Thank you, Ms. Norton.

Chairman Walsh.

Mr. Walsh. I would like to recognize our distinguished ranking member, Mr. Dixon.

Mr. Barry. Could I take a couple minutes to comment on Ms. Norton's statement?

Mr. Davis. No objection. Go ahead, please.

Mr. Barry. What we have tried to do, both the council and the Mayor, is to lay out the problem and some suggested solution. My solution goes not counter to the council, it is just in addition to that, but let me just say, Ms. Norton, that it is clear that we can't solve this problem in 1 year even if we wanted to.
I don’t think anybody in the Congress wants to preside over the demise of the District of Columbia government. I interpreted Mr. Walsh’s statement to mean that without some other kind of things going with it, some structural reform and some other things that in and of itself he couldn’t do that.

On the other hand, if we don’t get some relief this year from the Federal Government, we are going to be presiding over the demise of the District government, and I think that is a very clear point from a cash point of view.

Ms. Norton. Could I just respond?
Mr. Davis. Certainly.

Ms. Norton. I don’t know what you mean by structural changes. Let me remind you, it is my view that the kinds of structural changes that need to be made are not going to take place in the 6 months left in this fiscal year and that, in essence, the District is up against the wall now. And I don’t think you and I have any basic disagreement because it needs an intermediary to help it get the time to do what has to be done. If it doesn’t have one when it goes to the Treasury, the District will have such extraordinary strings tied to it that, in effect, it will have conceded part of home rule.

Mr. Barry. I think what has happened, we talked yesterday about some immediacy of this issue, that everything had to be put on the table if you are going to have any kind of board, and, second, going to the Treasury in and of itself is no solution to anything. It is like you owe somebody $40,000 and then you get that money and you have to pay it right back, that is not going to solve this problem.

Mr. Davis. We will give you time to respond. I want to give Mr. Dixon a chance to ask some questions.

Mr. Dixon. Well, first of all, to my colleagues here, let me express the fact that I am very, very supportive of helping the District in this financial crisis, and I personally will do whatever I can to see that it is resolved, but I do think that we have to be totally candid, and I think we are only halfway there with our candor. To your last comment, you know, there is the old joke about if you owe the bank $100, the bank owns you, but if you owe them $300 million, you own the bank, and to be perfectly candid, that is the situation here.

The District of Columbia, as we have all espoused, the Federal Government is not going to move and so you have us over a barrel somewhat and there has always been a recognition of that. It is not really articulated all the time, but we are all here. Nobody is going to let the District go down, and so everybody sits back and says you have got to pony up, and I am willing to personally do that.

Mr. Mayor, one of the things that does concern me, I was not here in 1973, but I imagine that one of the reasons that Congressman Diggs and others structured what I call the Limited Home Rule Act was to give as much authority as politically practical at the time to the District of Columbia.

When you really look at cities, they don’t have a lot of control. It is the State and Federal Governments, particularly in a time of austerity, and so it does scare me a little bit, but it is real when you talk about turning back State—certain State functions because
it doesn't come both ways. You can't turn back all these functions and really say you have home rule, and I am sure that when Mr. Diggs and others started articulating this, that, in fact, that was their motivation in having the ability to run their own prisons, in taking care of their medical, and so just philosophically, I think that we are at a dilemma and I know that there will be discussion here with the authorizing committee on that issue.

Very frankly, when I look at and hear the testimony of GAO, from my perspective, although there is a lot of talk and a lot of figures on paper, really nothing has been done without blaming anybody, this administration or the past administration, to comply with the 1995 budget request.

When it is all boiled down, it hasn't happened, and I would say to you, Chairman Clarke, that even your movement forward with the 99 and the 40 did not comply with what has consistently been a theme up here, and that is cuts.

To add additional revenue, which was ultimately repealed, did not comply with the law. It said that there would be $140 million of cuts. If you listened to Mr. Hill, although it was very low key, he mentioned that. The reports that were, the quarterly reports that were sent up here, Mr. Pohlan, and we have had a discussion on that, I disagreed with your judgment on it, you said you thought it was better to send up something than miss the deadline, but if you listen to GAO, it was not digestible. It was like taking a yard of paper and saying suck on this a while.

As it relates to the internal audit, he says that I guess that some edict or order came out that said, in fact, that departments or agencies would live within a certain budget, and he says they are not doing that, and by the way, that budget was not based on the 140 cut. It was based on the pre-Congress budget. So all of this goes in my mind, and maybe we will take a break, as to not how much involvement there should be on the part of the District in designing a fiscal intermediary, but how much control should be placed in that fiscal intermediary because there has not, in my opinion, been a conglomerate good faith used here, and I am wondering if someone can respond to it.

Mr. Mayor, I will give you a chance on it.
Mr. DAVIS. Mr. Clarke, do you want to respond?
Mr. DIXON. No, I just wanted to throw out one other thing.
Mr. CLARKE. Oh, I am sorry.

Mr. DIXON. We are here talking about the fiscal problems of the District, and I will gladly say that over a period of time I recognize, along with Ms. Norton and probably Mr. Walsh and many other Members of Congress on both sides of the aisle that there are some things that the Federal Government should do and must do, and I am pledging to work with that. But clearly there is no one that can deny, no matter what the skill level of the administrators here, there is a management problem, a management problem in this District with a $3.2 billion budget, the corrections is under a court order, foster care is under a court order, housing is under a court order, and one would say that the quality of life and the cost of living here is in a spin, and that there is a management problem.

I am not speaking to the quality of the managers, but there is some problem within the management system, one of which is that
the independent agencies, and I suspect that those are not indepen-
dent, have consistently come before Congress and when you get
to the bottom line, they don't care what the budget says. They
think their program is good and they are going to run it the way
they are going to run it, and at the end of the year it is not their
problem because they are running that part of the ship, and they
will go over budget or under budget, whatever it is, and coming
here and appearing before the city council is just a formality.

Let's get that past us and then I am going to spend what I am
going to spend, and so I am sure that the message has got to get
through to management, Mr. Pohlman, that this is very serious
and it is their problem. And one of the concerns is that when every-
one says, well, nobody is going to be cut, then everybody says it is
going to be business as usual.

Now, I don't say that this is Mayor Barry's fault. I don't say it
is Mayor Kelly's fault, but there is clearly a malaise within middle
management of this District. It is like calling them in and saying
there is only going to be one coffee break a day instead of two, and
after you walk out the door, I have been here 30 years, I am taking
two coffee breaks, I don't care what they say.

Now, I have had my say on this. Mr. Mayor and Mr. Clarke, if
you want to respond.

Mr. BARRY. Mr. Chairman, could I take a few minutes?

Mr. DAVIS. Mr. Mayor, you may.

Mr. BARRY. Mr. Dixon, in terms of the home rule discussion, and
I thought I made it clear, but I will try to make it clear again, and
I was here, during that debate, a lot of us were here during that
debate. I said earlier that we were given State responsibility with-
out State authority.

It was my view that after the political deal had been made that
we couldn't tax income at its source, which was the deal they had
to make to get this through, just as we had a 2-year period in
which we could not enact anything in the District Criminal Code,
I was led to believe, falsely, so I guess that over time we would be
able to get the nonresident income tax due.

My plea is very simple. If you want us to keep all these State
responsibilities, then give us the State authority and let us tax in-
come at its source. That is get the $700 million, which is about a
4 percent from those who work here and don't live here. If you
don't give us the authority to tax income at its source, then take
some of these responsibilities back. That is my real hard plea. Sec-
ond, my understanding, very quickly—do we have to go?

Mr. DAVIS. Mr. Mayor, what I would like to do is cut you off and
give you a chance later. Miss Collins has a few questions she wants
to put to you. Then we will recess and come back at 1:30. You won't
have time to answer it now. That will give everybody a break to
allow Members to go over and vote.

Miss Collins.

Miss COLLINS. Thank you very much, Mr. Chairman.

Mr. Mayor, I have three questions. The one question is like this.
The District's interim chief financial officer said last Friday that
there is now a financial monitoring team of senior officials in place
under the direction of the city administrator which will constantly
oversee the implementation of new spending reductions. And what
I would like you to answer is, one, exactly how will this team accomplish this task and whether or not the team is going to be a temporary one or a permanent fixture?

The second question I have is whether you are prepared to develop a multiyear spending plan for the District, if there is no additional funds provided by the District, by the Congress this year, how long do you think it is going to take before the Congress can produce a truly balanced budget? And my final question is do you believe that a change in the method of calculating the Federal payment to the District ought to be—is warranted and ought to be increased or decreased?

Well, I know it is not going to be decreased, but certainly increased. I thank the gentleman for allowing me to put my questions on the record.

Mr. Mayor, I hope you will answer those questions when we return.

Mr. DAVIS. Thank you. We will declare a recess and reconvene at 1:30 p.m.

[Recess taken.]

Mr. DAVIS. The meeting will reconvene.

Mr. Clarke, I apologize. We were in such a hurry to get out of here with the vote and everything else, I know you wanted to respond to a couple of questions. I want to give you some opportunity now to make more comments. And if the Mayor would like to either address Miss Collins' comments or any of the other questions that were made before we proceed with the questioning, I want to give you ample opportunity do so, and we appreciate your being back here with us.

Mr. CLARKE. Well, I did want to respond to Congressman Dixon's points. When we were putting the fiscal year 1994-95 supplemental together, at a staff level, we made an inquiry to try to get into some interpretation of the $140 million requirement.

It was clear that it was not to be taken out of revenues. And it was clear, it had to be taken out of expenditures. But we inquired as to whether, if additional revenues came in, was there latitude to use them as well as expenditure cuts beyond the $140 million, to address what had been noted, at the same time as the Congress voted the fiscal year 1995 budget itself, or understood budgeted problems.

That is the course that we went upon in the council. We did provide for the $140 million nonexpenditure, and then we took the differences plus the increased revenues and applied them to the problems that we had noted. So I guess I put that point on the record as to why we did that that way, and to get any further guidance from the Congress as to what to do in the future about that because we intend to meet that.

Second, Congressman Dixon raised again the point that the GAO said that we had come under—we were $99 million. And I had referenced that in my opening statement about the $79 million. Again, if I can get some guidance, there is no problem to go through the next supplemental and just withdraw that budget item for the $79 million. Then it will just be there, hopefully, it will not be spent.
Mr. Davis. I think you have clarified that adequately for the record. I don't know how other Members feel, but you think you clarified that, the $79 million.

Mr. Clarke. So you are treating the $79 million, although it is budgeted as really a cut?

Mr. Davis. I think we can call it that way. It may take a formal designation by counsel. I am satisfied it is cash available for deficit reduction or for paying bills which you may end up using it for anyway.

Mr. Clarke. But I don't want our fiscal year 1996 Federal payment being embargoed because——

Mr. Davis. Mr. Walsh will make that call, but I think you put on the record the availability of that money.

Mr. Walsh. I am sorry I missed the point. Could you restate it?

Mr. Clarke. Congressman Walsh, I wanted a little bit of guidance with respect to the $79 million that we budgeted for cash reserve.

Mr. Walsh. Yes.

Mr. Clarke. If it is going to be treated as a budget item, as an expenditure item, as apparently GAO has done that, and therefore we fall out of compliance with the $140 million and we get a fine, so to speak, in the fiscal year 1996 budget, I can simply in the next supplemental take out that appropriation for the cash reserve. I did it as a matter of discipline in there. But it is like the act of discipline to set it aside has become, in the way things are working out, a deficiency on our part.

Mr. Walsh. Well, I am not sure exactly how it would be handled, but certainly I applaud the efforts to set some cash aside for a rainy day.

Mr. Clarke. Not a rainy day fund.

Mr. Walsh. Well.

Mr. Clarke. Cash reserve.

Mr. Walsh. Pardon.

Mr. Clarke. Rainy day is to spend for things needed; a cash reserve is not to spend.

Mr. Walsh. I can't speak for Congressman Dixon, but the problem is you are not at the $140 million level. Part of your proposal is revenues that were raised, and that was not part of the deal.

Mr. Clarke. That's right. That's right, but if you count the $79 million as a cut, then we are at the $140 million level and we are under the $3.2 level. That is why I am concerned, because we are going to have another budget and I have been very diligent in what the council does in meeting that $140 million requirement you have set.

Mr. Walsh. Even that aside, you are still over the authorized level of spending for this year.

Mr. Clarke. Not if you do not treat that as an expenditure we are not, sir.

Mr. Davis. Because you still have the Medicaid issue.

Mr. Clarke. If I read page 12 of the GAO correctly, they——

Mr. Walsh. I think in a statement you made earlier, you may have misspoken. You talked about the $3.89 billion level of spending and then you talked about the $79 million you set aside for a cash reserve and somehow you got to $3.1 billion from $3.89 billion,
a reduction of $800 million. However, the actual reduction is only $80 million. You reduced the spending level to $3.811 billion, not $3.1 billion.

Mr. Clarke. All right.

Mr. Davis. Let me say I think the question about not being penalized for the $79 million is put squarely on the record. We recognize that, and I appreciate that clarification.

Mr. Clarke. OK, thank you.

Mr. Barry. Mr. Chairman.

Mr. Davis. Yes, Mayor.

Mr. Barry. Before—well, Mr. Dixon had made a statement about management. Let me just say that I don’t believe, at least under my administration, I can’t speak for anybody else’s administration, every comptroller in the DC government and every director that I have hired knows that you can’t take this budget situation lightly, you can’t go around and just spend money. We have several situations that, in my view, don’t have much to do with management but it has to do with budget.

We may differ on how much Medicaid money we need, but we all agree that the Medicaid budget has been underbudgeted compared to spending. That is not a management issue, that is a budget issue. If you are adequately budgeted at, say, $406 million for 1994, you would not have overspent.

The second issue is court orders. If you have a court order which has a constitutional basis for it, which says that money and budget is no defense against a court order, you have to then spend that money. And that is not management, that’s a court order on the budgeting. My attitude is that all of our managers are committed to staying within their budget if the budget is a real budget.

So I don’t want anybody to leave thinking we have managers that say, well, the heck with that, and I’m going to go do what I can. They cannot do it.

The third point, even as inadequate as our system is, in order to overspend in your control center area or your budget area, you have to get someone to override that system. I can’t just do it by myself. So, for instance, public works last year overspent by $20, $25 million. And we looked at that and we found that people at the very high levels of government overrode the system. That was a decision made, that I wouldn’t have made, to spend money during this election year. So we do that.

The second part of what we are—

Mr. Davis. Mr. Mayor, with all due respect, didn’t most of the agencies go over their budget last year?

Mr. Barry. I don’t know about most.

Mr. Davis. Much of this, in fairness, before you took office, but as I look at even the spending cuts that the council passed in December, those weren’t implemented until, I don’t know if they are still implemented, but they weren’t implemented for a couple of months. To me that is a management problem, not a budget problem. Maybe I am missing something.

