

WHITE HOUSE PROPOSAL FOR THE DISTRICT
OF COLUMBIA

HEARING
BEFORE THE
SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTH CONGRESS

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WHITE HOUSE PROPOSAL FOR THE DISTRICT OF COLUMBIA

THURSDAY, FEBRUARY 20, 1997

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

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Morella, and Norton.

Also present: Representative Wynn.

Staff present: Ron Hamm, staff director; Howard Denis, counsel; Roland Gunn, professional staff member; Ellen Brown, clerk; Cedric Hendricks, minority professional staff; and Jean G. Gosa, minority administrative staff.

Mr. DAVIS. Good morning and welcome to the first hearing of the 105th Congress of the District of Columbia Subcommittee. I would like to welcome back our ranking minority member, Eleanor Holmes Norton, the Delegate from the District of Columbia, as well as our new vice chairperson, Connie Morella of Maryland. Because of scheduling factors, this hearing is taking place during the President's Day recess. Therefore, the other members of the subcommittee are unable to join us today. However, I can assure everyone that Representative Steve Horn, who has had several generations from his family born in Washington, DC; Ileana Ros-Lehtinen; and Tom Allen are all highly committed to the goal of making Washington, DC, the world's finest Capital City.

Two years ago, the Congress and the Clinton administration, acting together in a bipartisan effort, created the Financial Responsibility and Management Assistance Authority, more commonly referred to as the D.C. Financial Control Board. This board was created in direct response to the overwhelming financial difficulties that engulfed the District of Columbia. It was the first major step in a long road to recovery.

During these past 2 years, the Control Board has accomplished many important things. Among these are canceling wasteful government contracts; stepping in to help the beleaguered school system; moving to reform the police department; and, most importantly, putting the city on a path toward a balanced budget.

In addition to that, Congress has also acted to enable the construction of the new MCI Arena, a new state-of-the-art convention center, and created a new water and sewer authority, thereby safe-

guarding the metropolitan region's drinking supply and protecting taxpayers.

Everyone agrees that there is still a lot to be done. To paraphrase Winston Churchill, we are only at the end of the beginning. I believe we all must work to the best of our ability this year to make Washington, DC, a shining example of the best America has to offer. Many of you have heard me say this before; this goal is not only in the best interest of the District but also of the region and, indeed, the entire country.

I strongly believe that the economic health and quality of government in the District is of vital concern to the suburbs. In fact, Dr. Stephen Fuller of George Mason University, the leading regional economics expert, has just completed a new study that confirms the view that the District is vital and beneficial to the suburbs. Improving the economy and governmental performance of the District of Columbia is crucial to the continuing prosperity of the entire metropolitan region.

Ladies and gentlemen, we are at a crossroads. In fact, we have reached a unique set of circumstances. Rarely do we face a situation where all the major political winds are aligned in one direction. The Clinton administration and the leadership of both Houses of Congress, Republicans and Democrats, all consider the situation in the District of Columbia one of our top five national priorities. We must take advantage of this positive environment.

Mr. Raines, I think you deserve a lot of credit for the initiative that you have shown as the head of OMB. Our agenda is ambitious. It builds on our work and on the work of the Control Board that we created with the Clinton administration 2 years ago. I am encouraged that the President has put forth a broad-based proposal to realign the relationship between the District of Columbia and the Federal Government. The proposal seeks to enhance the prospects of home rule by more closely matching the District's resources and capabilities with its responsibilities.

In other areas, however, the plan may not fully address the concerns of others, most notably tax relief and economic development for the city. I believe we should use the President's plan as our starting point. Therefore, it is my intent to work with this administration, the leadership in Congress, city officials, and the Control Board to fashion a bipartisan plan that will gain wide support.

I am under no illusions. This will take months of hard work, patience, delicate negotiations, and many more committee hearings. In fact, I intend to follow today's hearing with testimony from the city and the Control Board and then from interested parties from the District and the region.

After these hearings on this proposal, its key components, significant alternatives, and any other issues, we will work to design the best and most effective plan for the rebirth of our Nation's Capitol. Our challenge is great, but we have no other choice. If we fail to act now, Washington, DC, may never recover. In short, it is our duty, our mission, and our responsibility to give our collective best efforts for this city.

In conclusion, I am pleased to have as our sole witness today Franklin Raines, Director of the Office of Management and Budget and the chief architect of the President's proposal for the District.

I look forward to hearing Mr. Raines' testimony today and working with him and the President in the months ahead.

At this point, I yield to my ranking member and ask if she would like to make an opening statement.

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

I want to welcome OMB Director Franklin Raines to the first of several hearings on the National Capital Revitalization and Self-Government Improvement Plan, as it is called, for the District of Columbia. I also want to thank Chairman Tom Davis for skillfully laying out a series of hearings designed to explore the full details of the President's plan and the implications for the District. The President of the United States deserves the gratitude not only of District residents but of other Americans as well for bringing forward a workable and well-conceived plan that will help revive the Capital of the United States.

Much of that gratitude belongs to Frank Raines, a Washingtonian whose understanding of the District's finances and operations is matched by the exceptional skill he is bringing to national and Federal financial and economic issues. Already his deft hand has been a major factor in steering us toward a bipartisan solution to the budget deficit and to other serious fiscal problems of the country. All the while he has been designing a plan to help eliminate the most vexing problems of the Nation's Capital. The plan's major strengths are, first, its careful and principled conceptualization, based on the Federal interest in certain State functions and in eliminating congressionally created pension liability, and, second, its recognition that the plan must address two audiences at once: District residents, and a Congress whose major focus this year is deficit reduction.

The President's plan is not perfect, but it surpasses the expectations of most D.C. residents and analysts. It is the best document from which to work because it is the only plan for assistance to the D.C. government that stands any chance of being seriously considered or enacted by this Congress this year.

If the President had not offered a plan, I had intended to offer a bill that created a quasi-State relationship between the District and the Federal Government for financial purposes. However, at every turn I encountered the same barrier that has made most thinking about the District conventional and unimaginative. That barrier is money.

Any plan, whatever its merits—if I may paraphrase—that asks for \$1 billion here and \$1 billion there will soon end up sounding like real money of the kind that Congress has systematically denied to the District. This plan takes at least some of the District's State functions and, by placing them in larger appropriations, demonstrates how small a difference the District's portion really makes.

For example, analysts tell us that the District may be only \$25 million to \$50 million ahead next year if the plan becomes law. The most controversial aspects of the plan need to be approached with a problem-solving attitude. Among the most troublesome are the elimination of the Federal payment, which, ironically, has both positive and negative consequences, and the application of Federal criminal law to the District as the price for absorbing Lorton inmates into the Federal system.

We have already made progress on both. For example, we can now say that D.C. criminal law, not Federal criminal law, will continue to apply in the District. There remain outstanding issues here and in a number of other areas on the proposal. The way to solve them is by methodically working them through.

The plan also must be subjected to further financial analysis before I can fully embrace it. Will the District consistently come out ahead, especially when compared with the Federal payment, which has lost much of its value and is almost never increased? Structural changes such as the President's proposal should not be expected to endure more than a generation unrevised. I am seeking an analysis of the plan on a 20-year time line to test its fiscal effectiveness and to ensure that the District will not be left with unintended cash shortfalls and other financial difficulties.

The administration has several working groups perfecting the concept and the necessary legislation. I hope that they will form a close relationship with the subcommittee. The progress we have made on the criminal law matters is an indication that even unacceptable parts of the plan can be resolved. For example, I have met with Attorney General Janet Reno, Chief Judge Eugene Hamilton, U.S. Attorney Eric Holder, and Department of Corrections Director Margaret Moore. Mr. Holder is continuing to work with Justice Department and Bureau of Prison officials to resolve the remaining criminal law issues, among them parole and determinant sentencing. I have also met with Federal Highway Administration officials and believe we are making headway in helping to shape the component of the plan that would create a badly needed National Capital infrastructure fund.

Chairman Davis has wisely found a way to keep the President's plan from becoming an uncontrollable octopus, spread across many committees, risking its necessary and useful coherence.

The plan holds together like a well-wrought puzzle. This subcommittee must help keep it together or it cannot do the job. The first test for the Congress will be to facilitate prompt and rapid participation of other specialized committees without losing the plan's central purpose and functional utility.

Chairman Davis is the impresario, but this is not the first time he has been called upon to help lead such a complicated task. The model for our work on the President's plan is the financial authority legislation, where we worked in a bipartisan and bicameral way to quickly put in place a control board. The urgency of this plan now is just as great as the financial authority statute was then.

I especially appreciate the interest of the members of this subcommittee and of the region in this plan. Regional members may want to take note of the experience of the Detroit region as reported in yesterday's Washington Post. The article recounted the recent and significant progress the city of Detroit has made. Mayor Dennis Archer reported that the estrangement between the suburbs and the city had become so severe that there were often discussions among friends about the last time they had been in Detroit. According to the article, "That began to change as Detroit area firms, even those in the suburbs, realized the city's dismal image was hurting their ability to attract employees from elsewhere. Suburban parents began seeing their grown children leave

for jobs in other cities, and that became a pivotal issue for a lot of people. You can try to separate yourself with a different name, but Southeast Michigan, to most people in the world, is Detroit. So how people view Detroit will have an impact on economic development and investment elsewhere in the region.”

The President’s plan is designed to help the District and to help the region before the District gets to the point of no return. As the Detroit suburbs have learned, the region can neither run nor hide from its core city. The District is prepared to pay a great price for the President’s plan. The plan offers the District scant immediate relief yet requires the District to balance its budget a year earlier than the financial authority law requires.

The city is already braced for more cuts in services on top of draconian cuts that have already taken place and have helped hasten the exit of middle-income taxpayers from the city at frightening rates. The word “suffering” is not too strong to indicate the effect of these cuts on residents. Yet the District continues the painful work of rebuilding its government first by cutting it, the President’s plan is before us, and only the Congress is missing.

