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# DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 1999

## HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

## H.R. 4380/S. 2333

AN ACT MAKING APPROPRIATIONS FOR THE GOVERNMENT OF THE DISTRICT OF COLUMBIA AND OTHER ACTIVITIES CHARGEABLE IN WHOLE OR IN PART AGAINST THE REVENUES OF SAID DISTRICT FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999, AND FOR OTHER PURPOSES

**Council of the District of Columbia**
**Financial Responsibility and Management Assistance Authority**
**Office of the Mayor**

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# DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 1999

**WEDNESDAY, MARCH 18, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 10:20 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Lauch Faircloth (chairman) presiding.

Present: Senator Faircloth.

## DISTRICT OF COLUMBIA

### FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY

**STATEMENTS OF:**

**DR. CAMILLE CATES BARNETT, CHIEF MANAGEMENT OFFICER**
**DR. ANDREW F. BRIMMER, CHAIRMAN**
**ANTHONY A. WILLIAMS, CHIEF FINANCIAL OFFICER**

#### OPENING STATEMENT OF LAUCH FAIRCLOTH

Senator FAIRCLOTH. Good morning. I am delighted to see all the friends and people who are going to make the city of Washington work here this morning. I am sorry to be a little late. We had an SBA meeting which I felt I had to attend. We have a distinct capability in the Senate of scheduling all committee hearings on the same morning at the same time. I do not know how we work it out, but we have been able to do so.

The hearing is called to order.

This is the first hearing this year of the Senate Appropriations Subcommittee on the District of Columbia. I want to welcome Dr. Brimmer, Tony Williams, and Dr. Barnett. We thank you for being here this morning, and I thank you for what you are doing.

#### PROGRESS IN IMPLEMENTING MANAGEMENT REFORM

The reason for this morning's hearing is to review the progress being made in implementing the management reforms called for by legislation which I insisted be a part of last year's rescue plan for the District of Columbia. Dr. Barnett, as you know, that legislation led to the creation of the position of Chief Management Officer, and I think the city is lucky to have someone with your qualifications to accept that role.

Tony Williams has done a tremendous job working at the direction of Dr. Brimmer and the rest of the Control Board in getting

control of the city's finances. That was one step on the road to recovery for the Nation's Capital. The rest is really going to be up to you, Dr. Barnett.

OVERHAUL OF THE WAY THE CITY DELIVERS SERVICES

Congress and the American people and certainly I do want this city to succeed, and what is needed is a complete overhaul of the way the city delivers services to its citizens. We need professional management that can clean, repair, and do the ordinary functions of the city, like issuing drivers licenses, and many of the things other cities deliver on a proper and regular basis that we have failed to do here for so many years.

Dr. Barnett, it is a tall order, but I want you to know we expect the job to be done. Congress and, I think, everybody will support you, but there have been enough hand wringing and excuses as to why things simply do not happen. There is no one in this Congress—and I am sure in the entire city or the administration of the city—that does not want to see this to be the finest capital in the world, as it should be. Certainly there is no dissension in the direction in which we are moving. It is just a question of how we are going to get there.

NUMBER OF CITY EMPLOYEES

For years the District's agencies have been drifting in a sea of mismanagement. This city has roughly 35,000 municipal employees for a population of 529,000. There are simply too many employees for a city of this size. Hopefully, this is going to change under the new Chief Management Officer, and certainly a lot of it will change because duties the city has been performing, like the prisons, will be moving to the Federal Government. But that is entirely too many people for a city of this size to be employing.

While Congress last year provided a rescue package for the District, quality of life services such as recordkeeping, public safety, health, street repair, trash collection, and the public school system are still in serious condition and still in need of much, much, much improvement.

Just last month the District audit revealed that 20 former District employees who had died have been receiving pension checks. The District still cannot account for its employees whether they are dead or alive.