Mr. Barry. I don’t think so, in the sense that the Medicaid budget was overspent, the Department of Human Services overspent by $70 million.

Mr. Davis. No question, that is a problem.
Mr. Barry. Public works for the last 2 or 3 years, as I understood, budgeted, and doing budget things that didn't make a lot of sense. Human services overspent, public works overspent, fire, public schools, settlements and judgments, police.

Mr. Davis. These are the numbers you showed us informally.

Mr. Barry. The other one, Mr. Chairman, is my understanding, that in working on the numbers that the Congress had at the time, which was $3,394 million that the Congress's mandate was that by the end of the fiscal year 1995, the DC government had to reduce its budget by $140 million. That is my understanding of the congressional mandate, and reduces spending and permanent employees by 2,000.

Assuming we didn't have these overexpenditures carried over and we were down to the $3,394 million starting figure, which we weren't, everybody knows that, we would still have some time from October 1, until now, you save "X" amount of money. And then from this point on until September 30, you say, wait a minute, I don't think anybody would have expected us to save $140 million even if we were on budget. Would you? That is, would you say by the end of the fiscal year——

Mr. Davis. I think there are two issues here, and I don't want to dwell on this. But the fact is when Congress was writing the law, they didn't just write it as a $140 million reduction. Mr. Walsh will correct me if I am wrong. But they put the number of $3.25 billion in because they probably didn't trust the numbers they were given from the city at that time and they wanted to write in a bottom-line figure. That bottom-line figure now is grossly overextended and we are stuck in the Congress with legislation that mandates reductions from that number, not from the $140 million. That is our dilemma, and I wanted to share that with you.

Mr. Barry. We both agree and know that the $140 million, assuming the budget was balanced and the numbers were correct at the beginning which we now know they were not, they were $3,394 million, we would still have some time in this fiscal year to reduce it by $140 million. And what we are saying, what I am saying, is that thus far, we have reduced this budget by approximately $70 million at this point. And we intend to, either through the renegotiations with the council or through legislation, reduce it by another $70 million or by actual real-hard cash, through wages being reduced in our employee base.

Our employee base is $1.4 billion in personal services and 10 percent of that would be $140 million, and 5 percent is $7 million. Then we will do a number of other service reductions in terms of closing clinics and rotating fire companies and a lot of other things.

Mr. Davis. All I am telling you is from the congressional perspective, and this was passed before I was a Member here, but I am learning quick, there are two sides to it. One is the $140 million reduction, but you also had the $3.25 billion and you could not exceed that. Either one of those triggers a downslide in the payment to the District; assuming you get to the $140 million.

Mr. Barry. Right.

Mr. Davis. Assuming you get there and you make the case you can get there, you still have a give-back, if you will, because of the $3.25 billion. The reason that number was put in there was be-
cause Congress was not satisfied with the baseline number from the District. Just to make sure that the numbers that the city, at that point, swore were true, they put in the bottom-line number. That is the dilemma we face, and now it is your problem. I just wanted to put it in perspective.

Mr. BARRY. Mr. Davis, every year the Congress puts in an authorized budget. You cannot exceed on everybody's budget. It has now become complicated and difficult because the original numbers that you all thought you were starting with were not accurate. It is not your fault. It is the fact the District gave you a number that was not accurate and you started with what you thought was an accurate number and went down.

What we are saying now is, we know it is not accurate. So, we are going to ask the Congress, who certainly has the authority, to increase that number from $3,254 to $3,521.

Mr. DAVIS. I understand. I think.

Mr. BARRY. Yes, we have that straight on that.

Mr. DAVIS. Mayor, I would like to move on to other committee members and allow them an opportunity to speak.

Miss Collins had asked the last questions. I don't know if you want to answer those.

Mr. BARRY. Yes, sir, Mr. Chairman, let me answer those questions.

One question, as the District's interim chief financial officer said last Friday, there are now senior officials in place under the direction of the city administrator which will constantly oversee the implementation of new spending reduction. Exactly how this team accomplishes this task—David Domenici—where is David?

Stand up. Mr. Chairman—stand up so everybody can see you, David. You are the czar here on this thing; knows every agency's budget.

I have sat down and personally gone through each of these budgets with each of these agencies, and I would just give police as an example. That is a rather easy one. Their budget is $230 million for fiscal year 1995. Chief Thomas knows that is his budget. Then it is divided up into a plan to stay within the budget. For instance, we are freezing police officers hiring for the rest of this year. There will be attrition of other officers as they go out. It would still be 3,900.

So on a weekly basis, David sits with the chief and his financial people and says: How close are you to your plan? I will tell you how it works. The police department's budget for overtime for 1995 was $7, say $7.1, $7.5 million. The chief got his report and saw they spent almost $5 million already. He cut out the ability to have any discretionary overtime, the ability to even question like this, to go to court on your days off.

So the way it is implemented when you get close to what your mark is, there is a flag that goes up and you can't exceed it. If you do, you have to come see me and the city administrator about why you are doing that. So it is in place, it is working at that time. So it is a way of controlling spending in line with our spending plans.

I will give you another example how it works. The Department of Corrections wanted to reduce its budget by $25 million. We told them to do that. They had to do it to come to $240 million as op-
posed to $265. Part of that plan was to close one of our facilities called the Modular at Lorton and transfer those 688 people from Lorton to DC's Correctional Treatment Facility. The judge stopped us. So again David found that out, knew more about that, and we are now devising an alternative plan to do the same thing another way.

That is how the process works. It is a very good process and it is permanent. It wasn't there when I came in. There was not the discipline there I think we should have had, so it is permanent. It has all my authority that goes with it.

Mr. Davis. Mr. Mayor, just to tack on to what Miss Collins had asked. Do you have the information technology that you need, or I think you said earlier, you probably needed some updates in that, that would assist you even more with this kind of thing?

Mr. Barry. We have enough to control the spending now. We need a different kind of system to give us a whole range of information. For instance, we ought to be able to age our accounts payable. We don't have the technology to do that.

We ought to be able to know—we ought to have a system that we order something, you obligate it, then the moment it comes in, the day it comes in, there ought to be a way to enter it into the system saying we have now received it and it is now something we have to pay, and you start counting the day it came in to the time it gets paid, as opposed to now when the agencies may hold it for 25 days or 10 days. That is not the way it ought to be. Those are some of them.

We ought to have a system that can tell us instantly the projections on personnel by appropriations or by Federal funds. We can control this spending with what we have, but we need an enhanced system that will give us all the kinds of collective information the General Accounting Office said we ought to have and that we want to have.

The other question was the Federal payment. You know my view about that, that the Federal Government, as the President is here, contributes to over 57 percent of the land being nontaxable where we ought to have 43 percent of that land we can tax. It ought to be a Federal payment that is predictable, that we can all count on.

I know we had it for the last 3 to 4 years. This year's Federal payment of 1996 is fixed. We would hope that the committee would look at going back to some form of formula so that it would be predictable as a percentage of our revenues.

Mr. Davis. Thank you very much.
Mr. Walsh.
Mr. Walsh. I would like to recognize Mr. Bonilla for questions.
Mr. Bonilla.
Mr. Bonilla. Thank you, Chairman.
I recall at 9 o'clock this morning just looking around this room and seeing how it was packed from wall to wall, and there were people waiting out in the hallways to come in, and Chairman Clarke investing yet another big chunk of his time trying to deal with this crisis, and Mayor Barry was here from the beginning, and I notice Chief Thomas sitting in that seat for going on 5 hours now, in probably one of the most uncomfortable chairs you can find in Washington.
But the point I am making is it is kind of baffling to sit here and look at everyone who cares so much about the District of Columbia, as every member on this committee cares as well, but yet still there is a crisis that seems to be almost never-ending. My history on this committee has been one of trying to be helpful in the committee's—in the District of Columbia's interest to solve problems, and I want to continue to do that.

I want to make a suggestion here and some comments that I have, because there have been a lot of discussions lately about everything from taking over the control of the District of Columbia, which I do not support and, frankly, I don't think a majority of Members on either side of the aisle support anything like that, because I think the last thing we want to do is to try to micromanage your business, because you know your community better than anyone here. I wouldn't want to micromanage your business any more than you would want to micromanage the business of Hondo, TX. It is just not practical.

Many have had suggestions, former HUD Secretary Kemp and my colleague Representative Norton have proposed some very interesting ideas that could revitalize the economy, and I think it is helpful to have these ideas and that we all share them. I have a proposal, an idea, that I would like to have considered because I have seen it work in so many communities, including my hometown of San Antonio, TX. I ask that we all consider the council-manager form of municipal government. In this form of government, as you probably looked at this system in trying to look at different alternatives to solve your problems, day-to-day operations are transferred to a hired professional, a city manager.

A city manager would be responsible for the bureaucratic structure presently controlled by the Mayor. The manager would be hired and accountable to the city council, with approval of the appointment to be granted by the DC authorizing subcommittee. Appointing a professional to run the city would increase the likelihood that congressionally mandated cuts and reforms would be instituted. A city manager would professionalize the District's government, improving the delivery of services and quality of life for residents.

Presently, elected officials in DC address only short-term political problems without regard for long-term financial planning. Today, we are hearing about the problems that were created perhaps in previous administrations. So it always seems to be short-term, and with the changing of the guard, that could go on forever. This must change. The concepts of a city manager would be consistent with Delegate Norton's fiscal and management oversight board or the emergency oversight board, or whatever we choose to call it.

My colleague, Mr. Dixon, earlier had a word to describe some of the problems in management, mid-management levels, and I think the word was malaise. Perhaps a city manager system could address and streamline some of these operations without political fears, and knowing that the city manager is employed long term, transcending administrations and mayoral administrations that come and go, and it has worked in communities.

So I will continue to study this effort. And also the Kemp and Norton plans. And I urge my colleagues to do the same.
I would like to ask the Mayor, if I could, also, first of all, what is your opinion of the city manager municipal government?

Mr. BARRY. Congressman, I think that is an area that whatever oversight, however we want to call this, this board ought to look at it. Obviously, there are pluses and minuses for it. We have a city administrator form of government with the Mayor at the top. Richmond, VA; most of California have a city manager. I would like to look at it and see whether or not it would be more applicable for DC than not.

On the other hand, I know a number of city managers—Mr. Rogers, who I hired as my first city administrator, came from a city manager form of government and they, too, had their budget difficulties when there is an inadequate revenue base.

I think, Congressman, until we solve this revenue base problem, where we can tax income at its source or some other way to broaden the DC government’s revenue base or transfer these responsibilities, I am not sure any form of governance will change that problem. So it is something I would like to look at. I had not thought about it in great detail until you just asked about it.

Mr. BONILLA. I would certainly acknowledge all forms of municipal governments will have financial problems, but I would venture to say the ones that have city managers, the city manager form of government, have had fewer——

Mr. BARRY. May have less.

Mr. BONILLA [continuing]. Margins of problems compared with the huge disaster that is now on the horizon that the District of Columbia is facing.

I also would ask in following up on some remarks that our Chairman Walsh made earlier, and Delegate Norton, it was very difficult to pass the appropriations bill last time around. And it is going to be even more difficult this time around.

I would urge you, Mayor, and all of the folks that you can mobilize within the District of Columbia’s governmental structure, to send a strong message as quickly as you possibly can, that the District is ready to get its house in order. Because if that message is not clear, it is going to be difficult to pass any bill, even if every Member sitting in here is for it. And I voted for the bill last year, it is going to be 10 times more so this time around. So I would urge all of you to help us with the perception problem, the real problem, and the image the city has had for too long now and send a strong message, that you are ready to change direction.

Mr. BARRY. Congressman, I understand the perception problem and the reality problem that it will make it difficult. I think that the District of Columbia government has not been as forthcoming as it ought to be with information about its budget; has not been perceived as an efficient and effective instrument of government; has not always told the story in a way that makes people understand why they ought to be supportive.

I intend to do everything I can to, first of all, to be forthcoming in whatever I know about this situation and any others, and, too, to get at government. We started on that role to be a much more responsive and responsible government, and all of our citizens are frustrated at the District of Columbia government. But I think we have started that, notwithstanding our financial situation.
For instance, something as simple as answering the telephone in a very courteous, responsive way. We have tackled that problem by training over 1,500 people in the last month merely on how to say, "May I help you, my name is Marion Barry." They are doing that. That is just a simple area, but there are much larger ones the government has not been as responsive as it ought to be.

So you will find in me, a Mayor that is going to insist we be more responsive, and as we become more responsive, I think Members of the Congress will see that. And as we solve this budget problem—we are going to solve this problem. No one in this room is going preside over the demise of the District of Columbia government or the Nation's Capital. We are going to solve it. The only question is how we solve it. We are going to solve it.

Mr. BONILLA. I know my time is up, but just my closing comment is, being a Member of the majority party here, we have a lot of tough battles but there may not be one tougher than passing the appropriations bill for the District of Columbia. So we need all the help we can get.

Mr. BARRY. Your Nation's Capital has to be one of the major priorities. We cannot preside over the demise of the Nation's Capital.

Mr. BONILLA. I agree.

Mr. DAVIS. Mr. Gutknecht.

Mr. GUTKNECHT. I would start by saying I am not a faultfinder. I know people like looking for fault, like there is a reward for it. I do not happen to be one of them. I do happen to believe in the whole idea of actions and consequences.

I was curious, and perhaps first maybe I should state part of my education process has been to reread as much as I can of the Home Rule Act, and I would encourage Members on both sides of this desk here to at least read or reread what the responsibilities are of the city council, the Mayor's office, particularly as relates to the financial duties of the Mayor as well as the authority and the responsibilities of the Members of Congress. It has been interesting reading for me.

But I want to get to a point here, and you just, Mr. Mayor, sort of recited a list of departments and department heads that overspent their budget last year. I am just curious. What was the consequence to those department heads? Are they still all employed? Did they get pay raises? Did they get a bonus last year? There has to be a consequence for what some would describe as mismanagement. Are they all still on the payroll?

Mr. BARRY. Some are, some are not. I can give you an example of something, Congressman, that is not the fault of any manager. Take the area of settlement judgments. This is a line where citizens sue the District of Columbia government and get awards from judges or injuries or settlements. That line was overspent by $6,589,000. That was not a management problem, that was a budget problem. It was underbudgeted in the first place.

It seems to me there has to be a different kind of budgeting system which says we don't know what settlement judgments are going to be. We can predict what they were last year, when someone gets a $5 million settlement because somebody did not sew somebody up right at DC General. That is not a management prob-
lem. Or Human Services $7 million because of the Medicaid underbudgeted. That is not a management problem.

I suspect, though, that in public works—that person is gone. I can tell you that now. Human Services person is gone. Fire is still here, police still here. But take police retirement at $7 million. That is not a management problem.