Congress has left the city to revive alone, without the undergirding support that New York State gave to New York City, that Ohio gave to Cleveland, and that Pennsylvania gave to Philadelphia when each of those cities became insolvent. It is time for Congress, the last to step up to the plate, to now come forward.

I welcome Mr. Raines, whose thoughtful work is designed to help this body meet its constitutional obligations to the Capital of the United States.

Mr. DAVIS. Thank you, Ms. Norton.

I yield now to the vice chairman of the committee and one of our new members, Mrs. Morella of Maryland.

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

Although I have participated on this panel on several occasions during the 104th Congress, this is my first hearing as an official member of the District of Columbia Subcommittee, and I am delighted to serve under your leadership and with the ranking member.

As a representative from Montgomery County, MD, I am deeply concerned about the future of the District of Columbia. The District does not exist in a vacuum. The economic health of the District is important to the economic health of Montgomery County, of the whole Washington metropolitan region.

When I first came to Congress in the 1980’s, the District government was already showing signs of the deficiencies that marked the beginning of a spiraling economic crisis. Services in the District were deteriorating, businesses were relocating, and middle-class residents were moving to the suburbs in search of lower taxes, safer streets, better schools.

From 1990 to 1995, the District lost more than 22,000 households, most of them middle-class taxpayers. There has been a lack of employment growth and a decline in retail sales and the formation of small businesses.

For the past few years there has been a good deal of debate here on Capitol Hill about how to resolve the District’s financial crisis. During the last Congress, under your distinguished leadership, Mr.

Chairman, on a bipartisan basis, we established the District of Columbia Financial Responsibility and Management Assistance Authority, commonly called the Control Board, which represents a temporary restructuring of the D.C. government and provides oversight and support to improve the District's financial situation.

The President's plan would further restructure the District government by allowing the Federal Government to fund the District government, much in the same way as State governments support their cities. The White House proposal would eliminate the \$660 million Federal payment to the District.

Instead of the Federal payment, the Federal Government would relieve the District of certain expenses, among them the growing unfunded pension liability which was incurred by the Federal Government for District employees that were part of the Federal work force before home rule. The Federal Government also would assume a larger share of the Medicaid costs and take over the operation of the prison system.

If the Federal Government assumes some of the District's administrative responsibilities, perhaps there will be more time for the District of Columbia officials to concentrate on the schools and services that have deteriorated to an alarming degree.

It is the poor and vulnerable citizens of the District who have suffered the most from the insufficient services that have resulted from insufficient funds. The economic turmoil in the District must be reversed, and that is what this first meeting in the whole series is all about.

The downward spiral of deteriorating services and middle class flight did not happen overnight. There is no quick and easy solution. Consideration of the White House proposal is, as you said, just a beginning. There will be many hours of debate. Hopefully we will choose compromise over confrontation. If we work hard, in the end we will take a large step toward creating a new and revitalized District of Columbia.

I look forward to hearing more about the President's plan from our expert witness, the craftsman of the plan, Frank Raines, and look forward to working with members of this subcommittee and the OMB Director on a plan that will benefit the region and make the District a safe and thriving Capital City that is the source of pride for the entire Nation.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you, Mrs. Morella.

Before I swear in our witness and we hear from the man of the hour, Mr. Raines, I want to recognize a couple of members of the city council here today: Charlene Drew Jarvis, chairman pro tem of the city council. Charlene, thank you very much for being here. You will have a chance to testify at a later hearing, and we look forward to your comments on this and your being an important part of this. And also Carol Schwartz, an important and returning member of the city council. And Harold Brazil just walked in, too. Harold, perfect timing. You are here just in time to be introduced. He is also council member at large from the city. We appreciate your being here as well.

Frank, at this point it is the committee's custom to swear in its witnesses.

[Witness sworn.]

Mr. DAVIS. Thank you very much for being here and making your time available. I just preface that you have been making the rounds on Capitol Hill, speaking with key members of both parties prior to this, and we are just very pleased to have you here today.

**STATEMENT OF FRANK RAINES, DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET**

Mr. RAINES. Thank you very much, Mr. Chairman. I thank the members of the committee for having me appear before you today. I am pleased to be here to discuss with you the President's plan to revitalize Washington, DC, as the Nation's Capital, and to improve the prospects for home rule to succeed. After I conclude my remarks, I would be happy to take any questions that the committee might have.

The Nation's Capital, which should serve as a symbol of pride to all Americans, has fallen on hard times. It faces not only serious budget problems, but even serious obstacles to providing the most basic services to its residents.

As the President said recently, the District of Columbia suffers from the "not quite" syndrome. That is, it is "not quite a State, not quite a city, not quite independent, not quite dependent."

The District is not like other cities, which receive assistance from their States. In fact, the District has broad responsibilities for what are—elsewhere in the Nation—State, county, and local functions. And while Congress has voted to give the city a lump sum annual payment in recent years, it has kept the payment basically flat while imposing strict limits on the District's budget and taxing powers.

Clearly, the current relationship between the Federal and city governments does not work. As a result, the President has proposed a landmark plan to significantly re-order that relationship.

In developing his plan, the President had two goals in mind—first, to revitalize Washington, DC, as the Nation's Capital and, second, to improve the prospects for home rule to succeed.

Under the plan, the Federal Government will invest nearly \$4 billion over the next 5 years in the Nation's Capital. In exchange, the plan will end the yearly Federal appropriation and other payments to the District, saving over \$3.5 billion over 5 years.

While net Federal costs come to nearly \$400 million over 5 years, the plan will save the District over \$800 million over the same period. The difference results, in part, because the Federal Government will assume responsibility for certain pension payments and assets of the current pension system.

Congress will continue to perform oversight for the District, and the Appropriations Committee will determine the budgets for those functions that the Federal Government funds directly. But Congress would no longer appropriate every detail of the District's budget, which will, in the future, be funded solely with local funds.

All Federal assistance will be conditioned on the District taking specific steps to improve its budget and management. The plan will require the District to submit a balanced budget for 1998 and thereafter. A Memorandum of Understanding among the Federal and District governments and the Financial Authority will outline

other improvements in performance that the District will have to meet.

To achieve these goals, the President's plan proposes four concrete steps.

First, the plan will relieve the District government of major financial and managerial responsibilities—including certain pension obligations and parts of the criminal justice system—that are beyond its financial capacity, and help the city resolve its cash shortfall that stems from its accumulated deficit.

Beginning in fiscal 1998, the Federal Government will assume both financial and administrative responsibility for the District's retirement programs for law enforcement officers and firefighters, teachers, and judges. Upon enactment of legislation providing for the transfer, the Federal Government will take responsibility for virtually all pension benefits accrued under the plans for all active and retired employees as of the date of transfer, contingent on the District establishing replacement plans as specified in the MOU. The Federal Government will pledge its full faith and credit to meet its responsibilities to these beneficiaries. This action will be conditioned on the District setting up new plans for its current and future employees and providing adequate employment records to a third-party trustee.

The Federal Government also will take direct responsibility for funding the District Court system. The courts will remain self-managed, because the current court system is well run. But, court funding is a drain on the District's budget. Therefore, the Federal Government will take responsibility for it. The costs will total \$129 million in the first year and \$685 million over 5 years.

Also the Federal Government will assume financial and administrative responsibility for the District's felony offenders, including substantial capital investment in providing appropriate prison facilities. The Federal Government will take responsibility for incarcerating the District's sentenced felons, a function usually borne by States. During the transition, the Federal Government will provide funds for incarcerating the District's felons to a trustee appointed by the Financial Authority. Funding will include capital for both constructing new facilities and renovating existing ones. The Bureau of Prisons will be responsible for determining how these capital funds will be used. The trustee will oversee the D.C. Department of Corrections operations related to the incarcerated D.C. felons for 3 to 5 years, after which the Bureau of Prisons will assume responsibility. The plan assumes that a portion of the existing Lorton complex will continue to serve as a prison facility. Necessary new construction will take place at Lorton, at other locations, or both.

At the end of the transition period, the Federal Government will accept all existing prisoners, as well as those new prisoners sentenced in accordance with standards comparable to Federal sentencing guidelines. To manage the inmate population, the Bureau of Prisons will be able to transfer D.C. inmates elsewhere in the Federal Prison System. The current D.C. prisons staff will have to apply for positions with the Bureau of Prisons and meet Federal standards. After the transition period, the Federal Government will

assume responsibility for D.C.'s parole system and a portion of the community corrections system.

In another matter, the Federal Government will increase its share of the District's Medicaid payments from 50 to 70 percent. In essence, the Federal Government will pay both the Federal and State share of Medicaid costs, reducing the District's share to 30 percent—which is the most that localities can pay in States with a 50 percent Federal match. At the same time, the Department of Health and Human Services will provide more intensive technical assistance to help the District improve the management of its Medicaid program and ensure that Federal funds are not mismanaged. The increased Medicaid funding will be conditioned on the District following various HHS suggestions for programmatic improvements.

Finally, the Federal Government will allow the District to borrow from the Treasury to finance all or part of the District's accumulated deficit of between \$400 and \$500 million. The terms and conditions for such loans are not yet determined, but will likely enable the Federal Government to offer Treasury-based interest rates for a maximum term of 15 years and enable the District to refinance the loan after the District's credit picture improves.

Second, the Federal Government will invest considerable resources to improve the city's capital infrastructure.

The Federal Government will establish a National Capital Infrastructure Authority (NCIA) to benefit District residents and commuters by funding the capital associated with repairing and constructing roads and mass transit facilities. To capitalize the fund in 1998, the administration will provide \$125 million in seed money from the Federal Highway Trust Fund. Activities eligible for funds will include the construction of roads and bridges, the local match for Federal-aid road and bridge projects, and capital expenditures for the Washington Metropolitan Area Transit Authority. In addition, the NCIA will be able to accept contributions from other sources, such as voluntary payments in lieu of taxes from tax-exempt organizations, including universities and hospitals.

Third, the plan proposes a number of mechanisms to strengthen the District's economic base.