The police retirement fund was underfunded—underbudgeted. Look at compensation. This is an area where workers get hurt and can draw disability for a partial basis for as long as they are certified by a doctor to be injured. They overspent by $3 million. That again is a budgeting problem. So with the two or three areas where, in my view, there are management problems, two of those three people are gone.

Right now, I can’t speak for the past administration, but my attitude is that once we agree on a budget for an agency and it is a real budget, not some false accounting kind of budget, I expect those managers to live within that budget or they won’t be a part of my administration.

Mr. GUTKNECHT. Well, Mr. Chairman and Mr. Mayor, again, I am not really trying to pick on anybody. But I think, as my grandmother used to say, if you always do what you have always done, you will always get what you have always got.

Taking what Mr. Bonilla said a few moments ago, part of the tough job will be for us freshman to go to our colleagues in the freshmen class and say we need some kind of additional appropriation for the city of Washington, DC, because we are going to have to convince them that everything is being done that is possible to set a long-term strategy so that this isn’t going to be something that will happen every year; that we are going to call it a budgeting problem rather than a management problem.

So we have a difficult task. And as the old spiritual says: If you will be convincing, I will be convinced. We have to be convinced before we can sell the rest of our colleagues.

Mr. BARRY. I agree with you. I hope I can convince you we are going to do all we can to say what we are going to do and do it.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I yield back.

Mr. DAVIS. Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman.

I yield for questions to Mr. Kingston of Georgia.

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. Mayor, you have a lot of nonfederally owned buildings in Washington, DC that do not pay property taxes. For example, many of the political-type groups on both sides of the aisle, of different ideologies, and so forth, have some sort of a special charter, which I understand is a Federal charter not a city charter. Is that, in your opinion, a problem?

Mr. BARRY. Absolutely.

Mr. KINGSTON. How many buildings or businesses fall under such a category?

Mr. BARRY. We can get that to you. I don’t have the exact number at this point.

Mr. KINGSTON. Would it not help your situation, if we had an inventory of such businesses or groups and determined what that
loss of revenue is? Because I understand in certain cities, there are universities, and so forth, located there that don't pay property taxes, yet they are paying something similar, which, although it might not be 100 percent, it does help put some money in the coffers, which you so desperately need right now.

Mr. BARRY. Congressman Kingston, we do have a list of all of the tax-exempt properties. I just don't happen to have it here with me. And we know the value of that property. A number of them are hospitals as well as universities, but a number of them are certainly embassies, no embassies pay taxes, then there are other international organizations that are here that don't pay taxes, but we can get that to you.

But my answer is that we ought to redefine the tax relationship to the city government, the idea of property tax forgiveness and that that entity offers a service or an activity to a community in lieu of taxes, that is why you don't pay it. But we have entities in Washington that is getting properties taxes that don't contribute hardly anything to the well-being of our city, and I will get that list to you and maybe we can figure out how we can get the Congress to vote on that.

Mr. KINGSTON. If you can get it to the committee, including me, and break it down. I don't know if we could lump embassies in with universities, necessarily, but there must be a number of things that we can take a look at and break it down by category.

Let me move on to another question.

[Information is available at the subcommittee's office.]

Mr. BARRY. One example of that, looking at the book here, the National Geographic Society, it appears the value of their property tax, assessed value, is a $160 million, if we taxed it outright. That would save a lot of money, for example.

Mr. KINGSTON. I think that would be very interesting to look into and it is something we should look into in a time of this crisis. Now, also your employee benefit plan, your health care and retirement, and so forth. How does that compare, not necessarily to Alexandria, but maybe to Baltimore, some of the other cities about the same size as you, Columbus, OH, and so forth? Is your benefit package more generous, is it on par, is it less generous?

Mr. BARRY. Mr. Kingston our personnel director, let me just ask him.

Congressman, a significant number of our health and life programs are modeled after the Federal Government's plan because many of our employees come out of that Federal Civil Service System. Those employees are not covered by that, and for those there are, about 13,000 or 14,000, our health and life benefits are comparable to other large cities.

Mr. KINGSTON. They are not overgenerous. Would that be the same for retirement, too, then?

Mr. BARRY. Retirements are in several categories. Those employees who were on board prior to a certain date, I think it was 1987, are part of the Civil Service Retirement program. Then those who came in after 1987, are part of the District's defined contribution plan. Then you have the firefighters, police officers, teachers and judges in another plan.
Prior to 1980, I think the firefighters and police and judges had a very, very generous plan, and they still have a very generous plan, because there are two COLAs a year in there and some other things in it. But our regular Civil Service plan is similar to the Federal Government's. Our defined pension plan is very modest. It is probably comparable to other local jurisdictions.

Mr. KINGSTON. Let me ask you this; you had mentioned a second ago about the DC hospital doing a $5 million award. Do you own the hospital completely? How is the ownership of the hospital broken down?

Mr. BARRY. The DC General Hospital is controlled, owned and managed by the DC government.

Mr. KINGSTON. Would it be appropriate to look into spinning that off to another entity maybe? Because I don't know how many cities own hospitals anymore. I don't know the answer, but it would appear to me that because of that likelihood of this $5 million malpractice liability being incurred, that that could happen to you again, as well as other unpleasant surprises, and maybe that should be spun off. Also, for example, you have the law school; is that correct?

Mr. BARRY. Yes, sir.

Mr. KINGSTON. Things like that, should we look at spinning them off and seeing if they can stand on their own and getting them off your balance sheet?

Mr. BARRY. Well, we are looking at DC General. I agree with you, we need to, first of all, redefine the mission of our hospital, because it has not been redefined in the last 20 years, amid demographic and medicine changes. So we are looking at a public benefit corporation.

We are looking at asking local hospitals—they want to manage the hospital. We are looking at a combination of our health clinics and the hospital and another hospitals coming together. But we clearly should change the governance of the hospital.

The present mission is too broad. Besides, Congressman, the hospital is draining the city government out of over $32 million last year that was underbudgeted. So I would say by the end of this year, we ought to have a model for the hospital both in governance and then financially.

Mr. KINGSTON. OK, Mr. Chairman, I know I am out of time.

Mr. BARRY. And the law school controversy, I will just state my position. We are going to submit to the council in March a proposal to close the DC law school, starting October.

Mr. KINGSTON. Just one last question getting back to the list of the buildings that aren't paying property tax. When can I get that list from you and who in your office will be handling that?

Mr. BARRY. Ms. Lorraine Britton is the director of our financial revenue.

Mr. DAVIS. We would all like that, and I appreciate your bringing that to our attention.

Mr. BARRY. Tomorrow morning we can have the list and we have the assessed values and the taxes that will be foregone because of the fact they are tax exempt.

Mr. KINGSTON. Thank you.
Mr. Barry. I assume you don’t want to include the federally owned properties, just the nonfederally owned?

Mr. Kingston. Right.

Mr. Barry. Or controlled property where there is a tax situation to it?

Mr. Kingston. Right.

Mr. Davis. Thank you. And if you will, we will work with you on that and look at that.

Mr. Barry. We have a larger problem. We have some managers in town that the council is going to have a hearing on tomorrow, one is Fannie Mae, that has huge holdings and don’t pay any corporate income tax.

Mr. Davis. We want to look at the property tax side, though, I think was the question here. And I think they do pay property. We will be happy to look at anything else you send up as well.

The gentleman from Ohio, Mr. LaTourette.

Mr. LaTourette. Thank you, Mr. Chairman.

And Mr. Clarke, I need to apologize to you for not being present during your testimony. I was visited by our mayor, Michael White, from the city of Cleveland, and, Mayor Barry, I tell you there is good hope in that the mayor of the city of Cleveland, who had presided over our city at the time of default, has been elected to our State Senate. So anything is possible in these times of financial crisis.

Mr. Barry. I am coming to the Congress.

Mr. LaTourette. Mr. Clarke, I want to focus on you a minute, because I have heard Mayor Barry say repeatedly he has been in office for only 1 month and 21 days. And one of your council members was kind enough to give me the McKinsey report yesterday, so last night it made good bedside reading.

On page 9 of the report, which the Mayor referenced and placed in the record of this particular committee, it indicates that this independent agency recommended—and I found the words rather prophetic—that the District take rational steps now—and now being based upon the date of their report, October 1994—in a noncrisis atmosphere to head off more draconian steps that would otherwise be required.

Some of the programs or some of the directions, although they were nonspecific that they asked the District to look at, was the consideration of reducing per-recipient Medicaid spending by 7 percent, which would bring it down to levels presently expended in the State of Maryland. Also launching programs to reduce per-pupil expenditures by 8 percent which would bring it in line with Montgomery County educational standards.

The sum and substance of this particular document seems to be that—and I think it has been stressed here today in this committee hearing, and I appreciate all of the witnesses and all of the testimony—it seems to be this need to be a two-way street. But even the accountant hired by the District suggests that the first step of the journey needs to be made by the District to restore perhaps some credibility with the U.S. Congress if the Congress is then asked to meet the District halfway on that trip.

My question is, since the McKinsey folks used words like “taken now, should be done immediately,” my question is what steps were
discussed and necessarily taken back in October, November, and December 1994 relative to this impending crisis prior to the Mayor's arrival then in the month of January?

And, specifically, did the council get together and launch upon a program of reform that would bring the expenditures for Medicaid down to a level more in accordance with Maryland and educational spending more in accordance with levels being spent in Montgomery County.

Mr. CLARKE. Yes, we did. Yes, we did, Congressman.

We did take a cut to the Medicaid budget premised upon the change in the options, and we did pattern that along the case of Maryland. As a matter of fact, we got the list of what Maryland, Virginia, and the District of Columbia have and we went for only those, to leave only those that we all three had. So if we stood in the company of one with them, we cut that option.

Now, that was in the budget. It still has to be gone through. The invitation process is part of what we are watching. But, yes, we did do that.

Mr. LATOURETTE. What about as to the issue of the educational spending for the school district?

Mr. CLARKE. The educational spending, yes, we have taken many, many looks at it, Congressman. As I said earlier, maybe I think to your neighbor on your right there, the Congressman from Minnesota, we only budget the bottom-line expenditure of the schools. That is in the charter written by the Congress. We cannot go to the line items of the schools.

It is a matter of intensive frustration. We have found expenditures in the schools that we simply do not like. Traveling conferences is one of them I focused upon, and I could fume, I could fume, and do other things that begin with "F," but I could not do anything about it, because all I could do is write a memorandum, file a report, and say cut the bottom line based upon if they cut back that expenditure they could save the money, other than applying it to a classroom. And we have done that kind of thing.

In fact, we did cut $31 million from the schools' overall budget, premising $14 million on furloughs, if they wanted to take them; and also premising the remainder on things that we identified in a report that could be done in the schools to save those moneys. We did not, however, have the line-item authority to enforce that.

And certainly in any restructural examinations that anybody might make, getting more responsibility on the part of those who have now only the authority to spend, no responsibility to raise the moneys, would be helpful or give us the capability to do line-item examinations and budgeting.

Mr. LATOURETTE. It sounds like line-item veto is something you are in favor of, is that right?

Mr. CLARKE. Yes.

Mr. LATOURETTE. Thank you very much.

I yield back, Mr. Chairman.

Mr. DAVIS. Thank you very much.

Let the Chair start the second round of questioning, if I may.

With regard to cash payments right now to some of the vendors, Mr. Mayor, I think you had said you try to pay things within 30 days after getting logged in. Is that approximately correct?
Mr. BARRY. The law allows 45 days. We are just trying to catch up with some of these payments.

Mr. DAVIS. OK.

Mr. BARRY. Going back to June and July of last year. Over $5 million of Human Services alone last summer. Our present policy right now is to try to do it in 30 days. Depending on our cash-flow, we may move back to 45 days.

But the big problem we have is to make sure that when these obligations are made and the products are delivered that the agencies enter those into their system so it then hits our central system. And we have tightened up on that. I have said to our managers, that they have to do this, otherwise they will be doing something else.

Mr. DAVIS. Now, that is not an information technology problem entering into the system, that is a management problem?

Mr. BARRY. People problem.

Mr. DAVIS. Management problem just to make sure that gets——

Mr. BARRY. Which, since January 2, though, we do not have that problem. Every agency of government now knows it. As I said, Mr. Hawkins went in January 2 and uncovered in about 7 or 8 days almost $20 million of obligations that had not been entered into the system.

Mr. DAVIS. I only have 5 minutes, so I want to move quickly.

Mr. BARRY. I will keep my answers short to you.

Mr. DAVIS. Federal Bureau of Prisons, what do we owe them now? It was $12 million first of January. Any idea?

Mr. BARRY. $5.4 million. They bill us quarterly.

Mr. DAVIS. We are trying to get just a ballpark figure. On Metro, I know on February 17, Larry Reuter wrote to you, Mr. Mayor, stating the District was $18.3 million in arrears, including interest, in payments to Metro. This is causing serious cash-flow problems for the Transit Authority. He listed several actions the District needs to take in order to avert a termination of Metro bus service in the District as of April 1.

Do you know how you are going to respond to this letter at this point?

Mr. BARRY. They will get a check tomorrow.

Mr. DAVIS. All right, thank you.

Can you provide assurances the District will support the $5.2 million in District service and fare changes which were approved by the city council on December 21?

Mr. BARRY. Do I support that?

Mr. DAVIS. Yes.

Mr. BARRY. Council passed it. The answer is yes.

Mr. DAVIS. OK. How about the past due school subsidy in the amount of $2.8 million?

Mr. BARRY. That is in the $5.2.

Let me just say, Mr. Chairman, and I have said this to the Mayor's representative on the board, and to Mr. Evans who is council representative, that our representatives should have insisted on an overall Metro budget reduction when it was known last year the city was not going to contribute with so much money to that pot.

So this year, certainly my representative will accurately represent how much the city intends to contribute so that Metro itself
can be cut. I think Metro needs to be trimmed. I support the regional authority, and you do, too, but it needs to be trimmed itself.

Mr. DAVIS. OK. That's refreshing, and it makes me feel comfortable to hear that, because, as you know, for the last several years, payments have constantly been in arrears, and at this point, are stacked up more than at any time in the authority's history.

You have heard discussions and you spoke briefly today about the concept of a control board coming over on a temporary basis for the city to start giving Congress, or whomever, the authority that we would bring that budget into line. Can you share your feelings about what circumstance you feel you could support this, or oppose this, or just kind of sketch——

Mr. BARRY. Mr. Chairman, as I said earlier, I have been in office 1 month, 21 days. I have done nothing. My administration has not overspent, has not kept its word, has not done all the things we have been talking about all day today about the DC government. There is no justification for me, as a new Mayor here, to suggest any kind of control board, but the history and the structure of the District suggests one.

We have had these structural relationships. We have had credibility problems about our budget. We are asking the Congress do its share of $267 million. And if everything is going to be put on the table, both the structural relationships of what ought to be the legitimate role of the Federal Government and the District government, whether or not we should have a reciprocal income tax or not, as well as investments in our infrastructure for financial management, as well as a way of getting us some additional revenues, I would be for the Congress mandating such a board with an understanding that it is a helping situation, it is not——

Mr. DAVIS. It is a first step toward resolving a number of things.

Mr. BARRY. We can come back next year, not having us sit at this table talking about the structural—we still may talk about them, but we may have solutions to them and not be under a budget crisis.

Under those circumstances, if everything is on the table and up for consideration for the people to make recommendations to the Congress on what they ought to do, I would be for it. But I would not be for one whose mere task was to take the existing money we have and tell us how to spend it.

Mr. DAVIS. Right. I think the problem comes in because we are taking money that you don't have that you are getting from the Congress.

Mr. BARRY. Right.

Mr. DAVIS. And I want to tell you—but as we have indicated——

Mr. BARRY. If everything is on the table, as I said yesterday, we could be supportive. I want to be in the room when this is discussed. I don't want to be outside the room throwing sticks at it.

Mr. DAVIS. Sure. OK, I appreciate that.

Let me just ask Chairman Clarke just a quick question. Going back through the auditors reports of November 22 that placed the city's cash-flow difficulties in a multimillion dollar range, I think about $500 million, can you tell us what specific actions the council took to save that money? I understand the actions taken on Decem-
ber 21, that there was new spending that was authorized at that meeting, too, and if you could give us the context of that?

Mr. Clarke. Yes, sir. On December 21, we analyzed the problem as being $447 million. That was consistent with what the Mayor had seen it as being on December 12, and between that time the calculated rate, a rate of property taxation provided for by congressional act, on an automatic basis went into effect on December 15. So the revenue estimates changed, and that is what accorded the difference between the $447 and the $492 that we were talking about in New York.

We went through the budget. We cut, in allocated cuts, $279.6 million. We provided for revenue increases of $41.5 million, and there was—the Mayor’s pending revenue legislation was $3.5 million. So total revenue increases for $45 million. That was not including that calculated property tax rate that I had spoken of.

So we saw capability of $321.6 million to address to what we had identified as being a number of the problems in the city, and that is a little bit of what I addressed earlier when I spoke of the conversation at the staff level between my staff and the congressional staff, about the use of moneys for addressing problems. The first thing that we did was provide that $140 million would be budgeted as set-aside for the $140 million that you told us to not spend for anything, to cut from our expenditures. We also budgeted the $79 million, which I spoke about before when I had the opportunity.

We budgeted $10.1 million for a problem that we saw with Metro, and you just addressed some of that problem, Congressman. We provided $58 million for what had been at that point discovered to be the Medicaid problem; $11 million for the DPW, Department of Public Works; $10 million for the hospital; and $10 million for the police department. All to underbudgeted problems that we had seen previously there. And that is what we did.

Mr. Davis. Thank you. That answers my question.

Mr. Clarke. OK.

Mr. Davis. Chairman Walsh.

Mr. Walsh. Thank you, Mr. Chairman.

Mayor Barry, when Congressman Gutknecht made the point that someone should be held accountable for these decisions, you made the point that really what we have here are revenue problems not management problems. And yet, consistently the Medicaid budget has been underfunded, not just in the Kelly administration, but in yours. There are five deficits recorded in the years of your administration in Medicaid. Not as large as the Kelly administration, but deficits nonetheless.

Overtime has been severely underbudgeted. Revenues have been overestimated. In fact, according to the GAO, local revenues have grown by 13 percent since 1989 and spending has outpaced that by 5 percent. So is it revenues or is it spending that is the problem? And if it is spending, is it management?

Mr. Barry. Chairman Walsh, all of that, if you take the Medicaid budget—in the Medicaid budget, it is a matter of both underbudgeting and management. The audit contracts for 1991, 1992, 1993, 1994 was a management decision not do them. I didn’t make it, but—

Mr. Walsh. There were no audits done.
Mr. BARRY. There were no audits—wait a minute, let me make sure.

Mr. WALSH. On Medicaid can—

Mr. BARRY. The 1992 and 1993 audits were not started until 1994 on the previous administration. That was a management decision that shouldn't have been made.

Mr. WALSH. So you are saying there were no audits in 1992 and 1993?

Mr. BARRY. They are now, but I am saying prior to the latter part of 1994. There were no audits of 1992 and 1993, because someone made the decision not to sign the management—not to sign the audit contract. That was a management decision.

Mr. WALSH. Let me ask a question about that, if I may, since you brought up Medicaid. The $103 million Medicaid accrual that was made in fiscal year 1994 is said to be due to unaudited Medicaid costs from 1992 and 1993; is that correct?

Mr. BARRY. Yes, sir.
Can I explain it?

Mr. WALSH. Sure.

Mr. BARRY. What happens in the Medicaid program, there is something called “payments in progress.” So as a provider sends the District their bill for, say, Bob Pohlmeyer, being in the hospital, the District pays what is called a payment in progress. The payment in progress is usually less than the cost that the provider said he wants.

And the District government has an auditor go down and sit with Ms. Smith and company to see whether or not she will charge, because we are a reasonable-cost State, what is reasonable, and you make the adjustments. You make the settlements.

So the $103 million represents the years of 1992, 1993, and 1994, where the cost reports had been sent in but the audits had not been done. Once the audits are done, there will be a settlement with the providers for the years that they had the cost reports, 1992, 1993, and 1994.

Mr. WALSH. Coopers & Lybrand billed the District for over half a million dollars for auditing Medicaid in those 2 years; is that not true?

Mr. BARRY. Mr. Chairman, these are prior year audits. Again, I am going on what—as I said, it is a management problem. Somebody should have been hired for these audits.

Mr. WALSH. Well, if they audited, then we should know that. If they didn't, they should not have been paid.

Mr. BARRY. It is my understanding, Mr. Chairman, that they were auditing prior years to 1991.

Mr. WALSH. We are talking 1992 and 1993.

Mr. BARRY. The other part of it—come up here. I understand that Bert Smith—Mr. Nunn ought to come up here and explain this because I don't want to do this.

Mr. WALSH. Well, we are going to have Coopers & Lybrand before our committee on Friday.

Mr. BARRY. I think it is important we get at least a minute of how that happened, so I can—

Mr. WALSH. All right, fine.

Do you have any objection to that, Mr. Chairman?
Mr. DAVIS. No.
Mr. WALSH. Fine.
Mr. DIXON. Well, Mr. Chairman, I think Mr. Nunn, should he testify here, be sworn in, if he, in fact, is going to testify.
Mr. DAVIS. We would be happy to have you. If you are going to testify, this goes with the job.
Please raise your right hand.
[Witness sworn.]

STATEMENT OF PETER NUNN, COOPERS & LYBRAND

Mr. NUNN. Yes, I do.
Mr. DAVIS. Thank you.
Please proceed.
Mr. WALSH. Mr. Nunn, the Mayor began by saying there were no audits of Medicaid in 1991, 1992, 1993, 1994. Then I believe stood corrected, and said there were audits.
Could you tell us specifically if the District's Medicaid program was audited for the fiscal years 1992 and 1993?
Mr. NUNN. The individual audits which are auditing of the cost reports at each of the individual providers, which are hospitals, nursing homes and the like, the contracts for the 1992 and 1993 audits were let in early 1994, and an effort was made during the year 1994, all of 1992 were done, 1993 are substantially done, and they are working on the final numbers.
Mr. WALSH. So, in fact, they are in the process of being audited; the audits have not yet been completed?
Mr. NUNN. That is correct. The 1994 cost reports, of course, are just being submitted current time. And some hospitals, based on what their year end is, have turned in their cost reports. Others are yet due to the District, and there are estimates for the amount of their cost reports included in the accrual at the end of the 1994 fiscal year.
Mr. WALSH. All right, then perhaps you can clarify something that was attributed to you in a Washington Post article dated February 19, 1995. It says: "In announcing the $103 million deficit"—and this comes from the Mayor's statement on the District's finances and its deficit—"in announcing the $103 million deficit, Barry officials attributed that sum largely to the Kelly administration's failure to conduct Medicaid audits for 1992 and 1993. But unresolved bills from that year account for only $4 million of the problem, according to Peter Nunn, a partner in Coopers & Lybrand, the accounting company that recently analyzed the city's overall finances."
Could you tell us how you get from $4 million to $103 million?
Mr. NUNN. Let me describe that for you.
The District, throughout the year, records cash payments, which are normally referred to as PIPs, a partial payment, to the various providers. In addition, they record the payments for any settlements of prior years, and they finally closed and settled years prior to 1990, in the current year.
Mr. WALSH. In the current year, meaning fiscal year 1995.
Mr. NUNN. I am sorry, 1994. At the end of 1994, in the normal closing process for the District of their financial statements, they
accumulate the information relating to all amounts that are due but unpaid. That number is referred to the Medicaid accrual.

At the end of 1994, the accounting department for DHS would normally collect the information together and prepare that accrual. As of early January, the accounting department for DHS had not collected that information together to make the entries that complete the accrual accounting for the financial statements.

Working with them, the accounting department, auditors from Coopers & Lybrand and Bert Smith, accumulated the information and came to the total amount due to all providers for all open years, which includes 1990 through 1994.

Mr. Walsh. So this goes back to 1990?

Mr. Nunn. That is the amounts that are due. The sum of that—sum of that amount is equivalent to $261 million. That is the gross amount. Upon payment, there will be a reimbursement for half of that under the Medicaid program.

Mr. Walsh. $260 million?

Mr. Nunn. $261 million.

Mr. Walsh. That is owing to whom? To the providers?

Mr. Nunn. The health care providers in the District—hospitals, nursing homes and ICMFRs.

Mr. Walsh. Can you tell us how much of this is attributable to the year 1990 and how much to 1991? Because those costs would have been incurred in 1989 and 1990, would they not?

Mr. Nunn. Let me finish the story, and I think you will see the answer.

Mr. Walsh. All right.

Mr. Nunn. At the end of 1994, the accrual totaled $261 million. At the beginning of the year, the accrual totaled $54 million. The accounting records—

Mr. Walsh. Beginning of what year?


Mr. Walsh. All right.

Mr. Nunn. The difference—and there is the change in the accrual which is recorded—was $207 million, of which, at the same time, there is accrual for the receivable from the Federal Medicaid program. Therefore, the net cost to the District for that change is $103 million. That is half of it.

That $103 million, using that as the reference, $66 million—or two-thirds of it—represents the difference between the amounts for 1994 service for the health care providers, the difference between the amount that is either recorded on the cost reports or is estimated on those cost reports which had not been received.

Also, in the year 1994 there were a number of regulatory or rule changes. Two of them that I can best describe to you are the State plan, which is the plan that determines how the Medicaid program works, had changes that were approved final in 1994 that were retroactive to 1990.

Our belief is, looking at the documents, that out of the $103, $33 million represented changes, though they related to prior years, were determined in 1994 only after the State program was—State plan was approved. In addition, in the whole process, which is an estimating process, we believe there were another $4 million of just differences in estimates because better information was known.
So the sum of those three numbers—66, 4, and 33—give you the $103 million which is discussed everywhere.

Mr. WALSH. Thank you for taking us on that journey. But it looks like my time has run out.

Mr. BARRY. Mr. Chairman, let me just say on that—

Mr. WALSH. I will stay with it if you will, Mayor.

Mr. BARRY. Actually, there is a chart we would like to submit to you that indicates just fiscal year 1994 alone. These are services provided in 1994, and a payment in progress went to the providers and the cost reports came. Indicates—and Peter can help me with this—that in 1994 alone we are talking about an accrual of $207 million—increase in the accrual. Prior to 1994, the accrual was $54,000,289.

Also, the way you count this Medicaid is the year in which the service is provided. So, you see, from a management point of view, these audit contracts should have been signed earlier, and they should have been done.

Similar to 1995—as we get into 1995, my view would be that an audit contract should be in place to very soon start auditing 1995 so we can reconcile the payments in progress with the cost reports and audit report so we don’t have this big lag.

The hospitals sued the District of Columbia government in 1993 for their payments in 1992 and 1993. You can see why when you have these big numbers out there. Somebody is carrying this cost.

Mr. WALSH. Let me just wrap up then, because I have far exceeded my time. And I thank Mr. Nunn for coming to the witness table, at Mayor Barry’s request on such short notice to respond to our questions.

Let me just finish by saying that there are a lot of numbers here on Medicaid costs, and I know Congress is not going to be willing to come up with any dollar figure to pay for Medicaid or anything else because they aren’t solid numbers. They shift constantly. And before Congress entertains any action we need to have solid numbers. Mayor, you said early on you know how much cash you have got; you know how many bills you owe. Can you tell us right now?

Mr. BARRY. Congressman, in terms of the Medicaid problem, it would not be difficult for the GAO auditors—

Mr. WALSH. I’m talking about the whole budget.

Mr. BARRY. I will get to that in a few seconds—the GAO, the DC government and the auditors to figure out a real number as to how much cash is needed for 1995 and how much of this is accrual. That is not hard to do. Just a question of going through the cost reports and making a decision.

In terms of the DC government, as of yesterday, I indicated earlier we had ending cash investments of $383 million, we had outstanding checks of $93 million, net available balance of $299. We have an escrow of $70,000 for the note. The bottom line, we have $70 million. We have $123 million of moneys available to be spent on DC government payables. We have a checklist by agencies and by dates that come up to $42 million. And the last date we have was the February 17. We had a need of $2 million. So we owe $42 million.

Mr. WALSH. So you have cash on hand of less than $100 million.

Mr. BARRY. $123 million yesterday.
Mr. Walsh. I have taken enough time. Thank you.
Mr. Clarke. Could I follow up?
Mr. Davis. Sure, Chairman Clarke.
Mr. Clarke. To Congressman Walsh. You mentioned underbudgeting.
Mr. Walsh. Yes.
Mr. Clarke. In fact, it had been a problem and may still be a problem. We recognized the possibility of some underbudgeting when we put through the fiscal year 1995 budget originally, especially in the Medicaid and AFDC area.

The Kelly administration said to us, well, they had some management reforms in place; and we made a legislative decision in the budget posture, as things come to us, that we would not put money in there even though we thought she would have a problem, to let her go ahead with her managerial reforms. Because if we put the money in there the tendency would be for the administrators to spend it.

Instead, we created a rainy day fund. And the rainy day fund was in the report that we put into that budget premised upon the notion that there may be underbudgeting and would be available for reprogramming by a Mayor, through the council, and transmitted to the Congress to spend for those purposes. Then the Congress later went and put the $140 million limit upon us.

As I explained earlier, we thought, based upon staff-level conversations, that if we came up with cash savings other than the $140 million, if we came up with budget savings other than the $140 million, our additional revenues we could use to apply to underbudgeted problems.