The plan will create an Economic Development Corporation (EDC) to revitalize the city's economy, with local planning and control that leverages Federal and private resources. The EDC will be capitalized with Federal funds. The program will be designed to encourage jobs for disadvantaged D.C. residents and revitalize District areas where development has been inadequate. The plan includes a 5-year, \$260 million tax incentive program, with a series of targeted incentives to build on the administration's Empowerment Zone and Enterprise Community programs.

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

For instance, the Internal Revenue Service will be able to collect District income and payroll taxes. The plan will simplify District residents' tax filing, allowing one form for both District and Federal taxes, as well as improve enforcement and collections. Other

Federal agencies will work with the District to identify other areas in which the Federal Government might provide technical assistance to help the District government improve the efficiency with which it delivers services.

The President's plan is the most ambitious plan that any administration has ever proposed to deal with the problems of the Nation's Capital. It will benefit the city, the region, and the Nation.

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

It benefits the region because of the city's economic recovery; the financial support given to police, fire, teachers, and judges' pension funds; the rebuilding of the District prison system; and the improvement of a key component of the regional transportation infrastructure.

It benefits the Nation, because it begins to create a Capital City that we can all be proud of, improves its transportation system, and helps ensure the safety of residents and visitors.

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

[The prepared statement of Mr. Raines follows:]

**TESTIMONY OF
FRANKLIN D. RAINES
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET,
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
UNITED STATES HOUSE OF REPRESENTATIVES,
ON
THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION
AND SELF-GOVERNMENT IMPROVEMENT PLAN:**

February 20, 1997

Mr. Chairman, Members of the Committee, I am pleased to be with you this morning to discuss the President's plan to revitalize Washington, D.C. as the Nation's capital, and to improve the prospects for home rule to succeed. After I conclude my remarks, I would be happy to take any questions that you have.

Overview

The Nation's capital, which should serve as a symbol of pride to all Americans, has fallen on hard times. It faces not only serious budget problems, but even serious obstacles to providing the most basic services to its residents.

As the President said recently, the District of Columbia suffers from the "not quite" syndrome. That is, it is "not quite a State, not quite a city, not quite independent, not quite dependent."

The District is not like other cities, which receive assistance from their States. In fact, the District has broad responsibilities for what are -- elsewhere in the Nation -- State, county, and local functions. And while Congress has voted to give the city a lump sum annual payment in recent years, it has kept the payment basically flat while imposing strict limits on the District's budget and taxing powers.

Clearly, the current relationship between the Federal and city governments does not work. As a result, the President has proposed a landmark plan to significantly re-order that relationship.

In developing his plan, the President had two goals in mind -- first, to revitalize Washington, D.C. as the Nation's capital and, second, to improve the prospects for home rule to succeed.

Under the plan, the Federal Government will invest nearly \$4 billion over the next five years in the Nation's capital. In exchange, the plan will end the yearly Federal appropriation and other payments to the District, saving over \$3.5 billion over five years.

While net Federal costs come to nearly \$400 million over five years, the plan will save the District over \$800 million over the same period. The difference results, in part, because the Federal Government will assume responsibility for pension payments and the assets of the current pension system.

Congress will continue to perform oversight for the District, and the Appropriations Committee will determine the budgets for those functions that the Federal Government funds directly (for example, the criminal justice system). But Congress will no longer appropriate every detail of the District's budget, which is funded solely with local funds.

All Federal assistance will be conditioned on the District taking specific steps to improve its budget and management. The plan will require the District to submit a balanced budget for 1998 and thereafter. A Memorandum of Understanding (MOU) among the Federal and District governments and the Financial Authority will outline other improvements in performance that the District will have to meet.

Details of the plan

To achieve these goals, the President's plan proposes four concrete steps.

First, the plan will relieve the District government of major financial and managerial responsibilities -- including certain pension obligations and parts of the criminal justice system -- that are beyond its financial capacity, and help the city resolve its cash shortfall that stems from its accumulated deficit.

Beginning in fiscal 1998, the Federal Government will assume both financial and administrative responsibility for the District's retirement programs for law enforcement officers and firefighters, teachers, and judges. Upon enactment of legislation providing for the transfer, the Federal Government will take responsibility for virtually all pension benefits accrued under the plans for all active and retired employees as of the date of transfer, contingent on the District establishing replacement plans as specified in the MOU. The Federal Government will pledge its full faith and credit to meet its responsibilities to these beneficiaries. This action will be conditioned on the District setting up new plans for its current and future employees and providing adequate employment records to a third-party trustee.

The Federal Government also will take direct responsibility for funding the District Court System. The Courts will remain self-managed, because the current court system is well run. But, court funding is a drain on the District's budget. Therefore, the Federal Government will take

responsibility for it. The costs will total \$129 million in the first year and \$685 million over five years.

Also, the Federal Government will assume financial and administrative responsibility for the District's felony offenders, including substantial capital investment in providing appropriate prison facilities. The Federal Government will take responsibility for incarcerating the District's sentenced felons -- a function usually borne by States. During the transition, the Federal Government will provide funds for incarcerating the District's felons to a trustee appointed by the Financial Authority. Funding will include capital for both constructing new facilities and renovating existing ones. The Bureau of Prisons will be responsible for determining how these capital funds will be used. The trustee will oversee the D.C. Department of Corrections operations related to incarcerated D.C. felons for three to five years, after which the Bureau of Prisons will assume responsibility. The plan assumes that a portion of the existing Lorton complex will continue to serve as a prison facility. Necessary new construction will take place at Lorton, at other locations, or both.

At the end of the transition period, the Federal Government will accept all existing prisoners as well as those new prisoners sentenced in accordance with standards comparable to Federal sentencing guidelines. To manage the inmate population, the Bureau of Prisons will be able to transfer D.C. inmates elsewhere in the Federal Prison System. The current D.C. prisons staff will have to apply for positions with the Bureau of Prisons and meet Federal standards. After the transition period, the Federal Government will assume responsibility for D.C.'s parole system and a portion of the community corrections program.

In another matter, the Federal Government will increase its share of the District's Medicaid payments from 50 to 70 percent. In essence, the Federal Government will pay both the Federal and "State" share of Medicaid costs, reducing the District's share to 30 percent -- which is the most that localities can pay in States with a 50 percent Federal match. At the same time, the Department of Health and Human Services (HHS) will provide more intensive technical assistance to help the District improve the management of its Medicaid program and ensure that Federal funds are not mismanaged. The increased Medicaid funding will be conditioned on the District following various HHS suggestions for programmatic improvements.

Finally, the Federal Government will allow the District to borrow from the Treasury to finance all or part of the District's accumulated deficit of between \$400 and \$500 million. The terms and conditions for such loans are not yet determined, but will likely enable the Federal Government to offer Treasury-based interest rates for a maximum term of 15 years and enable the District to refinance the loan after the District's credit picture improves.

Second, the Federal Government will invest considerable resources to improve the city's capital infrastructure.

The Federal Government will establish a National Capital Infrastructure Authority (NCIA) to benefit District residents and commuters by funding the capital associated with repairing and constructing roads and mass transit facilities. To capitalize the fund in 1998, the Administration will provide \$125 million in seed money from the Federal Highway Trust Fund. Activities eligible for funds will include the construction of roads and bridges, the local match for Federal-aid road and bridge projects, and capital expenditures for the Washington Metropolitan Area Transit Authority. In addition, the NCIA will be able to accept contributions from other sources -- such as voluntary payments in lieu of taxes from tax-exempt organizations, including universities and hospitals.

Third, the plan proposes a number of mechanisms to strengthen the District's economic base.

The plan will create an Economic Development Corporation (EDC) to revitalize the city's economy, with local planning and control that leverages Federal and private resources. The EDC will be capitalized with Federal funds. The program will be designed to encourage jobs for disadvantaged D.C. residents and revitalize District areas where development has been inadequate. The plan includes a five-year, \$260 million tax incentive program, with a series of targeted incentives to build on the Administration's Empowerment Zone and Enterprise Community programs.

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

For instance, the Internal Revenue Service will be able to collect District income and payroll taxes. The plan will simplify District residents' tax filing (allowing one form for both District and Federal taxes), as well as improve enforcement and collections. Other Federal agencies will work with the District to identify other areas in which the Federal Government might provide technical assistance to help the District government improve the efficiency with which it delivers services.

Conclusion

The President's plan is the most ambitious plan that any Administration has ever proposed to deal with the problems of the Nation's capital. It will benefit the city, the region, and the Nation.

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

- It benefits the region because of the city's economic recovery; the financial support given to the police, fire, teachers, and judges pension funds; the rebuilding of the District prison system; and the improvement of a key component of the regional transportation infrastructure.
- It benefits the Nation because it begins to create a capital city that we can all be proud of, improves its transportation system, and helps ensure the safety of residents and visitors.

* * *

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

Mr. DAVIS. Mr. Raines, thank you very much. I think it shows the thoughtful preparation that has gone into that. We will have a number of questions for you.

I am going to start the questioning with Mrs. Morella, who I know has to leave a little early to go represent the Congress reading George Washington's farewell address, as I understand it. Connie, I will start with you.

Mrs. MORELLA. Thank you very much, Mr. Chairman. I appreciate your giving me the opportunity to pose a few questions, since, as you mentioned, I will be in the Capital City laying the wreath and giving the speech from Congress for George Washington's commemoration.

Thanks, Mr. Raines, for the wonderful testimony that you gave. There is something I feel was rather omitted in the plan that you did not mention, either. Some questions have been asked about where does St. Elizabeth's fit into this picture. Do you see that as being something that the Federal Government has a responsibility to operate, and maintain?

Mr. RAINES. We do not see that as being an appropriate activity for the Federal Government, primarily because we do not have a lot of experience in running mental health facilities of that size and complexity, and would find it difficult to take over the operation of one such facility and create a whole capacity to do that.

That is the distinction between—with the prisons and St. Elizabeth's. With the prisons, we run a prison system. We have experienced professionals who know how to do that. Therefore, we view prisons as something that could be included in the Federal operations. But St. Elizabeth's really would be in a different category.