And I am not clear now, I am afraid, on what the rules of the game are with respect to that because that is what we understood. We were still going to need that $140 million.

Second, the problems that we thought might occur with respect to Medicaid and AFDC did, in fact, occur. But another one of your restrictions was that the rainy day fund could not be used during this period of time, and if I recall the wording of it, it could not be used for any of that $140 million worth of reductions.

Now, I would like, if I could, to get a bit more clarity. Can the $140 million in the rainy day fund, some of which has been loaned out to come back this year for the convention center, what is left, can that money be used for what it was originally intended for, which was those underbudgeted items of Medicaid and AFDC, without impacting upon that restriction that is there?

Mr. Walsh. Mr. Chairman, I will—if you would like, I will defer to the ranking member who was chairman at the time the language on the $140 million cut was crafted.

Mr. Davis. Without objection.

Mr. Dixon. Mr. Clarke, as I understand the press reports, at the end of 1995 you are going to be $722 million in a deficit position, give or take something. The city council bracketed $20 million. I assumed at the time it was to give the city council, in fact, some control over the spending. I don't understand the relevance of talking about $20 million that you don't have when you're going to have a $700 million deficit and you ask can we spend this money.
This doesn't make any sense to me. What are you talking about? Can we spend the rainy day fund?

And, yes, we, in fact, abided by your—or the council's wishes in keeping that bracket because we knew that an executive officer would go to that money to relieve part of the $140 million cut. But my point is the deficit is so large that it is not relevant to anything. You're talking $700 million and you ask is it OK if—what is your intent with this $20 million? The $20 million isn't there. Explain it to me. Maybe I missed the point.

Mr. CLARKE. All right, Congressman. I don't know whether you did or not, but my point was not to do what I think you are saying I am trying to do. My point was to ask how that was operative when we have an underbudgeting problem and there were moneys that we put into the budget recognizing that and then this restriction went into place.

And I was asking what the directions of the Congress were. Because I intend to have the city council follow this body's directions, and it was a point of—a notice of a matter of concern we have had. And I am sorry I have raised it if it caused consternation, but we are trying to abide by what you have instructed us to do.

Mr. DIXON. Let me tell you why it does with me. Because the conversations of these hearings historically, except for maybe today, get way off the track—way off the track. And all I am suggesting is for you to say now what is your intent about this $20 million. When everyone seems to agree you're going to be $700 million in the hole, what difference does it make? I mean, literally, what difference does it make?

Mr. CLARKE. Just asking for guidance from you, sir. That is all the difference it makes. Thank you.

Mr. DIXON. Mr. Chairman, could I just pursue a couple of things here?

Mr. DAVIS. Please.

Mr. DIXON. I noticed Mr. Nunn was here, and I know we are going to have a hearing with Coopers—Mr. Nunn, could you come forward just one more time on some of these issues?

Mr. Nunn, I realize we're going to have a hearing that will involve Coopers & Lybrand on Friday, but I just wanted to ask you a couple of preliminary questions if I could.

As I understand it, Mr. Nunn, you are the managing partner of Coopers & Lybrand in the Washington office?

Mr. NUNN. That would become my desire, sir, but I am the audit partner on the audit of the District of Columbia, yes.

Mr. DIXON. OK. Now, if you could just explain to me what that means. What direct control do you have over the audits made by the District—by Coopers & Lybrand for the District.

Mr. NUNN. As the partner in charge of engagement, along with George Willie from Bert Smith and Co., who together we perform the audit, we have control over the audit plan, audit process, and the auditing tests and the opinion, which is included in the CAFR. The financial statements, as it says in the front of the document, are the responsibility of the District and the District comptroller.

We are in the position of either giving an opinion, statements conformed to generally accepted accounting principles or that they do not.
Mr. Dixon. Right. Now I want to ask you about a couple of things. Did you give an opinion in your 1994 audit?

Mr. Nunn. Yes, we did.

Mr. Dixon. And what was that opinion?

Mr. Nunn. It is an unqualified opinion, which means we believe—

Mr. Dixon. Explain that to me.

Mr. Nunn. We believe the financial statements, based on our audit of the financial records, were in accordance with generally accepted accounting principles and that they included the appropriate disclosures.

Mr. Dixon. Right. I am not an accountant or auditor. You will find that out by my questions. So, then, generally, you would say that your audit could not reflect the financial condition of an entity, and in particular the District of Columbia? In other words, looking at your audit and your opinion would not tell you whether the patient was well, slipping in health or dead. It would just say that all these numbers seem to add up and that there is some documentation from them.

The reason I say that is because we have been wondering—or I have been wondering—if you look at the Mayor's letter, he opens up by saying there is a financial crisis. Your letter doesn't say anything about any crisis at any time. And, as I hear you—and I will give you an opportunity to respond—generally you are saying, well, that is not the purpose of it. And so I am asking, should your letter—should a lay person be able to pick it up and tell if there are any problems with the District?

Mr. Nunn. I think our letter, as it says, has to be read in conjunction with reading the financial statements. I believe they clearly point out the results of operations for the year, the fact there is an excess of liabilities over assets in the current fund and the general fund, that the general fund had a loss of approximately $335 million for the year, that type of information.

And when you read through the footnotes—

Mr. Dixon. That is in the financial statement?

Mr. Nunn. That is correct.

Mr. Dixon. Then explain to me—and I am really trying to get information for the hearing on Thursday. What is the purpose of the letter? I mean, if the audit speaks for itself, how does the letter enhance it or detract from the audit statement? Why the letter?

Mr. Nunn. It says, as an independent person, separate from the organization that prepared the financial statements, that having reviewed the documentation, performed appropriate audit tests, that the financial statements are in accordance with generally accepted accounting principles.

Mr. Dixon. OK. Now, how long have you had this capacity with the District?

Mr. Nunn. The District puts out a contract for auditors for a 4-year period. This is the 3rd year of the 4-year period. And following the completion of the 4-year period we are not permitted to follow ourselves.

Mr. Dixon. OK, then you either prepared or were aware of a letter of January 11, 1994, that I asked them about at a subsequent hearing where I think the thrust of it—it is signed by Coopers &
Lybrand—that you tell them that you have conducted an audit and that the 1993 financial statements reflect an account—an amount currently due to the District of Columbia of 58—this deals with the hospital. Does that ring any bells with you?

Mr. NUNN. Yes, that is in the 1993.

Mr. DIXON. Right. Now, they started on this path in 1990, in writing off $9 million something. And then it increased to $58 million. And then in the last year there was another 21 or something, and it jumped up to about 80. Is that just generally correct?

Mr. NUNN. That is generally correct, yes.

Mr. DIXON. What—and you probably noticed this asset in the first year?

Mr. NUNN. That is correct.

Mr. DIXON. And what is it that changed your mind about it to write them in 1994 saying, well, you have to start writing this thing down, if I understand the letter? What facts had changed?

Mr. NUNN. As you are aware—

Mr. DIXON. First, let me ask you. Did you understand the circumstance surrounding this loan to the general hospital that was carried as an asset?

Mr. NUNN. Yes.

Mr. DIXON. OK. Then what changed to make you say we better start writing this thing off?

I mean, you understood that it was an entity that was owned and operated by the District, that they had a legal responsibility for it, that they had appropriated money. And the money that was loaned to them was the difference between the appropriated money and the actual money spent and you thought it was proper to call it a loan. And then I'm asking you what happened that made you change your mind or say you better start writing this thing down?

Mr. NUNN. Yes, I understand. As you know, it started in 1990. It goes on for a number of years.

Mr. DIXON. Yes.

Mr. NUNN. In the beginning, in the initial years, there was some discussion. In 1992, for instance, in our management letter, we pointed out to them that that item probably should be expensed if they were not going to develop a plan for repayment. At that same time, we did not—while we mentioned it in the management letter we did not think it was sufficient to insist on its write-off in 1992.

During 1993, that continued to grow. It is in accordance with generally accepted accounting principles that it is possible to have loans between different funds and that in the circumstance where you have and develop a plan for elimination and reduction of that loan it is appropriate to continue to carry it until it is repaid.

During and at the end of 1993, with legislation that took effect on October 1, 1994——

Mr. DIXON. Right.

Mr. NUNN [continuing]. At the beginning of the current year——

Mr. DIXON. Yes.

Mr. NUNN [continuing]. The manager of the oversight of the hospital, which had been vested in a board, was removed from the board, put back directly under the control of the Mayor with a directive that the Mayor establish a plan for reducing the deficit at
the hospital and seeing to it that it was repaid and eliminated over a 5-year period.

It was our belief that, under accounting rules, that having worked out or set out on a program to establish that plan, we would give them more time. The District retained the assistance of a consultant in that particular area. They submitted their report sometime in January 1994—or maybe February. The Mayor at that time submitted a plan in approximately June with a description of how they were going to make changes at the hospital.

As I got to reviewing the documents at the end of fiscal 1994 and on into the end of the year, having mentioned it in advance if there was not progress toward that we would no longer go along with carrying that as a loan, it became clear to me there was not progress being made. Therefore, I recommended to the city that they write—set up a reserve to cover that amount.

Mr. Dixon. And, as a result, Mayor Barry did, in fact, do that.

Mr. Nunn. That is correct. That is reflected in the 1994 statements.

Mr. Dixon. If I could, Mr. Chairman, I just want to pursue this one issue?

Mr. Davis. Yes.

Mr. Dixon. Now, you went through with me the things that were done after 1993 about the Mayor getting some consultants and doing all those things and submitting a plan. But what was it in 1990 that made you think that this was a loan and that there was a scheme to repay?

You see, on the tail end we did start making it look like we are doing something. In fact, Mayor Kelly came and testified that she had hopes that when it became a public-private corporation that they would be able to pay back this money. And then someone even suggested that maybe this hospital authority could float some bonds to pay off this loan to the city.

But what was it in 1990 that made you think that this was a—

I mean, you realize this was all the same people, right? It would be like me loaning myself some money. What was it then that—
did you ask them questions about it then?

Mr. Nunn. I was not the auditor in 1990 or 1991, so there was 2 years of experience of that. I became the auditor in 1992. We did raise that question in both discussions and through the management letter as to whether that was appropriate.

Mr. Dixon. So are you saying you weren’t or Coopers was not.

Mr. Nunn. Coopers were not the auditors in 1990 or 1991.

Mr. Dixon. So, then, if I wanted to pursue this, we should go back to the people at that point in time.

Mr. Nunn. If you are considering 1990 and 1991, yes, I would say you would have to.

Mr. Dixon. Right. Well, was it in 1992 you took over?

Mr. Nunn. In 1992—

Mr. Dixon. Ms. Kelly pursued this by way of a consultant, it is my recollection, at the beginning of 1993.

Mr. Nunn. That is correct.

Mr. Dixon. Now, what was it—when you took over, you looked at this loan, and what was it that made you think it was, in fact, a loan—-
Mr. Nunn. We questioned—
Mr. Dixon [continuing]. And had a repayment plan? She hadn't done anything yet.

Mr. Nunn. We questioned whether it should be as a loan and/or as written off. However, in considering overall materially its effect on the financial statements, we concluded we would not either change our opinion or to insist that they had to write it off because of its size at that point as opposed to having an actual plan. We did recommend that they have it, though.

Mr. Dixon. It wouldn't have changed your opinion, but, in fact, they would have shown a deficit in those years, wouldn't they have? Or were they running a surplus on paper?

Mr. Nunn. 1992 was a very small gain, I believe.

Mr. Dixon. Right.

Mr. Nunn. That's correct.

Mr. Dixon. And in 1992 it was $20 some odd million.

Mr. Nunn. 1992 was about $2 million.

Mr. Dixon. Mr. Mconi points out they showed a plus of about $1.9. If they owed—if they had an asset of $20 million, it would have seemed to me they would have shown a deficit. That wouldn't have changed your opinion?

Mr. Nunn. Not on the financial statements of the District of a whole, which runs $4 and $5 billion, no.

Mr. Dixon. Well, Mr. Chairman, I don’t want to take any more of our time, but it just seems we are getting to a crux of a problem here that for our purposes—and you probably say, well, I knew this all along—these audits aren’t worth much for our purposes. They may have some other value, but these audits aren’t worth very much to us, are they?

Mr. Nunn. They get you financial statements in accordance with generally accepted accounting principles, and I have a very strong feeling that they were very helpful in getting the numbers together at the end of 1994.

Mr. Barry. Mr. Chairman, could I just take a minute on that?

Mr. Davis. Yes, you may, Mr. Mayor.

Mr. Barry. Part of my frustration here—and even when I was on the council I raised questions about the loan being carried that way. It didn’t make sense to me. And DC General was drowning in ink, and you are expecting them to pay it back.

But the other problem, I think, which I just put on the record here, and maybe Mr. Nunn and others, who yesterday I visited with—it seems to me accompanying their audit ought to be the management letter soon thereafter. And in the management letter it seems to me these analyses and observations ought to be pointed out. And the District received the 1993 management letter in August of last year.

Now, I have been promised we will get it this year by March 1, but the management letter ought to have that kind of analysis and data about it.

For instance, we looked at the accounts payable. That is how we discovered that the previous administration was carrying over $70 million and the accounts payables had gone from 245 to 310 or something like that. I asked, well, why? And it was then brought out it was a carryover from the next year.
So these management letters should be put in there. Otherwise, you are right. This audit is not as useful to us—to me and you and the community—as it ought to be.

Mr. DIXON. I was going to ask about the management letter, but I thought we would reserve that for Friday's meeting. You do intend to attend, Mr. Nunn?

Mr. NUNN. I will be here. Yes. Thank you.

Mr. DIXON. Thank you.

Mr. DAVIS. Ms. Norton, may I ask one quick question?

Mr. Nunn, how many management letters have you written during your time at Coopers & Lybrand or other accounting firms? How many management letters have you had a hand in writing?

Mr. NUNN. Probably hundreds.

Mr. DAVIS. Just looking at the September 1993, District of Columbia report to management, looking at the number of items in this, I count 142 different items pinpointed. I could go through them, although I think you are familiar with it—implement verification procedures for bank deposits. Matured securities should be reinvested or converted in cash. The District was losing money on those items. And it is page after page of these.

Does that indicate a revenue problem or a management problem with the District, from your professional viewpoint?

Mr. NUNN. As you can see in that letter, it is written to a number of agency level—divided up by agency levels. And I think there are a lot of issues that the agencies have to address. Part of it is a matter of housekeeping. Part of it is a matter of management.

Mr. DAVIS. So a lot of management issues. Have you ever written a letter with this many—

Mr. NUNN. I have never written one that long, no.

Mr. DAVIS. Thank you.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Mayor Barry and Chairman Clarke, I wonder if you could clarify an issue that appears to have just arisen between you. What accounts for the differences between the two branches on how deep the cuts should be—the differences that emerged within the last day or two?

Mr. BARRY. Ms. Norton, I was on the council and participated in the council vote on December 21. And when you look at what the council did, they carried over a number of the personnel actions that had been recommended by Mayor Kelly. And the council voted to implement in terms of easy out, early out, et cetera. There were very little cuts in the council's budget in other than personal service. So I have been trying to find it in contracts and others to cut.

Moreover, because the system is not set up to give the council, I guess, instant information on how many people left the payroll, I guess we want to do it to them on a quarterly basis. I suspect some members of the council were reacting from pressure from their peers, to some extent. And, also, they didn't see any real signs that money was being saved. And I kept saying we have to get people off the payroll.

So I don't think there is that much of a difference as it appears. I think the council, as I do, wants to see real savings in a way that you can measure.
And, last night, a couple of nights ago, the council moved on a bill to get the unions, I guess, to the table. And I have said all along they won't come formally to the table on renegotiation of this wage decrease.

And I don't think the difference is that large, quite frankly. I think it is a matter of the council being able to see evidence that we are saving this money so we don't end up in August or September saying we thought we were going to do it and didn't do it.

Second, I get the impression that—and I was on the council for 2 years—that the previous administration's credibility was not as good as it ought to be, and I suspect there was sort of a carryover. Whether or not mine is as good, I don't know if Mr. Clarke can answer that question or not.

Mr. Clarke. Congresswoman, I need a bit of a clarification. What is the difference to which you are making a reference?

Ms. Norton. Mr. Clarke, I only know what I read in the newspaper and see on the television. There appears to be a difference between you or the council and the Mayor—

Mr. Clarke. Yes.

Ms. Norton [continuing]. On the depth of the cuts that are needed to be made.

Mr. Clarke. In the payroll.

Ms. Norton. Such that the council said if certain cuts were not made the council itself would—if certain savings were not shown, the council itself would mandate the cuts.

Mr. Clarke. Yes. What we did, the Mayor had told us—and he did send correspondence to us yesterday. And he had told us that he wanted to reduce 790 some, I believe it was, positions—750 positions. And the council members felt that they would like to have more positions cut.

So what the council members said was, recognizing the executive has to provide basic information, was give us the list of the positions; and if you don't want to do it then we will by emergency action do it. But it was just discipline for ourselves as much as for the Mayor to just say we're going to do it.

We had extended discussions yesterday amongst ourselves. First, the suggestion was, well, let's just do it and put it out there. I said, we are getting into fiscal year 1996 budget. So we will work it into the budget so you don't have a problem with the budget not reflecting what we are doing.

I talked to the Mayor last night. He said he was going to try to reduce 4,000, and this fits there. Our 1,200 on top of the 2,750 we already did is within that 4,000. So I don't see the problem.

The Post—the press looks for problems between us. I think they know we have been trying to work together closely.

Ms. Norton. So you think this difference that is being assessed can be reconciled.

Mr. Clarke. I think so, and we didn't think it was something that couldn't be done. We think that can be done.

I noted earlier that the $244 million worth of reductions that he said, that it had some basis in—we had already done. I pointed out—I don't have it right here now—but that a lot of the reductions that he was proposing we had already budgeted that reduction. And some areas he reduced less than we said to reduce; some areas
he reduced more than we said to reduce. I think we’re working on it in a concerted way. I am not seeing this great difference.

I mean press sometimes goes and says, well, the Mayor’s at 795 and the council is at 1,200. They are at war with each other. I don’t see that right now.

But the council has said if it doesn’t get done it’s going to go on and do it. It is just self-discipline, really.

Mr. Barry. Ms. Norton, I think that the way—I read what you probably read, and it should not reflect the majority of the council.

There are some members of the council who have a different view of some of these matters than me. For instance, there are some members of the council, for whatever reason or another, who want to fire more people. But the majority of the members of the council and I are—we are very close together on the goals in reducing this budget.

Ms. Norton. Finally, let me ask a question on your own personnel authority, Mr. Mayor. What proportion of the District’s personnel authority is under your direct control?

Mr. Barry. While we are getting it, I can give you some—Ms. Norton, let me get that to you, but let me give you generally where we are in terms of the big items.

One-third of the 32,000 FTEs we talked about is in public schools, not under my authority; the university not under my authority; the courts are not under my authority; the pretrial, public defender, DC school of law. But let me give you a list of it. But a number of the big agencies are not under my authority.

My staff is saying about 55 percent, but I don’t want to be held to that number. Let me just take the agencies and send them to you tomorrow as to the FTEs and those not under my authority.

The big one is the schools. One-third of our FTEs is in the schools where I have no authority.

Ms. Norton. Well, you do have bottom line authority.

Mr. Barry. What you have, Ms. Norton, is that, for instance, the council and myself agreed to reduce the school’s budget by $31 million, and we had recommended that most of those cuts come out of central administration, not out of the classroom, but what the schools did is take more out of the classroom than out of central administration, which means when you—and we had the language you should do it this way. They did it another way.

Ms. Norton. By the way, I can’t believe that there would not be some way to indirectly get at that problem by saying to, for example, to the school board if you take it out of teachers we will take retribution on your budget for next year. It seems to me that without invading their budget, since their budget has to go through the council and has to be approved by you and by the council, there would be ways to have an effect upon where they decide to cut and where they don’t cut.

Mr. Barry. What happens, Ms. Norton, you tell them that for 1995 you say we are going to reduce you further in 1996 because you didn’t cut in central administration in 1995 and then in 1996 they are going to do it and it becomes a never-ending battle.

Ms. Norton. But it might get them to do what you want them to do.

Mr. Barry. In 2 or 3 years maybe.
Ms. NORTON. Thank you, Mr. Chairman. I am through.

Mr. DAVIS. Thank you.

Mr. Mayor, Chairman Clarke, Mr. Pohlman, Mr. Nunn, all the council members who have sat here showing their interest, we want to thank you very much for coming. You can say you have been saved by the bell because we have another vote.

And I think instead of another round of questioning we will count this as the beginning of a long dialog. As the saying goes, the journey of 1,000 miles begins with the first step, and I think we have taken some giant steps today.

We will have our differences as we move along. However, one admonition, and that is, to the extent there is downsizing to be done and the council doesn't do it, you have somebody else, with probably less sensitivities, who may make those cuts. So I think you need to stand up and fulfill your elected obligations as we work through these numbers, and we will continue to work with you. These first steps are not the total steps. We are going to be with the city, I think, every step of the way as we move forward.

Let me turn it over to Chairman Walsh.

Mr. WALSH. Thank you, Mr. Chairman. I enjoyed the better part of the day with you and with members of the District government and those of you who have sat through all of this.

I would just end by saying that I really believe there is a fundamental difference of opinion here. I certainly can't speak for the Congress, but I do know a lot of Members of Congress don't believe the District's financial crisis is being caused by a revenue problem. They believe it is a management problem.

A city of 550,000 people should be able to keep a $4.5 billion budget under control and deal with the problems that a thriving modern American city has. And while it is certain that the revenue issue is going to be focused upon, for sure, attention is also going to be directed at the District's internal management.

Mr. BARRY. Mr. Chairman, let me just say I appreciate the dialog I have had with you and Mr. Walsh and with the Speaker and Ms. Norton and others, and you have my commitment to hang in here together and to work together.

I think, Mr. Walsh, as we go down this road together, we are probably going to meet in the middle, where it is going to be a management and revenue problem, which I have said. You say management not revenue, but I think as we examine it carefully, away from the glamour and glare of these hearing rooms, but in dialog and discussions, we are going to probably come closer together than any of us would think about that. Because none of us wants to do anything that is not going to make our city a better place to live, work and to do business and make it hospitable for the Congress.

Mr. DAVIS. Thank you very much. Thank you. Meeting will be adjourned.

[Whereupon, at 3:20 p.m., the subcommittees were adjourned.]

[Additional information submitted for the record follows:]
ASSessing the District of COLUMBIA's FInancial FUTURE—A Report to the FEDERAL CITY COUNCIL

COLEADERS: MCKINSEY & COMPANY, INC.; URBAN INSTITUTE—OCTOBER 1994

Preface

The Federal City Council requested this report on the financial problems facing the District of Columbia. The Council's intent is to provide an objective and factual assessment of:

- What will happen to the District's financial position over the next several years if recent trends continue unaddressed
- Why the District is in such a poor financial position
- The illustrative major elements of a program to "fix" the city's financial problems.

The Council intends to use this report to provide context and focus for the development of an "action program" to improve the economic and social health of the District of Columbia. We now plan to engage in broad consultations with the stakeholders through focus groups, community meetings and public opinion surveys. The opinions and suggestions from the community consultation effort will be incorporated into a consensus-driven action plan.

The Council greatly appreciates the pro bono contributions of the professional and nonprofit institutions that prepared this report. They worked under the leadership of Larry Kanarek and Les Silverman of McKinsey & Company and Jim Gibson of the Urban Institute. The following people were on the project team.

Urban Institute—Alan J. Abramson, James O. Gibson, Matt Vandergroot
Arthur Andersen—Rachelle Bures
Deloitte & Touche—Ravi Ruparel

ANN MCLAUGHLIN
President, Federal City Council.
October 7, 1994

ASSESSING THE DISTRICT OF COLUMBIA'S FINANCIAL FUTURE

This report is an attempt to identify and assess the macro demographic and economic forces causing the financial crisis that the District of Columbia now faces. We have been guided not by opinions, anecdotes, or preferred solutions, but by facts. Most of these facts will not be new; almost all of them have been reported in the press at some length. We have attempted, however, to organize them in such a way that they tell an inarguable story about what has brought the District to financial distress and about what steps must be taken to put the city on a firm financial footing. We hope that this objective assessment will help those involved in bringing about long-term solutions to the District's problems.

We should also note what this report does not try to do. First, we have avoided the political questions about the District's governance structure that are being actively debated by others. That topic is simply outside our scope. We view such governance options (e.g., statehood, annexation) as means to the end of dealing with the financial facts presented here.

Second, we discuss the flight of the middle class from the District to the surrounding suburbs and the critical role that it is playing in the erosion of the District's tax base. Since our report is a financial one, however, we do not analyze the causes of this trend or put forth recommendations to reverse it. But we caution that without stabilizing or increasing its middle-class population there is little hope of putting the District on a long-term stable financial footing.

Finally, we have not attempted to update or replicate the excellent work of the Rivlin Commission (Financing the Nation's Capital, November 1990) and its analysis of the District's budget. Rather, we have accepted this work and have simply tried to place it in the larger context of the city's overall financial position.

Summary

The District's financial plight presents an apparent paradox. Not only is the Washington metropolitan area one of the richest regions in the United States, the District itself is among the better-off cities, with a large, stable employer (the Federal government) and attractions that draw considerable business and tourist activity. Nevertheless, the District has been struggling to balance its budget in recent years and is projecting a growing shortfall. What explains this paradox of a financially-distressed city amidst relative prosperity?
We have concluded that the explanation lies with both expenditures and revenues. As has been widely reported, the District’s spending is out of line on many fronts. In addition, the city will have trouble retaining and attracting businesses and residents if it does not improve the safety of its streets, the quality of its schools, and the performance of many District services. Expenditures appear to be about one-third of the financial problem, and they must be dealt with. Dealing with both the level and quality of its own spending is critical in and of itself. It is also a crucial factor in gaining the credibility the District needs to ask others to help.

Two-thirds of the District’s financial problem is on the revenue side. While the District shares with other cities the loss of taxpaying residents, it is unlike any other city in that the financial effects of this loss hit the District immediately and there is no dampening mechanism (e.g., nonresident tax, state transfer payment) to cushion the blow.

As a result of this expenditure and revenue situation, the District faces a billion dollar shortfall in the year 2000. It seems clear from our analysis that debate over whether the solution lies in a leaner city government, a higher Federal payment, or help from the regional governments is moot. All will be necessary, and all are appropriate.

In the remainder of this report, we discuss the paradox of the District’s financial problems, the root causes of these problems, and the elements of a potential solution.

Current Situation: An Apparent Paradox

Let’s start with the paradox. The District is in the heart of one of the richest metropolitan areas in the country. The Washington area ranks first among the 15 largest metropolitan areas on several desirable income, educational, and employment measures (Exhibit 1). (Appendixes A and B contain additional comparative statistics on the largest metropolitan areas.)

Exhibit 1—Comparison of 15 Largest U.S. Metro Areas

<table>
<thead>
<tr>
<th></th>
<th>DC #1</th>
<th>Average of others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita income—$1989</td>
<td>21,416</td>
<td>16,565</td>
</tr>
<tr>
<td>Education—% of population≥15 yrs. completed</td>
<td>38.5</td>
<td>24</td>
</tr>
<tr>
<td>Employment—Percent in professional managerial and technical jobs</td>
<td>45.3</td>
<td>32.9</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Less well known, perhaps, is that the District itself is in many ways in far better shape than some other cities. It is fifth out of the 25 largest cities in household income; third in terms of the percentage of the population completing college; and first with regard to employment in professional, managerial, and technical jobs. It had the greatest decline in the poverty rate among these cities in the 1980s (Appendix C; Appendix D contains comparative statistics on the largest cities).

That’s why we call it an apparent paradox that the District’s financial condition is so perilous in the midst of so much wealth. Only through some accounting mechanisms, such as changing the property tax year ($174 million in 1993) and transferring income from the water and sewer fund ($28 million in 1992), and a one-time increase in the Federal payment has the District managed to balance its books in recent years.

Looking forward, the District government itself sees a widening deficit of $700 million by the year 2000, which we believe could easily rise to exceed $1 billion (Exhibit 2). Obviously, such a deficit will not be allowed to occur, and dramatic steps—such as the shutdown of “nonessential” government services—will be taken before it does. It would be far better to address this worsening situation now.
Exhibit 2
PROJECTED DC GENERAL FUND BUDGET 1993-2000
Current $ Billions

Source: District of Columbia Government, team analysis

Causes: Largely Unique to the District

Why is the picture so bleak when the city and metropolitan area are relatively well off? Part of the answer is clearly related to the high levels of District government spending that the Rivlin Commission addressed in 1990. Since the Rivlin report, the city has held expenditures, in real dollars, essentially flat by cutting expenditures in discretionary areas to offset substantial increases in Medicaid, pensions, and debt service—categories that are growing in many cities and states (Exhibit 3).