Mrs. MORELLA. But you do recognize there is a problem posed by the fiscal situation at St. Elizabeth's?

Mr. RAINES. Absolutely. Our plan we view as being one that gives the city more flexibility and more resources for the city to be able to deal directly with those areas that we are not taking over.

Mrs. MORELLA. In your testimony, you note that the District's accumulated deficit is between \$400 million and \$500 million, right?

Mr. RAINES. Yes.

Mrs. MORELLA. Would you like to comment or explain the impact of the District and its cash position from carrying this kind of deficit?

Mr. RAINES. As a result of the deficits run up by the city over the last 5 or so years, the city has developed an accumulated deficit. What that has meant is that the city has not been able to pay its bills in a timely way, and it has had to indirectly borrow from vendors by delaying payment of their bills. It means that the city has periods of time in which it is in a negative cash position, and therefore needs access to borrowing.

Over the last year, the Treasury Department has been providing funds to assist the city in meeting its cash-flow needs. But as we go forward, there will be a need for a permanent solution so that the city's cash position is restored. That is why we are proposing to help the city by financing that deficit over a period of years, so that the city can recreate its cash balance and pay off that accumulated deficit over a period of time.

Mrs. MORELLA. I wondered if you might explain why the initial Treasury provision to finance this debt in 1995 was dropped from the Control Board legislation?

Mr. RAINES. I am unaware of the background on that, so I am not sure what happened in that case.

Mrs. MORELLA. It would be interesting to look into that. In your experience with cities in trouble, why is it important to finance the accumulated debt, for the reasons that you gave, and—

Mr. RAINES. The primary need is for the city to be on a sound financial basis, where it is making its payments in a timely manner, so that it can attract the kind of vendors that the city would like to be able to have perform its services.

The District, for example, had difficulty lining up contractors to serve as part of the force dealing with potential snowstorms because of a failure in the past to pay on a timely basis. The city would be paying extra if vendors did not believe they could be paid on a timely basis, so it is important in that respect.

It is also important from a financial standpoint with regard to the city's bond ratings. Failure to be able to finance current operations with existing cash would be a major negative in the review of the city's credit standing.

Mrs. MORELLA. If the Federal payment is done away with, what will the Treasury use for collateral, and what is the potential impact of that on outstanding bonds and/or new debt?

Mr. RAINES. The Treasury is in the middle of working on that very issue with the city and the Control Board at this point. They have not come to a conclusion yet as to what form of collateral they would be seeking, but we would be careful to ensure that these loans would not impair the security on the city's outstanding debt or future debt that the city issued for capital purposes.

Mrs. MORELLA. I would like to also ask you, jumping to another topic, about whether or not this plan envisions the use of so-called empowerment zones or enterprise zones or whatever the current language is that is used for that in the District of Columbia.

Mr. RAINES. The city already qualifies as an enterprise community, and has received certain benefits from that. But our plan goes further and proposes the creation of an Economic Development Corporation that has authority to operate in the downtown areas as well as in the low-income communities of the city, that will have additional powers that are similar to but different in some respects from what is included in the other programs that we believe can begin to provide the kinds of incentives necessary for increasing economic development in the city.

Mrs. MORELLA. Can you see that there could be an increase in the Federal payment to the District, or there could be some amount in addition to this plan, or do you think that this totally handles it; in other words, total elimination of—

Mr. DAVIS. Would the gentlewoman yield?

Mrs. MORELLA. Yes.

Mr. DAVIS. Mr. Raines, I would also ask as part of that question, would the administration remain flexible if Congress, in looking at this, felt that the city still needed some cash to operate? Is this an area we are willing to look at together and move forward, or is it fixed? As Ms. Norton had said earlier, there are pluses and

minuses to having this plan for the city. One is you get the annual appropriations process, and the baggage that comes with it. On the other hand, you are having that cash involved, and this is something that I know the Control Board has expressed some concern about. I just want to understand, I think as Mrs. Morella does, the flexibility we have in dealing with this.

Mr. RAINES. Sure. We put this plan together with the idea that the city had to come out ahead in any plan such as this, and that there had to be a net benefit to the city in the first year and an increasing benefit in future years. We believe that the plan meets that test, and therefore the city is better off under the plan than they are with the Federal payment alone.

We also believe there are important benefits to the city in having the city have final authority over its own budget, and final responsibility for that budget. We thought that was an important improvement in home rule, but also one that would increase management responsibility. But we understand that the committee may have additional ideas that it would like to put forward, and we would be happy to talk to the committee about those in your deliberations.

Mrs. MORELLA. I think the concept of the subcommittee is the fact that this is a beginning, and it is worth looking into, and we may come up with a package, I hope that we do, that is going to encompass all of the concerns we have.

Thank you very much, Mr. Chairman. I would like to also be able to submit questions for Mr. Raines.

Mr. DAVIS. Without objection.

Mr. RAINES. I would be happy to answer them.

Mr. DAVIS. Let me just ask, I don't think there is any question that the city is better off under the plan the administration has submitted than under the current situation. If we can add value to that, as we hope to do as it moves forward, I think you will join us in looking at ways we can do that. But when you add it up, one of the difficulties is the cash situation may not be improved on day one when you lose that payment. I think that is part of the concern. But that is why we are going to have this dialog and continue to work together and hear from everybody, because I think we all want the same result at the end of the day.

This is just a great improvement. I think it has been given a lot of thought.

I yield to my ranking member, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. To follow on the Federal payment concern, perhaps you can be as candid with us as you have been, why had you incorporated in your plan the necessity to forego the Federal payment in the first place? Why has it become a necessary element of your plan?

Mr. RAINES. There are several reasons. I think the most important one is that, as we looked forward over the next 5 years, it appeared to us that the likelihood of the Federal payment meeting the various purposes for which it has been created were small and maybe decreasing. The pressures on the budget would be very heavy, and it would be difficult to see increases in the Federal payment. If we looked back at the last 5 years, we could see that the payment has been basically static during that period, so that when

we came to the conclusion that the Federal payment was unlikely to be, in reality, a significant part of a new plan, because of those fiscal realities, we began to look to alternatives, and the alternatives we looked to were for the Federal Government to relieve the District of financial responsibilities that were burdening it, and that inherently involved increasing expenses for the city over time, so if we could not index the Federal payment, we could take over responsibilities which were inherently indexed because their costs were rising over time.

So we think that we have managed to move from a situation of a static Federal role with regard to the city to one that is dynamic, and one that we have included in the President's balanced budget plan within the agencies that would be taking over these responsibilities. So that was our thinking in how we looked at the Federal payment and how we structured the plan, and as I mentioned before, the home rule aspects of not having the entire District budget appropriated by Congress we believe to be attractive as well. We do not believe that you get the best out of decisionmakers if they do not believe their decisions are final, and therefore, we think there is a real benefit in having the city be responsible for its own resources.

There is a major benefit in not having the Federal payment in that all the city's resources would then be local, and the local officials would be responsible for those resources, and would not harbor in the back of their minds that somehow the Congress would relieve them of the need to make tough choices.

Mr. DAVIS. Ms. Norton, will you yield?

Ms. NORTON. Yes.

Mr. DAVIS. You make a good statement. We will ask if the city council agrees with this when they come here. But it seems to me one of the problems is that the decisions the Mayor and council make sometimes are not final decisions, and that allows you sometimes not to be quite as responsible in what you are doing because you are not firing real bullets, so to speak, because somebody else will make tougher decisions, and that is part of the difficulty when we build a strong civil service in government.

There has been no tradition in making final decisions and being accountable for the final result, because Congress has always been there, to overturn inadequate policies. To me that ought not be. That is for somebody in local government.

I am going to be interested in the reaction of the Mayor and council at the appropriate time. With that responsibility and accountability, I think there is a downside to that. But not having Congress looking over your shoulder on every decision has some advantages as well. We will be interested in how they react. I just think it is a very good point and something that the city has lacked, and maybe one of the reasons they have not developed the culture of accountability that most other jurisdictions have.

I thank the gentlewoman for yielding.

Ms. NORTON. Thank you, Mr. Chairman. The concern, of course, about the Federal payment is well placed, because the District is in such a precarious financial position. We have had some numbers run on the Federal payment, though, and I must say, I have very serious concerns about the Federal payment as it is.

During my first term, we got a very large increase in the Federal payment. However, that was to make up for no increases for 5 previous years. Every year there is no increase there is a cut, and yet the District acts as though the Federal payment is something important. Well, it is important, but it is important for cash reasons. I want to move there.

By the way, when we had the numbers run on the over \$700 million Federal payment, it turned out it was worth today about half a billion dollars. And that may also contribute to the shortfall.

I want to say for the record that it has been all that I could do to get the Federal payment out every year. Members do not enjoy voting for a payment for a single district, and what they have done instead is, over the past 5 years when we got the increase, we have had caps on the Federal payment. So the Federal payment has not only lost value in inflationary terms, but Congress has actually cut the Federal payment. It is a red flag. It is the one thing that people can cut or not vote for that does not harm them at home.

One of the things that we are all going to have to do as we look at this plan is to try to think more deeply so that we get over some of the problems and don't simply build in the same problems that we have had all along. And the 5-year deficit reduction plan does not bode well for the Federal payment.

I can say without fear of being contradicted that if I haven't been able to get increases before deficit reduction became the only issue for the Congress, I cannot imagine what it will take for me to hold on to the Federal payment in this body.

The District's concern about cash is important. Any large entity has periods of shortfalls in revenue where borrowing is necessary.

I guess I have two questions. One has to do with whether or not there are going to be cash shortfalls at all, and the other has to do with collateral and what kind of thinking about collateral has gone on given how borrowed-up the District is and the limits on its borrowing authority.

Mr. RAINES. Well, as you mentioned, most cities have periods of cash shortfalls and surpluses because certain taxes, such as property taxes, only are paid twice a year, whereas most expenditures are on a monthly basis. So the city is going to have to monitor its cash-flow after the plan is in effect to ensure that it can even out those periods.