Exhibit 3—Annual Real Expenditure Growth 1988–93

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development &amp; HR</td>
<td>-9.4</td>
</tr>
<tr>
<td>Public Works</td>
<td>-4.3</td>
</tr>
<tr>
<td>Government Direction</td>
<td>-3.0</td>
</tr>
<tr>
<td>Public Education*</td>
<td>-1.8</td>
</tr>
<tr>
<td>Human Services**</td>
<td>-1.4</td>
</tr>
<tr>
<td>Public Safety*</td>
<td>-0.9</td>
</tr>
<tr>
<td>Debt Service</td>
<td>4.6</td>
</tr>
<tr>
<td>Pensions</td>
<td>4.7</td>
</tr>
<tr>
<td>Medicaid</td>
<td>7.3</td>
</tr>
<tr>
<td>Total</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

* Excludes pensions
** Excludes Medicaid
Source: District of Columbia Government, team analysis

More cutting of District expenditures will be necessary. For example, the District continues to be among the most costly providers of Medicaid (Exhibit 4) and education (Exhibit 5). And while it is true that getting apples-to-apples comparisons of the District's spending with other cities is virtually impossible (in part, because the District provides services that other cities receive from counties and states, such as Medicaid and corrections), it is clear that the District must become more efficient and more effective in delivering its services. For example, while the Rivlin Commission recommended that District workers be reduced from 48,000 to 42,000, only half
of this reduction has been realized. Today, there are about 45,000 workers on the District payroll.

Exhibit 4—Top 10 Per-Recipient Expenditures on Medicaid 1992

<table>
<thead>
<tr>
<th>Rank and State</th>
<th>Dollars/recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 New York</td>
<td>$5,575</td>
</tr>
<tr>
<td>2 Connecticut</td>
<td>5,258</td>
</tr>
<tr>
<td>3 New Hampshire</td>
<td>4,779</td>
</tr>
<tr>
<td>4 Massachusetts</td>
<td>4,733</td>
</tr>
<tr>
<td>5 DC</td>
<td>4,595</td>
</tr>
<tr>
<td>6 North Dakota</td>
<td>4,430</td>
</tr>
<tr>
<td>7 Indiana</td>
<td>4,306</td>
</tr>
<tr>
<td>8 Minnesota</td>
<td>4,276</td>
</tr>
<tr>
<td>9 Maryland</td>
<td>4,019</td>
</tr>
<tr>
<td>U.S. average</td>
<td>$3,019</td>
</tr>
</tbody>
</table>

Source: Federal Government (Green Book)

Exhibit 5—Top 10 Public School Districts

<table>
<thead>
<tr>
<th>Rank and School district</th>
<th>Expenditures per pupil* 1990–91</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 DC public schools</td>
<td>$7,383</td>
</tr>
<tr>
<td>2 New York City, NY</td>
<td>7,380</td>
</tr>
<tr>
<td>3 Montgomery County, MD</td>
<td>6,778</td>
</tr>
<tr>
<td>4 Fairfax County, VA</td>
<td>6,604</td>
</tr>
<tr>
<td>5 Milwaukee, WI</td>
<td>6,603</td>
</tr>
<tr>
<td>6 Cleveland City, OH</td>
<td>6,593</td>
</tr>
<tr>
<td>7 Los Angeles Unified, CA</td>
<td>5,832</td>
</tr>
<tr>
<td>8 Dade County, FL</td>
<td>5,785</td>
</tr>
<tr>
<td>9 Palm Beach County, FL</td>
<td>5,763</td>
</tr>
<tr>
<td>10 Philadelphia City, PA</td>
<td>5,756</td>
</tr>
<tr>
<td>Average of 40 largest school districts</td>
<td>$4,985</td>
</tr>
<tr>
<td>Average of top 10</td>
<td>$6,448</td>
</tr>
</tbody>
</table>

*Some state administrative costs are not included
Source: GAO (Education Digest)

A final observation on the expenditure side of the ledger: the District continues to be burdened by a substantial unfunded pension liability inherited from the Federal government. The District spends about $225 million annually on the now $3.3 billion unfunded pension liability (which has grown from $2 billion since Home Rule). (Another $75 million is due to the District's underfunding of pensions since Home Rule.)

Let's turn to the less well-known facts on the revenue side. Over the past few years, real growth in District government revenue has been flat, even counting an increase in the Federal payment and the accounting modification in 1993 that boosted property taxes. This is because income and sales tax revenues have plummeted (Exhibit 6). Looking forward, the District itself acknowledges that real revenues will decline. Our own view is that the situation is likely to be noticeably worse, as it is unlikely that income and sales tax revenues will rise as forecast.

Exhibit 6—Annual Real Revenue Growth 1988–93

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
<th>Projected 1995-2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>−5.3</td>
<td>−4.7</td>
</tr>
<tr>
<td>Sales tax</td>
<td>−4.0</td>
<td>−2.4</td>
</tr>
<tr>
<td>Nontax revenue</td>
<td>−1.9</td>
<td>−2.0</td>
</tr>
<tr>
<td>Federal payment</td>
<td>1.4</td>
<td>−0.8</td>
</tr>
<tr>
<td>Other taxes</td>
<td>3.9</td>
<td>0.6</td>
</tr>
</tbody>
</table>
None of this is surprising. All American cities are facing dwindling populations and revenues. The District is no different. But the impact of population loss hits the District’s finances much harder than it hits other cities’ finances.

The District is quite different from other American cities in how it gets its revenues (Exhibit 7). The District receives one-half of its revenues directly from income, property, and sales taxes. The average city we examined receives only 15 percent of its revenues from these three sources. Other cities get the majority of their funding for the same services that the District provides from other governmental entities—Federal, state, and county. The loss of their middle class population is cushioned by these intergovernmental transfers. The District feels the effect of population and taxpayer loss immediately and without the potential of offsetting funds from other governmental entities.

Exhibit 7
REVENUE SOURCES FOR COMPARABLE ACTIVITIES 1993
Percent

| Source | District of Columbia Government |

Let’s look at the District’s three sources of tax revenue a little more closely, starting with income taxes. As is well known, the District’s population has been in decline for the past quarter century, losing out to the city’s suburbs (Exhibit 8). While the District had 55 percent of the area’s residents in 1950, today less than 20 percent live in the District. Much of this decline has been due to the exit of the middle class, and the resulting decline in residents with jobs has been dramatic, approximately 68,000 residents from 1988 to 1993. Interestingly, however, the District continues to be the chief source of jobs for the area’s workers, and over the past 5 years it has held its own as an employer (Exhibit 9). As a result of these two trends in residence and employment, the District has the second greatest imbalance in the nation between the share of the area’s people working in the city and the share living in the city (Appendix E). Not surprisingly, the District leads the nation in the percentage of income earned in the city by nonresidents (Exhibit 10). Two of every three dollars earned in the District are earned by a nonresident.
Exhibit 8
LONG-TERM CHANGES IN DC METRO AREA POPULATION
Thousands of residents

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairfax County</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1000</td>
</tr>
<tr>
<td>Montgomery County</td>
<td>800</td>
<td>750</td>
<td>700</td>
<td>650</td>
<td>600</td>
<td>550</td>
</tr>
<tr>
<td>Prince George's County</td>
<td>600</td>
<td>550</td>
<td>500</td>
<td>450</td>
<td>400</td>
<td>350</td>
</tr>
<tr>
<td>District</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Arlington County</td>
<td>200</td>
<td>150</td>
<td>100</td>
<td>50</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Alexandria</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

District's share of regional population: 55% 38 28 23 19 18

Source: Greater Washington Research Center, team analysis

Exhibit 9—Jobs in the DC Metro Area
[At-place employment by jurisdiction 1993]

<table>
<thead>
<tr>
<th></th>
<th>Thousands of jobs</th>
<th>Average annual change 1990-93</th>
</tr>
</thead>
<tbody>
<tr>
<td>District of Columbia</td>
<td>670.1</td>
<td>-0.4</td>
</tr>
<tr>
<td>Fairfax County</td>
<td>381.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Montgomery County</td>
<td>368.8</td>
<td>-1.2</td>
</tr>
<tr>
<td>Prince George's County</td>
<td>269.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>Arlington County</td>
<td>150.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>City of Alexandria</td>
<td>79.2</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

Source: Washington Council of Governments

Exhibit 10—Nonresident Share of Earnings at Jobs in Central City 1990
(Preliminary)

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>DC</td>
<td>67</td>
</tr>
<tr>
<td>St. Louis</td>
<td>54</td>
</tr>
<tr>
<td>Boston</td>
<td>33</td>
</tr>
<tr>
<td>Atlanta</td>
<td>51</td>
</tr>
<tr>
<td>Baltimore</td>
<td>42</td>
</tr>
<tr>
<td>New Orleans</td>
<td>36</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>27</td>
</tr>
<tr>
<td>Kansas City</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis, U.S. Department of Commerce

The District’s unique circumstances cause the income tax loss due to outmigration to be particularly painful. First, in other cities, the earnings of city workers living in the suburbs would be taxed by the state (say Georgia for Atlanta) and recycled
in some fashion to the city (75 percent of other cities' financing is from external sources such as state transfers). Second, many other cities whose borders lie close to neighboring states have imposed nonresident taxes to mitigate the loss of this revenue. The average tax, in fact, is about 2 percent (Exhibit 11). The District is unable to rely on either of these two cushioning mechanisms.

Exhibit 11—Nonresident Taxation

<table>
<thead>
<tr>
<th>Selected Cities</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia, PA</td>
<td>4.31</td>
</tr>
<tr>
<td>Toledo, OH</td>
<td>2.25</td>
</tr>
<tr>
<td>Lexington, KY</td>
<td></td>
</tr>
<tr>
<td>Cleveland, OH</td>
<td>2.00</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td></td>
</tr>
<tr>
<td>Wilmington, DE</td>
<td>1.50</td>
</tr>
<tr>
<td>Kansas City, MO</td>
<td>1.25</td>
</tr>
<tr>
<td>Harrisburg, PA</td>
<td>1.00</td>
</tr>
<tr>
<td>New York, NY</td>
<td>0.45</td>
</tr>
<tr>
<td>DC</td>
<td>0</td>
</tr>
<tr>
<td><strong>Average of sample</strong></td>
<td><strong>2.00</strong></td>
</tr>
</tbody>
</table>

45 States require withholding on income earned within state borders
Source: U.S. Advisory Commission on Intergovernmental Relations; interviews

Property taxes are the second major source of District tax revenue. Looking back, the District benefited until quite recently from the run-up in real estate values. Because of the time lag in valuation for tax purposes and because of a one-time accounting change, property taxes actually increased in real terms until 1993, although the real estate "bust" began earlier. While projecting real estate cycles is hazardous to any forecaster's health, the recent downward trend in property values is unlikely to be reversed for the rest of the decade, dragging property tax revenues down with it (Exhibit 12). In addition, the District is—unique among large cities—unable to collect property taxes on a large amount of tax-exempt buildings and land, owned primarily by the Federal government. Our rough analysis indicates that this represents $450 million of foregone revenue (Exhibit 13). (We will return shortly to the subject of whether the Federal payment fairly compensates the District for foregone revenue and for the cost of services provided to the Federal government.)

Exhibit 12

**ACTUAL AND PROJECTED PROPERTY TAX BASE 1988-2000**

1993 $ Billions

```
Actual    Projection

1988: 160
1989: 150
1990: 140
1991: 130
1992: 120
1993: 110
1994: 100
1995: 90
1996: 80
1997: 70
1998: 60
1999: 50
2000: 40

Other*
Residential-owner-occupied (Class 1)
Commercial (Class 4)

* Other includes Class 2 (residential-tenant), Class 3 (hotel and motel) and Class 5 (unimproved land)
### Exhibit 13—Tax Status of District Real Estate 1993

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land Area (100% = 30,000 acres):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DC government</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Federal government</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Potential Annual Revenue (100% = $1,449 million):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td>52</td>
<td>$762</td>
</tr>
<tr>
<td>DC government</td>
<td>5</td>
<td>70</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>168</td>
</tr>
<tr>
<td>Federal government</td>
<td>31</td>
<td>449</td>
</tr>
</tbody>
</table>

DC government, Other, and Federal government entries are tax exempt/revenue forgone
* Other includes foreign governments, international agencies, universities, hospitals, churches

Source: District of Columbia; own analysis

The District's third major source of tax revenue is sales taxes. As Exhibit 14 shows, sales tax revenue is in free fall and, despite the District's forecast that this decline will level off, we think that it is likely to continue. The factors underlying the precipitous decline in District sales tax revenue include the recession that has affected the entire region and the loss of the middle class population. Another important factor is the explosion of retail developments on the city's borders. These developments provide safe, attractive shopping with adequate parking and, sometimes, public transportation (Exhibit 15). This trend is continuing. In 1992 and 1993, the District added just 29,000 square feet of new retail space. The Virginia suburbs added 6.8 million square feet, and the Maryland suburbs added 2.6 million square feet (according to COG). This retail development, complicated by middle class flight, makes it very difficult to see the decline in the District's sales tax revenues being reversed anytime soon. Finally, the District is unable to collect what it believes to be about $70 million of sales tax from diplomatic and military customers who, by law, are exempt from paying sales tax.

### Exhibit 14

**TAXABLE SALES IN THE DISTRICT**

1993 $ Billions

![Graph showing actual and projection for taxable sales in the District from 1988 to 2000. The graph indicates a decline in taxable sales with a CAGR of -4.8% from 1993 to 1999, and a projected increase with a CAGR of 0.1% from 1999 to 2000.]

Source: District of Columbia Government
From a tax perspective, the District is more directly and significantly affected than other American cities by the demographic and economic trends that afflict all cities. As middle class residents leave the District, the tax loss is complete—there is no state income tax that can be recycled or nonresident tax to mitigate the loss. In addition, the District’s commercial property base is severely hamstrung by Federal ownership, and its proximity to the suburbs allows for easy access out, both to live and to shop.

The District cannot expect to be successful in raising revenues by raising taxes. The District’s total tax burden is already as high as in the surrounding suburbs (Exhibit 16). (Interestingly, unlike many cities, the District’s total tax burden is not higher than in its surrounding areas.)

The District’s final major source of revenue—the Federal payment—has proved to be somewhat unstable and in our opinion has an important calculation flaw. The current formula is set (although it is not binding on Congress) at 24 percent of the District’s internally-generated revenue 2 years prior. This formula has the perverse effect of generating less revenue for the city as its own tax receipts decline. It serves, therefore, not as a brake on the District’s falling finances, but as an accelerator. And the recent $660 million payment is, arguably, inadequate to compensate for foregone property taxes, lost sales taxes on the military and diplomatic corps, and the cost of providing services to the Federal government. By our calculation these could add to over $900 million.

To summarize, there are three main causes of the District’s worsening financial problems. First, the city government remains bloated and needs to considerably tighten its belt—even as demand for some services increase, it must greatly improve service delivery. Second, the District is uniquely constrained, when compared with other cities, in recapturing lost tax revenues as the middle class moves to the suburbs. Finally, the Federal payment appears inadequate to compensate the District for revenues foregone and for the cost of services it receives. Any solution must be derived from these basic causes; it will take all the parties to save this city.

Solution: Must be Comprehensive and Cooperative

In our view, rational steps to prevent the District’s impending financial calamity can and should be taken now, in a non-crisis atmosphere, to head off more draconian steps that would otherwise be needed later.

Any solution to its financial problems must start with the District government. The District government should immediately take steps to reduce the projected year 2000 budgetary shortfall by at least $250 million to $400 million and, at the same time, improve the quality of government services. The cost reduction is needed for the District to remain solvent, and it is a prerequisite to soliciting support from the federal and regional governments on other initiatives. While we have not made de-
tailed recommendations about specific government functions, we believe that cost improvements of this order of magnitude are confirmed by two separate analyses.

- Reducing per recipient Medicaid expenditures by 7 percent to Maryland levels (Exhibit 4), reducing per pupil expenditures by 8 percent (to Montgomery County levels) (Exhibit 5), and slowing the rate of growth in all other budget items by 1 to 2 percent would result in expenditure cuts of $240 million to $390 million. (Slowing the rate of growth by 1 percent would bring budget growth roughly in line with inflation; slowing the rate of growth by 2 percent would keep it to the 1988-to-1993 growth rate.)

- The 1990 Rivlin Report paints a similar picture. It listed over $700 million in efficiency improvement and cost-reduction opportunities to be achieved by 1995. Rough indications suggest that approximately half the opportunity, or approximately $300 million to $350 million still remains.

Leaning much harder than this on the District to solve its own financial problems—through higher taxes or degraded services—will, we believe, risk exacerbating the loss of both the middle class and commercial activity. However, without the credibility borne of real cuts in expenditures and improvement in safety, education, and other vital government services, the District will not convince other parties to do their share. This point must be emphasized.

But it is also not enough. The revenue side of the equation must be addressed. We believe that the District should be able to tap the income generated within its borders. Right now, nonresidents pay all of their local taxes to the state and county governments of Maryland and Virginia. While these people should not be expected to pay more taxes, a portion of the taxes nonresidents are now paying should be captured by the District and credited against taxes paid to Virginia and Maryland on a reciprocal basis. (This would result in a reduction of Virginia and Maryland revenues, but it would be a small reduction—about 1.5 percent of these states’ budgets.) If some form of nonresident taxation is not part of the solution, the Federal government will have to contribute even more (e.g., by making an additional Federal payment or exempting District residents from Federal taxation). The taxpayers of Ohio, Texas, and the other states, instead of the state and county governments of Virginia and Maryland, would then bear an additional cost.

The Federal payment would also have to increase, perhaps to the level floated by Representative Pete Stark—to 30 percent of District-raised revenues. We’d prefer to see it tied to the District’s budget or be calculated to fairly compensate the District for revenues foregone and the cost of providing services to the Federal government. In either case, this would represent about an additional $200 million above what the current formula indicates. Finally, the Federal government will need to fund the unfunded pension liability it left for the District in 1974.

Collectively, these steps can close the $1 billion shortfall (Exhibit 17). Without any one of them, the gap becomes very difficult to close.

Exhibit 17—Impact of Potential Cost Reduction and Revenue Generation in FY 2000

<table>
<thead>
<tr>
<th>Description</th>
<th>Dollars in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected operating shortfall</td>
<td>−1,100</td>
</tr>
<tr>
<td>Expenditure reduction</td>
<td>250–400</td>
</tr>
<tr>
<td>Taxing nonresident workers</td>
<td>425</td>
</tr>
<tr>
<td>Federal payment</td>
<td>200–300</td>
</tr>
<tr>
<td>Reduced contribution to pensions</td>
<td>225</td>
</tr>
<tr>
<td>Possible operating surplus/shortfall</td>
<td>0–250</td>
</tr>
</tbody>
</table>

Source: Team analysis

Any “deal” to save the city, of course, be shaped by the political process. Everyone will be better off if that deal is put together soon.

Such a deal is crucial, but it is only the beginning of a long-term solution to the city’s problems. As we noted at the outset, the District must ultimately rebuild its middle class population. Perhaps the experience gained working on the District’s financial situation can pave the way to a collaborative regional solution to broader economic and social problems.
## APPENDICES

### Appendix A—Comparison of Largest U.S. Metro Areas

<table>
<thead>
<tr>
<th></th>
<th>Per capita income 1989 dollars in thousands</th>
<th>Percent completing 2/16 years of school</th>
<th>Percent of civilian employment in professional, managerial, and technical jobs 1990</th>
<th>Percent of unemployment 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington, D.C.</td>
<td>$21.4</td>
<td>38.5</td>
<td>45.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Nassau-Suffolk</td>
<td>20.8</td>
<td>26.5</td>
<td>35.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Boston-Lawrence-Salem</td>
<td>18.6</td>
<td>30.8</td>
<td>39.2</td>
<td>8.2</td>
</tr>
<tr>
<td>New York</td>
<td>17.4</td>
<td>24.6</td>
<td>34.9</td>
<td>8.1</td>
</tr>
<tr>
<td>Atlanta</td>
<td>16.9</td>
<td>26.8</td>
<td>30.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Minneapolis-St. Paul</td>
<td>16.8</td>
<td>27.1</td>
<td>34.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Chicago</td>
<td>16.5</td>
<td>24.4</td>
<td>32.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Dallas</td>
<td>16.4</td>
<td>27.6</td>
<td>33.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>16.3</td>
<td>22.8</td>
<td>33.6</td>
<td>6.4</td>
</tr>
<tr>
<td>San Diego</td>
<td>16.2</td>
<td>25.3</td>
<td>34.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Los Angeles-Long Beach</td>
<td>16.1</td>
<td>22.3</td>
<td>30.9</td>
<td>8.0</td>
</tr>
<tr>
<td>Detroit</td>
<td>15.7</td>
<td>17.7</td>
<td>30.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Houston</td>
<td>15.1</td>
<td>25.1</td>
<td>33.1</td>
<td>5.6</td>
</tr>
<tr>
<td>St. Louis</td>
<td>14.9</td>
<td>20.7</td>
<td>31.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Riverside-San Bernadino</td>
<td>13.9</td>
<td>14.8</td>
<td>26.6</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: Bureau of Census data contained in Slater and Hall, 1993 City and Council Extra, Table B, col. 60, 53, and 83, page 28

### Appendix B—Population Growth for Largest U.S. Metro Areas 1980–90

<table>
<thead>
<tr>
<th></th>
<th>Percent change in population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riverside-San Bernadino</td>
<td>66.1</td>
</tr>
<tr>
<td>San Diego</td>
<td>34.2</td>
</tr>
<tr>
<td>Atlanta</td>
<td>32.5</td>
</tr>
<tr>
<td>Dallas</td>
<td>30.4</td>
</tr>
<tr>
<td>Houston</td>
<td>20.7</td>
</tr>
<tr>
<td>Los Angeles-Long Beach</td>
<td>18.5</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>16.5</td>
</tr>
<tr>
<td>Minneapolis-St. Paul</td>
<td>15.3</td>
</tr>
<tr>
<td>Boston-Lawrence-Salem</td>
<td>3.3</td>
</tr>
<tr>
<td>New York</td>
<td>3.3</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>3.0</td>
</tr>
<tr>
<td>St. Louis</td>
<td>2.8</td>
</tr>
<tr>
<td>Chicago</td>
<td>0.2</td>
</tr>
<tr>
<td>Nassau-Suffolk</td>
<td>0.1</td>
</tr>
<tr>
<td>Detroit</td>
<td>-2.4</td>
</tr>
</tbody>
</table>

Source: Bureau of Census data contained in Slater and Hall, 1993 City and Council Extra, Page 23
### Appendix C—Comparison of 25 Largest U.S. Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Per capita income 1989 dollars in thousands</th>
<th>Percent completing 2-16 years of school 1990*</th>
<th>Percent of civilian employment in professional, managerial, and technical jobs 1990*</th>
<th>Percent change in poverty rate 1973-89</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose</td>
<td>$46</td>
<td>25</td>
<td>34</td>
<td>13</td>
</tr>
<tr>
<td>San Diego</td>
<td>34</td>
<td>30</td>
<td>38</td>
<td>8</td>
</tr>
<tr>
<td>San Francisco</td>
<td>33</td>
<td>35</td>
<td>38</td>
<td>-7</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>31</td>
<td>22</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>31</td>
<td>33</td>
<td>44</td>
<td>-9</td>
</tr>
<tr>
<td>New York</td>
<td>30</td>
<td>23</td>
<td>34</td>
<td>-4</td>
</tr>
<tr>
<td>Seattle</td>
<td>29</td>
<td>38</td>
<td>41</td>
<td>11</td>
</tr>
<tr>
<td>Phoenix</td>
<td>29</td>
<td>20</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Boston</td>
<td>29</td>
<td>20</td>
<td>37</td>
<td>-7</td>
</tr>
<tr>
<td>Indianapolis</td>
<td>29</td>
<td>22</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>29</td>
<td>18</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>Nashville-Davidson</td>
<td>28</td>
<td>24</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Dallas</td>
<td>27</td>
<td>27</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>Columbus</td>
<td>27</td>
<td>25</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>Chicago</td>
<td>26</td>
<td>20</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>25</td>
<td>15</td>
<td>29</td>
<td>-2</td>
</tr>
<tr>
<td>Baltimore</td>
<td>24</td>
<td>15</td>
<td>28</td>
<td>-4</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>24</td>
<td>15</td>
<td>25</td>
<td>61</td>
</tr>
<tr>
<td>San Antonio</td>
<td>24</td>
<td>18</td>
<td>29</td>
<td>8</td>
</tr>
<tr>
<td>El Paso</td>
<td>23</td>
<td>16</td>
<td>29</td>
<td>19</td>
</tr>
<tr>
<td>Memphis</td>
<td>23</td>
<td>18</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>Detroit</td>
<td>23</td>
<td>10</td>
<td>22</td>
<td>48</td>
</tr>
<tr>
<td>New Orleans</td>
<td>18</td>
<td>22</td>
<td>34</td>
<td>20</td>
</tr>
<tr>
<td>Cleveland</td>
<td>18</td>
<td>8</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>

* Covers persons 25 years of age and older

Source: Bureau of Census data contained in Slater and Hall, 1993 City and County Extra, Table C, Col. 63, 45, Page 34, 35

### Appendix D—Comparison of 25 Largest U.S. Cities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Detroit</td>
<td>32</td>
<td>13</td>
<td>55</td>
<td>-15</td>
</tr>
<tr>
<td>New Orleans</td>
<td>32</td>
<td>N/A</td>
<td>58</td>
<td>-11</td>
</tr>
<tr>
<td>Cleveland</td>
<td>29</td>
<td>6</td>
<td>56</td>
<td>-12</td>
</tr>
<tr>
<td>El Paso</td>
<td>25</td>
<td>11</td>
<td>61</td>
<td>21</td>
</tr>
<tr>
<td>Memphis</td>
<td>23</td>
<td>6</td>
<td>64</td>
<td>-6</td>
</tr>
<tr>
<td>San Antonio</td>
<td>23</td>
<td>7</td>
<td>64</td>
<td>19</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>22</td>
<td>6</td>
<td>64</td>
<td>-1</td>
</tr>
<tr>
<td>Baltimore</td>
<td>22</td>
<td>N/A</td>
<td>61</td>
<td>-6</td>
</tr>
<tr>
<td>Chicago</td>
<td>22</td>
<td>8</td>
<td>64</td>
<td>7</td>
</tr>
<tr>
<td>Houston</td>
<td>21</td>
<td>6</td>
<td>69</td>
<td>2</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>20</td>
<td>8</td>
<td>58</td>
<td>-6</td>
</tr>
<tr>
<td>New York</td>
<td>19</td>
<td>9</td>
<td>62</td>
<td>4</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>19</td>
<td>9</td>
<td>67</td>
<td>18</td>
</tr>
<tr>
<td>Boston</td>
<td>19</td>
<td>8</td>
<td>66</td>
<td>2</td>
</tr>
<tr>
<td>Dallas</td>
<td>18</td>
<td>7</td>
<td>71</td>
<td>11</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>17</td>
<td>8</td>
<td>66</td>
<td>-5</td>
</tr>
</tbody>
</table>
### Appendix D—Comparison of 25 Largest U.S. Cities—Continued

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Phoenix</td>
<td>14</td>
<td>5</td>
<td>70</td>
<td>24</td>
</tr>
<tr>
<td>San Diego</td>
<td>13</td>
<td>6</td>
<td>69</td>
<td>27</td>
</tr>
<tr>
<td>Nashville-Davidson</td>
<td>13</td>
<td>8</td>
<td>65</td>
<td>0</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>13</td>
<td>N/A</td>
<td>59</td>
<td>0</td>
</tr>
<tr>
<td>San Francisco</td>
<td>13</td>
<td>6</td>
<td>67</td>
<td>7</td>
</tr>
<tr>
<td>Indianapolis</td>
<td>12</td>
<td>9</td>
<td>70</td>
<td>0</td>
</tr>
<tr>
<td>Seattle</td>
<td>12</td>
<td>5</td>
<td>58</td>
<td>4</td>
</tr>
<tr>
<td>San Jose</td>
<td>9</td>
<td>6</td>
<td>73</td>
<td>24</td>
</tr>
</tbody>
</table>

*The unemployment rate is calculated for the civilian labor force 16 years of age or older.

**Covers persons 16 years and older in civilian labor force and U.S. Armed Forces.


### Appendix E—Employment Locale vs. Residence

(14 largest U.S. metro areas, 1990)

<table>
<thead>
<tr>
<th>Rank and Area</th>
<th>Percent of metro residents working in central city less percent of metro residents living in central city</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Houston</td>
<td>18.7</td>
</tr>
<tr>
<td>2 DC</td>
<td>18.3</td>
</tr>
<tr>
<td>3 Atlanta</td>
<td>14.1</td>
</tr>
<tr>
<td>4 Boston-Lawrence-Salem</td>
<td>12.1</td>
</tr>
<tr>
<td>5 Minneapolis-St. Paul</td>
<td>11.6</td>
</tr>
<tr>
<td>6 St. Louis</td>
<td>10.5</td>
</tr>
<tr>
<td>7 Dallas</td>
<td>9.7</td>
</tr>
<tr>
<td>8 San Diego</td>
<td>9.2</td>
</tr>
<tr>
<td>9 Riverside-San Bernardino</td>
<td>3.4</td>
</tr>
<tr>
<td>10 Los Angeles-Long Beach</td>
<td>2.4</td>
</tr>
<tr>
<td>11 Philadelphia</td>
<td>-0.2</td>
</tr>
<tr>
<td>12 Chicago</td>
<td>-1.3</td>
</tr>
<tr>
<td>13 Detroit</td>
<td>-1.5</td>
</tr>
<tr>
<td>14 New York</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Note: The Washington DC metro area includes the central cities of the District of Columbia, Frederick, MD, and Arlington, VA.

Source: 1990 Census