But we are aware that, from a cash standpoint, the city will start off in the hole. That is why we are proposing to assist the city in financing its accumulated deficit so it will have the cash on hand, and that will help the city meet its cash needs.

Ms. NORTON. Would you describe how having the cash from the accumulated deficit. Many people have overlooked altogether your proposal to fund the accumulated deficit, even the Control Board, in its strategic plan, left the accumulated deficit out altogether. Which would mean that we would arrive at year 4, when we are supposed to be balanced, still carrying half a billion dollars in deficit, which would mean that we have the Control Board here for a long time trying to get rid of that accumulated deficit.

How would borrowing to fund the accumulated deficit help the District with its cash shortfall, and how long would that be available, in your judgment?

Mr. RAINES. Well, if the city—the exact amount of the accumulated deficit will depend on the financial operations of the city through this year. But let's assume that the city has a \$400 million accumulated deficit. What that means is that they spent \$400 million more than they brought in over prior years, and the way that they have been financing that is by not paying vendors.

If you hold enough bills, it is like any of us if we don't have enough money in our paycheck to pay all of our bills that month, we let a couple of them ride over to the next month. And that caused a real crisis in the city for a lot of vendors, not just businesses, but also churches, nonprofit groups who had contracts with the city.

By financing the deficit, the city would get \$400 million that would permit them to pay its bills on a timely basis. But the city would have to then repay that, and we propose to give them up to 15 years to repay it. So every year—it would be as though the city were atoning for the prior deficits by now appropriating sufficient funds to repay the borrowing. So past deficits would be financed, and they would be repaid over a period of years.

I believe that financing the deficit will go a long way toward, or will totally meet, the cash-flow needs of the city. But that is something we are going to have to work out with the Financial Authority to ensure that either—that deals totally with the cash-flow needs or we have an alternative vehicle available for the city to meet small, intra-year cash-flow shortfalls.

Ms. NORTON. Many residents point up that the Federal payment is, at least theoretically, to account for the fact that there is a Federal presence and a large Federal impact, because the District has a height limitation, it has more zoning strictures than any city in the United States, and of course the most expensive land it can't build on at all.

What is your response to those who say that we are still left with this impact and with whatever services we provide the Federal Government?

Mr. RAINES. Well, the Federal payment over the years has been pointed to as the compensation for a wide variety of limitations on the city, and the value of those limitations has always greatly exceeded the amount of the Federal payment.

What we have tried to do is change the paradigm. What we tried to say is that this Federal payment can't carry all of that weight and what we need to do is, instead of compensating the city by giving an annual lump sum payment, we should compensate the city by taking over some of its expenses, and if we take over more expenses than the value of the Federal payment, then this is a better deal for the city.

But it will take a while, I think, before people reconceptualize the Federal payment and see that what we are proposing is a new deal. It is not a preservation of the deal cut in home rule, but it is a new deal that says that the Federal payment is inherently going to be an inadequate measure over time of compensating the city for restrictions. We need another method of balancing the responsibilities of the city and the limitation on the resources that the city has.

So our approach is just an alternative way of doing it and, we believe, one that is better for the city. But I can understand why people who have grown up with thinking that the Federal payment was the compensation for a variety of things would have difficulty moving to a new paradigm, but that is what we are hoping that they will do.

Ms. NORTON. Mr. Raines, I appreciate that you came and spoke patiently and heard all the questions at my town meeting on the President's plan. Perhaps you would like to respond here as well, for the record, to the fact that many residents came forward to ask why there was not direct assistance to the two issues of which—or the two functions which many residents regard as paramount today: Public safety and education.

Mr. RAINES. The structure of our plan is to relieve the District budget of certain of its very extensive responsibilities and thereby provide more room in that budget for the city to tackle those responsibilities that are inherently local. Education and police protection are inherently local responsibilities. We believe that by relieving the city of the other financial burdens that they face, that the city officials now will have more room in which to deal with the issues of education and police within their own resources.

We believe it is very important for the future of the city that the city leadership take dramatic action with regard to public safety and education. There is no prospect of a financial revitalization and an economic revitalization of the city unless citizens and visitors feel safe and unless the young people in the city are trained to join the work force of the 21st century.

And so there is no higher important issues for the city government than dealing with those. But we believe they are inherently local, and we believe we are providing additional resources for them to deal with those issues by removing certain other expenses from their budget.

Ms. NORTON. During this round—I have just one more question during this round for you, Mr. Raines. Your plan would have the District government come into balance a year earlier than the financial authority statute. And you, of course, have watched the District go through excruciating pain just getting to balance year by year and then retread itself just to keep from overspending each year.

Why did you think it was important for the District to balance its budget this year, in fiscal year 1998, rather than in fiscal year 1999 as the original authority statute indicated?

Mr. RAINES. There are several reasons for our view on that. First, any additional deficit that is run up is more money that the District is going to have to borrow and repay with interest going forward, and it adds to the cash problem that the city has.

Second, it has been my experience that taking decisive action to balance a budget in as short a time as possible is more likely to lead to an enduring balance than struggling each year and doing only what is necessary to move toward a balanced budget without actually balancing.

Third, I think it is an important symbol and signal to Congress that the city is taking decisive action, moving ahead of schedule to deal with the city's financial problems, and I believe it puts the city

in the position of taking aggressive action on its own that I think is—I know is certainly appreciated within the administration, and I would think would be appreciated by the Members here, that the city is doing everything it can to bring its affairs in order as quickly as possible.

Ms. NORTON. Mr. Chairman, before I relinquish the microphone, in response to what Mr. Raines has just said, there is a thought here in the Congress, the notion that this is a bailout.

You indicated that one reason for wanting us to come into balance early is to show that the District has stepped forward to do something that is equally painful as the Congress will find it painful to come up with any additional money. How would you respond to Congress when it says that this is a bailout?

Mr. RAINES. Well, I think that this is definitely not a bailout in this sense. First, the Federal Government has an interest in the Nation's Capital, and the services that we have targeted for the Federal Government to finance are services and government programs that directly relate to that Federal interest, and therefore our first step is in protecting the Federal interest. That we need to do for ourselves and for the Nation and not simply for the citizens of the District.

Second, we do provide some additional room for the city by relieving it of some of these responsibilities, but by no means are we obviating the need for the city to make very difficult financial choices. The city is going to have to significantly rethink everything it does in order to reach structural balance. This is not just a matter of not spending certain dollars in a year, it is not a problem that will be solved by furloughs or deferrals, the city will need to fundamentally rethink what it does, and therefore I don't think anyone in the city will view this as a bailout, as keeping them from having to make tough choices. Indeed, it merely highlights the need for those tough choices.

So it is anything but a bailout, it is an opportunity for the city, but I believe it is a necessity for the national government that we have to have a well-functioning Nation's Capital. So the national interest requires us to act, and our concern about home rule and the well-being of the residents of the District requires us to do it in the way that increases their chances of success.

Ms. NORTON. Thank you.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you.

I have a few questions I want to go through with you as well. First of all, I don't think there is any question—I will just say this again—that the city is much better off with this proposal than they are today, whether you have a Federal payment or not; the city is much better off financially under this proposal. It is not even a close call.

In addition to that, you have taken some of the fastest growing elements of the budget that will increase the deficit in later years and helped the city by providing a better percent on Medicaid; taking over corrections where there is huge cost avoidance built into the city that they have not invested; and on the unfunded pension liability, that stops in the year 2004. If something is not done, it is going to be 15 percent of the city budget. So this not only helps

the city today, but over the long term. I think this is critical to the city's success.

You have clearly given this a lot of thought. You have even thought of some of the cultural changes and incentives and disincentives as you have worked through this. And I even understand it better now sitting here. I think we are going to be adding some and moving the plan around a little bit, as it often happens when it comes here, but you have clearly given this a lot of thought. I think it hangs together fairly clearly at this point, and we will be hearing from other perspectives as we proceed. I want to congratulate you on your efforts.

I also want to recognize our colleague from Prince Georges's County. Congressman Wynn has just come in, and we will give him an opportunity to ask questions later.

Let me move to a couple of issues. Mrs. Morella had asked why the initial Treasury provision to finance the debt in 1995 was dropped from the Control Board legislation. Mr. DeSeve, who is sitting behind you, has been so helpful in that and other matters, can answer that more clearly. But as I recollect, that was a scoring problem as to how that would be scored under the Budget Act. I would ask Mr. DeSeve if he might want to, just for the record, answer that more fully.

**STATEMENT OF G. EDWARD DeSEVE, CONTROLLER, OFFICE
OF MANAGEMENT AND BUDGET**

Mr. DESEVE. During the process of creating the financial responsibility and management assistance authority legislation, Treasury and the committee staff proposed the terming out of the deficit over a period of time, a 15-year period of time. There were two concerns raised at that point.

No. 1, without the existence of the Financial Responsibility Authority, people were concerned that the city, having the ability before the Authority had a chance to work and demonstrate what real fiscal restraint was like, might be inappropriate.

Second, there was and there remains today the likelihood that under the Credit Reform Act that a loan of that length, 15 years, would have scoring implications. There are other similar kinds of loans that are made by various agencies to State and local governments that have that same characteristic. So let the Authority work was concern No. 1. Concern two was that there was and will be a scoring component to that particular loan. And for those reasons it was agreed by the administration and the Congress to allow those provisions not to be included in the Financial Responsibility and Management Assistance Act.

Ms. NORTON. Will the gentleman yield?

Mr. DAVIS. Happy to yield.

Ms. NORTON. This plan is paid for. Is that not the case at this time with all of its provisions?

Mr. DAVIS. It is in the President's budget. Now Congress has to adopt its own resolutions. But it is.

Mr. RAINES. Yes.

Mr. DAVIS. Thank you very much.

I would like to, if I could, spend this part of my questions on the corrections issues, which have not only the interest of the Virginia

delegation but for all of us because of the crime issues in the city. The proposal is going to affect crime in the city and the region.

What do you mean by comparable sentences to Federal sentencing guidelines? Does the President's proposal contemplate the straight imposition of Federal sentencing guidelines on the District courts?

Mr. RAINES. We have been meeting extensively with District officials, and there have been meetings within the Justice Department to further define our call for sentencing guidelines that meet Federal standards. We are proposing the creation of a set of standards that reflect Federal policies with regard to determinant sentences. We also are proposing that they be enacted by the D.C. council as a part of D.C. law.

They need not be the same as Federal sentencing guidelines, but they need to reflect a difference in philosophy about sentencing, which primarily involves determinant sentences, so that if someone is sentenced for 2 years, they serve for 2 years. There also need to be a much more restrictive use of parole in the sentencing process.

We think it is important for prisons to serve their purposes. It is also important to have some consistency with the procedures that affect Federal prisoners, because it is clear that some District prisoners will need to be in facilities other than those in the local area, and therefore we are concerned that there be some consistency in sentences. But there is not a requirement that they be identical to the Federal sentencing guidelines.

Mr. DAVIS. Thank you very much.

There are many District crimes that fit into the municipal or State category and have no comparable Federal statute. Would you envision the Federal Sentencing Commission determining new guidelines for each of these crimes, or how would this—

Mr. RAINES. We envision setting up a Federal/District process to recommend new sentencing guidelines that would be included in law by the D.C. council. So these would be sentences that were created to be applicable to the District of Columbia, and that would fill in any gaps that may exist as between how the Federal Government has conceived of sentencing and how the local government has. But we view these would be a unique set of guidelines affecting the District of Columbia.

Mr. DAVIS. What is the timeframe for that? Would we be doing that as part of this legislation as we move through, or would that come after?

Mr. RAINES. What we will be asking is an authorization for us to begin that process. We would see it being completed during that 3- to 5-year transition period with the prisons, so that it would be completed prior to the Bureau of Prisons taking control of the facilities.

Mr. DAVIS. Thanks. I couldn't help but notice that the proposal recommends that the Lorton complex be renovated where possible and even expanded. That was called to my attention by interested constituents. Is this something that the President intends to insist on, or are we willing to negotiate on whether Lorton should be retained or moved to a new location?

I know that you have some new cost data coming your way with the NCCD report that is in your office at this point. Is the adminis-

tration going to be flexible on this, in working with this committee and with Congress?

Mr. RAINES. Mr. Chairman, we will certainly be flexible in working with the committee on the specifics of how the plan is implemented. Our major concern is to ensure that adequate facilities will exist for the prison and, as far as possible, that these facilities are as close to the District of Columbia as possible.

It is our preference to have these facilities renovated and constructed on the Lorton property, because that exists. But we will be happy to work with the committee on any ideas that the committee might have.

Mr. DAVIS. Thank you. Lorton is there. The land is there. You don't have to find new land, and for that reason it is very convenient. And I understand that, and I think that the burden on us is to go and find that we can do this in a cost-effective manner and still meet the guidelines that we all want to meet, because Lorton, as currently constituted, has failed, and I think we all recognize that.

The numbers that I have seen point to almost \$1 billion for replacement of that facility where it is now, but as we get new cost estimates we want to continue this dialog with you as well. We appreciate the administration's being willing to take a flexible view as long as we can meet the final goal that I think we share with you.

In one of the briefings I received on the proposal, I heard a figure of 10,000 inmates used as a basis of a cost estimate of \$850 million in capital costs. Now my understanding is that there is a new study currently under final review in OMB that concludes that in the year 2006 there will be 7,400 felons sentenced from the District. I don't know how you conclude what you will have in 2006, but they have people that do that.

Do you know what the rationale is for a 33 percent increase in population estimate that was concomitant cost increases over the NCCD estimates that were consensus estimates? Have you gotten that far in looking at this?

Mr. RAINES. Yes, the study you referred to assumes that there is no change in sentencing practice. Our estimate of 10,000 assumes that there is a change and that there will therefore be more inmates who are actually in the facilities.

Now, there was a lot of ups and downs in this because there may be more prisoners but they may be serving, in some cases, shorter sentences, and therefore it is not clear all of the details of that. But we think that the 10,000 estimate is a good planning estimate at this point, given the changes in sentencing.

Mr. DAVIS. What about the prison privatization issue? The Federal Bureau of Prisons generally does not get into that, it is my understanding. As you know, the District is already moving toward privatizing at least a large portion of its inmate population control, and it has a long-range plan to do more in that direction. Does that remain a viable alternative?

Mr. RAINES. Well, the Bureau of Prisons has spent a lot of time studying the issue of privatization, and particularly in the context of a couple of facilities in California. The Department of Justice has some serious concerns about privatizing prison facilities, given the

extraordinary powers that prison guards and officials have over the lives of the prisoners and the need to take and to use the police power to maintain order in prisons.

But we did not rule out privatization of some parts of the system should the Bureau of Prisons believe that that is the most effective way to go and that it is consistent with the need for the maintenance of order.

Mr. DAVIS. So as we look at these numbers and deal with them, we could find that it could make sense for the Federal Government to take over D.C. Corrections and perhaps privatize them ourselves rather than incur higher BOP costs. We need to work through those issues?

Mr. RAINES. We need to work through it. I am not sure that there is going to be a major cost difference here, but again, the Bureau of Prisons has done quite a bit of work on this and has some fairly strong feelings about the concerns about what happens, for example, in the case of prisoner disorders and the need for the guards on the premises to exercise police powers. If it is a purely private facility, questions arise as to the appropriateness of the use of force and other measures that have caused them some concern as they look at the issue.

But I am sure that the representatives from the Bureau of Prisons would be happy to meet with the committee and go over their concerns as well as provide the committee with the benefit of the work they have done.

Mr. DAVIS. Just a couple of other questions before I yield to the gentleman from Maryland. Who would administer the courts under your proposal, and who administers them now?

Mr. RAINES. The courts are essentially self-administered now, although financed by the city government. The city government provides a lump sum to the courts, and the courts then utilize those funds to finance themselves.

Under our plan, the management of the courts would remain the same. We would simply have the funds come from the Federal Government through the Administrative Office of the Courts—of the Federal Courts, and then to the local court system. So there would not be a substantial change in how the courts are managed.

Mr. DAVIS. Are there real policy or principal reasons that the Administrative Office of the Courts couldn't and shouldn't oversee the District courts?

Mr. RAINES. Well, we have had a number of discussions with them. They are quite busy. They have a full plate in administering the Federal courts, but we believe they are the most appropriate administrative agent for funds for the D.C. courts.

It would be difficult to do it through the Justice Department because the Justice Department appears before the courts so extensively that some might believe that there was a conflict of interest if the Justice Department also controlled the funding for the courts.

Mr. DAVIS. Thank you very much.

Well, before I yield to the gentleman from Maryland, I just want to note that we have had some suburban Members here. I think the great thing about what you have proposed and the way we hope to conduct this is that we no longer have suburbs versus city in these conflicts. We are going to try to move out of this and move

to the fact that our destinies are intertwined and we are one region and we all have a strong investment in making the central city work. And I know that Mr. Wynn shares that with me, and in that regard I am happy to recognize the gentleman from Maryland.

Mr. WYNN. Thank you, Mr. Chairman. And I concur with your sentiments about the interdependence of our region. And I thank Mr. Raines for appearing today.

I apologize for not being here for the beginning of your presentation. I have a couple of questions that I hope have not been covered or explained.

One of the fundamental issues of concern to me has to do with law enforcement. I understand and heard your comments with regard to the takeover of the court system. My first question is: Is there any direct assistance for the District of Columbia Police Department? Is there any aid going to the D.C. Police Department under this proposal?

Mr. RAINES. Under our plan, we are taking over certain functions that will provide additional budget room within the District's budget, that the local officials can choose to invest in the police department.

But we are also quite interested in working with the Financial Authority on their efforts to try to improve management in the police department, and we will be working with them and providing whatever technical assistance we can from any of the Federal law enforcement agencies to help improve the functioning of the police department.

And so the benefits for the police department come from expanded room in the District budget and technical assistance that we have offered to make available.

Ms. NORTON. Will the gentleman yield on the police department question?

Mr. WYNN. Certainly.

Ms. NORTON. I just want to indicate to the gentleman that the Congress negotiated a plan for an additional \$42 million for the police department last year. Working with Senator Hatch, the chairman of the Judiciary Committee in the Senate we were able to get \$15 million. The needs of the police department are immediate. I believe that the Federal Government now owes us \$27 million and that we cannot wait for this plan or any plan to get that money. And I intend to use the next few weeks to get the additional \$27 million that I think we have coming to us.

Mr. WYNN. Well, I certainly share your concern, and have a similar sense of urgency with respect to funds for the police department, which actually led to my next question. I understand that basically by assuming certain pension liability for the police department, that that would be the basis on which these additional funds, additional space if you will, would be created to provide. How much money approximately would be available to the D.C. government as a result of the takeover of the pension liability that could be used in whole or in part for the police department?

Mr. RAINES. We have not divided the dollars by the components of the plan, but I believe we begin, in the first year, in the range of \$60 or \$70 million and that rises over time. That is the net value of what we are taking over minus the Federal payment.

Mr. WYNN. Sixty million? OK. And you mentioned that there were certain management improvements with respect to the police department that you thought were necessary. Could you comment briefly on that?

Mr. RAINES. Our plan does not have extensive detail on that, but let me just say this. The experience in a number of other cities has been that using information technology, changing patrol practices, and maximizing the number of officers on the street have a significant impact on crime. And these kinds of changes have been introduced in part in the District, but not as aggressively as in other cities. We strongly encourage the city to use the most advanced thinking on deployment of police resources as they deal with the issues of crime.

The Control Board has just received a study that I have not yet seen, but I have read the press reports, and I think it begins to address some of these issues. I look forward to working with the Control Board to see what additional help the Federal Government might provide to assist the police department in becoming one of the best in the Nation, and in using the most modern techniques to have a very direct impact on crime.

Mr. WYNN. Well, I agree. I noted in recent reports that New York City had had significant success by dramatically increasing the number of officers on the street and that would be something that I think could work in this area as well.

Let me ask briefly in the area of economic development, I understand that there is some consideration or proposal for a tax incentive program to spur economic development. Could you comment a little bit about the specifics of what would be envisioned in terms of the tax incentives?

Mr. RAINES. We have proposed the creation of an Economic Development Corporation that would have certain powers. Among those, the ability to provide tax incentives to businesses. The actual details of that are not yet available. I hope that they will be in the next week or so we will be able to give you the specific items and what the tax advantages are, how they would work, and who would qualify. But I think we are still about a week away on that.

Mr. WYNN. Would capital gains relief be included?

Mr. RAINES. It is not our current plan to include any capital gains provision in the proposal.

Mr. WYNN. All right. Thank you, Mr. Chairman. At this time, I wouldn't have any further questions. I would like the opportunity to perhaps submit some written questions at a later date.

Mr. DAVIS. Happy to. Thank you.

Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. Mr. Raines, as you know, when District employees were Federal employees, Congress saw fit never to set up a trust fund for pensions. When pensions were finally transferred in 1980, the Congress set up—the Congress required the District to set up a trust fund and to contribute amounts such that now our pensions since home rule are significantly overfunded.

In that regard, would you indicate why transferring that entire amount—why it is that your plan calls for transferring that entire amount to the Federal Government?

Mr. RAINES. Well, our plan involves taking over virtually all of the unfunded liability of the District pension plans, and that unfunded liability is considerable. It is in excess of \$4 billion. The total liability is in excess of \$7 billion. And so that the funding that has been generated since 1979 has kept the unfunded liability from growing totally out of control, but the liability is still quite large.

Rather than trying to find a methodology of sharing that unfunded liability, or of coming up with new Federal dollars to go into the pension plan, it struck us that it was more consistent with our overall approach to simply relieve the city of the full responsibility. And if we are going to relieve them of the responsibility for those benefits, we need, as well, to acquire the assets that are now offsetting part of that liability. And that is what we propose to do.

You should recall that the assets are an estimate of what will be available to fund the liability. But if for any reason the performance of the economy and the performance of the stock market doesn't meet the estimates, then the unfunded liability would be larger. If we take it over, the pensioners will be assured with the full faith and credit of the United States that they will receive their benefits, regardless of the performance of the stock market. So that from the standpoint of beneficiaries we believe this is a very—it is very important, and from the standpoint of the city, removing this entire liability and giving the city a fresh start, we think, is important to the long-term financial health of the city and to its credit ratings.

Ms. NORTON. You propose that the present pension plan would be closed with no further accruals to that plan, and that a new plan would be instituted for the very same employees who are here and so they would be subject to two plans. Do you envision that an employee would risk final receipts of pensions in the amount that she would have had had there been only one pension plan? In other words, will going to two pension plans in and of itself diminish the pension of individual employees?

Mr. RAINES. No, it should have no impact on the individual employee. They will receive credit for their time served under the existing plan. They will receive a benefit that is calculated based on looking at their terminal pay, just as they would under the current plan. So there is nothing in our plan that by itself would result in any diminished benefits to employees.

And as I mentioned, there is an added improvement in that the payments would no longer be subject to the vagaries, at least on the older plan, or whether or not the District would, in fact, be able to meet that unfunded liability.

One of the issues, I think, that has not been addressed by many, but Chairman Davis mentioned, the increase in the requirement for the city contributions to the pension plan in 2004 are enormous. And I don't believe anyone has identified a plan whereby the city would actually be able to make those payments. We think that our plan forestalls that issue and does so before pensioners and others would become concerned about the fact that the city does not have the financial wherewithal to increase its payments by the amount now required in law.

Ms. NORTON. I can certainly tell you that having worked very hard on a pension bill last year that I grow very nervous if anyone

in the District thinks that the Congress has any interest in stepping up on this issue. It is frightening. It has been frightening to see how little response I get when I talk about what would really be the biggest catastrophe of the city and that is either not doing it or waiting so long to do it that you have untold repercussions on our bond and on everything else that the District has.

This is a very, very troublesome issue because the Congress is 100 percent responsible and has shown not the slightest interest in doing anything about it. This is a 100 percent congressionally created liability.

May I ask one more question, and that is about the notion that the Internal Revenue Service collect taxes for the District, including local taxes. First, how would this occur? What are the mechanics of how this would occur, especially for the ordinary taxpayer?

Second, what efficiency does this build in for the District government? And third, if this is already available to the States, why do other States not also do it at this point?

Mr. RAINES. From the efficiency standpoint for taxpayers, this would be a major breakthrough. They would no longer have to file separate returns with the city, but they could calculate their city income taxes as well as their Federal income taxes on the same form. And that would be a major efficiency for the city.

Also, the city, being a small part of a larger region, has some unique enforcement problems and that is that it is not able to determine what jurisdiction people may be living in and has not been able to take advantage of some of the matching programs that the States use in working with the Internal Revenue Service ensuring enforcement of their tax laws.

Third, I believe that the economic incentives that we will be suggesting as part of the Economic Development Corporation will depend greatly on residence of employees. And one of the ways of ensuring that the city gets the benefit from these incentives in its tax system is to ensure that those new employees are, in fact, paying District taxes.

The experience elsewhere with this option has been, at least my experience in the couple of States that I am aware of who have looked at this question, has been that those States were large enough in general and sufficiently isolated in particular from surrounding jurisdictions that they didn't have these cross-border problems that were of concern and they are large enough to afford the kind of system that you need to enforce an income tax jurisdiction.

The District is a relatively small jurisdiction and does not have access to a lot of the tax tools that other agencies have, and therefore I think the city would uniquely benefit here. Both that the citizens would have a more simplified tax return, but also the Internal Revenue Service enforcement mechanisms would be available and we believe it could have a salutary impact on the total amount of taxes actually paid to the city.

Ms. NORTON. The District has a reputation for inefficiency. No inefficiency, though, is greater in the District than the notorious inability to collect the taxes that it enacts into law and apparently doesn't see. To the extent this would help this, I would be interested in exploring it further. Thank you, Mr. Chairman.

Mr. DAVIS. Frank, I just have a few more questions on the Economic Development Corporation. Two things to flush out on that and I am sure that will have the option of a lot of give and take as we move through it. I want to make sure I understand what you have in mind.

Could you explain what would the geographical area of operation be for the Economic Development Corporation? Would it be the whole city; what authorities it is intended to have and what is the funding source and the level?

Mr. RAINES. Well, the primary area of activity of the corporation will be the central business district and those communities outside of the central business district that have a large percentage of low-income people. It is not our current thinking that it would be active in the higher income areas where there is substantial amount of economic activity currently taking place.

We intend to fund the corporation with up-front money to capitalize it, but also making available tax credits that could be part of its program. We also think that the corporation should have an extensive involvement with the private sector, since economic development in this city as well as any other city, has to be really driven by private investment, private job creation, and so that there will be a close tie to private economic activity.

And it is our desire to attract private capital as well to the corporation to supplement the funds made available by the Federal Government in the initial capitalization so that activities ranging from major development projects to job training and job creation would be effective under the corporation.

Mr. DAVIS. OK. Is this at all similar to the Pennsylvania Avenue Development Corporation and the proposed New York Avenue Development Corporation?

Mr. RAINES. It is really not as geographically focused. They may well decide to have a focus on a particular area, but it would not be the entire focus on any one particular area. Second, there would be more reliance on the tax system and tax incentives as opposed to direct Federal appropriations.

Mr. DAVIS. What about the redevelopment land authority? Would this corporation assume or be capable of assuming some or all of that responsibility?

Mr. RAINES. Well, that is one issue that we have had some discussions on and really don't have a conclusion. I could see the city deciding, or this committee deciding, that combining certain other economic development activities as part of the corporation might be beneficial. We really haven't come to a conclusion there. But the more that we can have a coordinated effort, I think, the better.

Mr. DAVIS. What about the corporation assuming control over existing District-owned land that is determined to be surplus? For example, you could have a number of school sites perhaps coming available with General Becton looking at some school closings. That could be a good catalyst if it is put under some central authority.

Mr. RAINES. We think it would be beneficial for the corporation to have access to land that it could include in its development plans. Indeed, it would be our hope to make available where we could Federal lands that had been declared surplus that might be

available for economic development and the extent to which the city could do the same thing, I think that it might be helpful.

The private sector orientation of the corporation, I think, would be important. There is something of a history of land being allocated for certain developments and those developments not happening for many, many years. And I think it would be necessary to ensure that development projects could move expeditiously as the result of the corporation's activities.

Mr. DAVIS. OK. Do you think it would be helpful for the city to have one agency authorized and responsible for all surplus district properties so that it could put together adequate parcels for development? Is that not a determination that this proposal makes?

Mr. RAINES. We have made no determination on that as part of this plan.

Mr. DAVIS. Many District government buildings, public housing, schools, police stations, are built on federally owned land. Would the administration support transferring these parcels, most of which were acquired for District-only purposes over the years, to District ownership?

Mr. RAINES. We would be happy to work with the committee in looking at the particulars to see the extent to which that would make a difference in the success of the plan.

Mr. DAVIS. Finally, how would this corporation be governed? Is it intended to have District participation but not domination? Would it be charged with protecting Federal interests as well as District interests? Any conclusion on that yet?

Mr. RAINES. Our view is that the corporation ought to be primarily made up of private sector individuals appointed by some combination of the Federal Government and the local government.

Mr. DAVIS. OK. And moving to the last topic. As you know, all of the District's general obligation debt carries a proviso that if other funds are not available, the Federal payment can be used as security for the debt. We ran into considerable discomfort from the existing bondholders on this issue 2 years ago when we allowed the Federal Treasury to use the Federal payment as collateral for short-term loans.

How do you expect the elimination of the Federal payment to affect the value and liquidity of outstanding District debt and on the District's future bond rating? I don't know if you want to answer that or Mr. DeSeve. He doesn't want to take it.

Mr. RAINES. Well, Mr. Chairman, I actually wrote the bond indenture for the District of Columbia many years ago, and I believe it is a very strong indenture. As I recall, the actual reference is that the Federal payment, if any, is available for support of the bonds.

I think the most important thing we can do in supporting the value of the District's bonds is to remove the financial cloud over the city, particularly by eliminating the concerns about the pension liability. So if you take the plan as a whole, I believe it would be a very strong net positive for the bonds, far more than the prospect of using the Federal payment to meet the payments. Currently, the bonds have a very strong security in the property tax and, as long as that security is respected and enforced by the courts, I think it should be adequate security for bondholders.

Mr. DAVIS. Thank you very much. Mr. Wynn, do you have any additional questions?

Mr. WYNN. Thank you, yes, just one. Going back to the issue of the Federal Government assuming responsibility for prisons, I note that prison staff would not be automatically integrated into the Federal Government system, but would have to reapply based on their ability to meet Federal standards. That gives me some concern. What exactly is the difference between the current Federal standards and the District of Columbia's standards now?

Mr. RAINES. Well, they were developed separately, and I think the Bureau of Prisons wants to ensure that all of their employees have met the standards, have had similar training, and will be able to be successful.

I think there would be a reluctance, as I think there is a reluctance in any of these cases, to simply have a blanket promise that everyone will be hired who is currently employed. It is one of the things that will have to be worked out during this transition period, is what is the necessary employment levels; is the structure of the work force that is currently in the prison system the same as the one that the Bureau of Prisons would like to operate? What is the level of supervision and the number of supervisory personnel?

So there are a lot of issues that are going to have to be worked out, but I think the Bureau would be very reluctant to give a blanket promise that everyone who is currently employed would have a job under the new system.

Mr. WYNN. Would it make sense to provide for a transition period so that if the issue was training and a number of hours of training or something like that, that existing personnel could obtain that training without being immediately discharged purely because they lack this specific training component that the Bureau of Prisons personnel had that they had never been offered?

Mr. DAVIS. Will the gentleman yield? We would be very happy to work with the administration on those kinds of things to bring people up to the required hours and so on on this. I would think that would be a possibility and would be very helpful. You could retrain people instead of hiring new people with a proven record.

Mr. RAINES. Absolutely. And we provide for a 3 to 5-year transition period and during that period it would be my hope that not only would the physical facilities be improved, but also any training necessary that would be comparable to that provided to the Bureau of Prisons would also be provided so that the vast majority of employees would know on the first day that they had been retained once the Bureau of Prisons takes control. So we don't view there would be an abrupt moment. We view this 3 to 5-year period as not only dealing with physical capital, but also human capital in the system.

Mr. WYNN. It sounds like between your comments and those of Chairman Davis that this issue could be resolved without the loss of prison personnel that could otherwise be qualified to be employed by the Bureau of Prisons.

Mr. DAVIS. I would think that the prison employees who have the experience and would accept the training would be a great asset, obviously. These are issues that we need to think and work

through together. You have a number of affected constituents, but on the other hand, the Bureau of Prisons has to ultimately make this determination or they are not going to want to be involved. But I would think there would be room for most of the people.

Ms. Norton.

Ms. NORTON. To my good friend from Maryland, I should say for the record that the nature of his questions say all that needs to be said about where District employees live.

Mr. WYNN. Throughout the region, it is my understanding.

Mr. DAVIS. Is that your question?

Ms. NORTON. No, it is not, and I appreciate his help on that issue because at least a few of them live in the District.

I have only one question, and that is about an element of the proposal that your working group is having some difficulty with, and they are trying very hard and working very well, and that is the National Capital Infrastructure Fund. Anybody who goes outside now, even after the District has been struggling on the streets, finds that the potholes have reappeared.

I mean, this is one of the reasons why the morale of citizens cannot be raised. It is what you see and feel and touch. There has just not been enough of what you see and feel and touch that has changed in this city to keep people here and to keep their morale up so they believe something is going to happen.

So, though this amount is small, it is very welcomed because it is an acknowledgment that the care of roads is also a State function or of many roads is also a State function.

The problem here, and I understand the amount, but the problem here is that we are talking about only \$125 million, and with the thought and forethought and careful craftsmanship that have you given every part of this proposal, you see this as seed money, not as money just to be spent on some roads during the next 5 years.

The problem is that it has to be seed money for something, and you indicate something that the city council could do right now, and I still don't understand why it has not been done. You indicate one thing that could be done that was. It would be payment in lieu of taxes that right now the city council and the Mayor could, in fact, be negotiating with the multitude of nonprofits that are in the city. I know that the National Education Association stepped forward itself and said here we are, negotiate with us. And I still don't know if their offer to pay 40 percent of the tax that they would otherwise pay has been accepted. All I know is that they have offered it.

You put that in your proposal, except of course it is not directly related to roads. So it is seed money and perhaps would mean that that fund would grow because that amount would, I take it, would come into that fund over time.

Now, if we were a city of another type, the amount could grow because of a revenue function that might be connected to roads and bridges themselves, such as tolls for example. That, of course, is not going to be possible, certainly within the city. And I wonder whether or not you believe that an amount of this kind can, in fact, be leveraged sufficiently to help us with local roads and with capital funds as your proposal says, with capital funding so much less,

or whether the amount is simply too small to ultimately be leveraged for a purpose beyond, for example, the 5 years.

Mr. RAINES. Well, we would be very desirous of working with the committee on this issue. It is—in our view it is very important for the Nation's Capital and for the region and for the city that the city's transportation infrastructure be first rate. And the investment in that transportation infrastructure has lagged over a number of years to the extent that we now have had to waive the local match for highway funds because the city otherwise would not be able to move forward on very important projects that affect the whole region. And we view this National Capital Infrastructure Fund as a first step in dealing with transportation issues in the city, but also ones that intimately affect the region.

So many of the employees in the city come from outside the city that there is a tremendous reliance on this system, on the Federal Government for its own employees relying on it substantially. Metro is the heart of our regional transportation system and we believe we have to find ways to increase the investment in that infrastructure. So we believe that this fund is a first step in that direction.

We have suggested that others may be interested in contributing to this fund because of the regional impact. There has been some reluctance by entities to provide funds to the city because they were concerned as to whether or not the funds would be used for anything that was relevant to their own interest. But because the roads and bridges and Metro are so clearly of interest to the employers in the city, whether they are for-profit or nonprofit, because it is of such importance to the region because if the city is unable to pay its share of these costs, then the Metro and other facilities would deteriorate to the detriment of the region as a whole, that we are encouraging as many thoughts as possible about how can we attract other funds to this fund. And how can we deal with regional transportation issues generally through a mechanism such as this and starting with the District of Columbia?

Ms. NORTON. So consistent with your plan might be a regional fund that would be dedicated solely to regional transportation issues without prejudice to one or another aspect of those issues? For example, when you say there should be a gas tax and then people say, "No, I want it for Metro," and when you say, "It is for Metro," people in other parts of the region say, "I can't use Metro because of where I live, no, I still need roads."

Do you envision that this fund could be the beginning of a larger regional fund that could be a win-win for the entire region contributing to transportation needs wherever they may be, whether in rapid transportation or in roads?

Mr. RAINES. Well, as you know, in my role as the Budget Director, I have the opportunity to visit with people in the region about special regional needs, and the Federal Government has had a special relationship with this region. The most notable example is Metro, which has its own stream of funding from the Federal Government quite separate from the funding that is made available through the national programs. And so I, from time to time, hear about special regional needs, and I think it would be highly desirable if the region were to find a mechanism to deal with regional

transportation concerns that provided capital funds on a continuing basis for these endeavors.

The region has more in common than in some cases the suburbs in the region have with other parts of the State that they are in.

So it strikes me that if the local leadership in the region could conceive of a means of financing capital for transportation, it would be indebted to the region, and, as the Federal budget director, I could well see how there is a national interest in ensuring that that mechanism worked well enough because of the impact on the Nation's Capital and the National Capital region.

We have employees throughout the region; we have facilities throughout the region. If the transportation system does not work, then that is a problem for the Federal Government.

Ms. NORTON. This may be a very important opportunity for the region to get hold of some of the issues that were raised at the recent metro conference, where the bus system, for example, has broken off to such an extent that there is very serious concern about the future of Metro.

I hope that the kind of imaginative thinking you have brought to District matters will encourage the region to bring the same to its own transportation matters.

Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you very much.

Do you want to add anything in summarization of anything you have missed or something you would like to respond to?

Mr. RAINES. Mr. Chairman, I would just like to thank the committee for your interest in this proposal, your moving expeditiously with hearings, and the opportunity to have worked with the Members as we developed and presented the proposal.

I think it bodes well for the future of the District that Congress has taken up this issue in such a forthright manner, and I look forward to working with you to see if we can get legislation as expeditiously as possible, so all the work that will be needed to move this plan into actuality in the next fiscal year, which begins October 1, can begin as soon as possible.

Mr. DAVIS. I think we should be able to meet that deadline in working together. Today you have acquitted yourself and have shown that the administration has planned very well; I think, as is appropriate in the legislative process where we need to do that. I am personally energized by the attitude and initiative from the White House and from congressional leaders. We have a once-in-a-generation opportunity to make things happen. We have the Republicans and Democrats, Congress and the administration, city and suburbs, working together, recognizing we have some structural tasks ahead of us.

I think the Control Board, who we did not talk about today, have brought about a lot of the changes. Although we read about bad news, a lot of this has been uncovered by the work they are doing. The Control Board should be working with the Mayor and council on the day-to-day functions. Congress should not be doing that. I think you have correctly focused on the larger structural issues that have to be addressed if the city is going to be successful.

I also would just note the newly emboldened city council, and the fact that they are showing some initiative on this cannot help but

make this a very satisfactory answer at the end of our journey. I will look forward to hearing from the Mayor and council in the near future, and I thank my colleagues for being with us today.

The hearing is adjourned. Thank you very much.

[Whereupon, at 11:35 a.m., the subcommittee was adjourned.]