DELAY IN SCHOOL OPENING

Last September, despite a pledge that all public schools would open on schedule, the opening was delayed due to incomplete repairs. Now, I am totally in sympathy with General Becton, and the city administrators in thinking that the judge that delayed the school opening for minor roof repairs was totally wrong. That simply is not the way business is conducted anywhere at any time. Nobody wants to endanger the children, but a hole in the roof is no reason to close the school.

We cannot, and the Congress will not, allow the District school children to be penalized by another delay. I have talked to General

Becton, and he has assured me that the schools will be ready to open at opening time next August.

POLICE DEPARTMENT RUN BY COMMITTEE

The Police Department is being run by a committee, which is not the best way to run a police department. The memorandum of understanding for the Police Department was set up to study what was wrong with the Department. We have learned that the District of Columbia has more police per capita than almost any major city, but the large majority of them are sitting behind desks.

Just recently we heard the Acting Police Chief, whom I think is doing a good job, has three chauffeurs of her own. For this type of thing to be going on is absolutely ludicrous. There is no reason for the Police Chief to have one chauffeur, much less three.

CRIME RATE

The crime rate is still too high. The District reported over 300 homicides last year. The police force has a deplorable record of apprehending killers.

The D.C. medical examiner is often unable to determine how or why people die.

Citizens complain that not enough police officers have been assigned to the patrol service areas, and I think they are right in complaining.

I will be carefully reviewing the first quarterly report on the 83 patrol service areas that is due Congress at the end of this month. This provision was included in the fiscal year 1998 appropriations bill at my insistence so we can monitor crime reduction in the District's neighborhoods.

We are also aware of the embarrassing circumstances surrounding the resignation of Chief Soulsby.

The District's residents and the thousands of citizens who visit our Capital each year deserve better.

SURPLUS FOR FISCAL YEAR 1997

Last year the District projected a $74 million deficit at the end of fiscal year 1997. Today the District's Chief Financial Officer, Tony Williams, reports a surplus for fiscal year 1997 of $185.9 million. This is the good news, but until District citizens can feel and see the effects of the surplus through a better quality of life and city services, the District will continue to have its problems. We need to improve the services to the city.

Today we are going to hear from three key figures in the District: Dr. Andrew Brimmer, Chairman of the Control Board; Dr. Camille C. Barnett, the District's new Chief Management Officer; and Mr. Anthony Williams, the District's Chief Financial Officer. We hope our distinguished panel will have more good news to report to the committee. We look forward to your testimony.

I am sorry that neither Senator Hutchison nor Senator Boxer was able to join us this morning. Senator Boxer had a couple of questions that she would like to be posed for the record, and we will do so.

Without objection, the record will remain open until 5:00 p.m. on Tuesday, March 24, 1998, for the submission of any additional testimony or response to questions members might have for our witnesses.

I would now like to welcome our first witness, Dr. Camille Barnett. Dr. Barnett, this is your first appearance before the committee, and we look forward to your testimony.

Dr. BARNETT. Thank you.

Senator FAIRCLOTH. I might say for those who are not aware, Dr. Barnett has 27 years of professional experience in municipal management, and she recently served as city manager of Austin, TX, one of the fastest growing cities in Texas. Dr. Barnett, we welcome you.

STATEMENT OF CAMILLE CATES BARNETT

Dr. BARNETT. Thank you and good morning, Mr. Chairman. It is a pleasure to be with you today. As is stated, I am Camille Cates Barnett, Chief Management Officer for the District of Columbia.

MANAGEMENT REFORM

You have my written testimony, and so I want only to summarize a few things in terms of our initiatives for management reform for the District of Columbia. I have some charts here to assist me.

One of the things that I have done, since coming to the District, is to focus the District's activities on a few key goals. I would like to draw your attention to something that we are summarizing as the District of Columbia commitment. It is our commitment to the citizens who live here on what we are doing, as well as to the people who work and visit here. It talks about our vision, our values, and our goals.

The vision statement that we have is that we want the District of Columbia to be a model of the very best of American cities. We need to strive for excellence. We need to use best practices, and we need to work together as one government.

We have two values that underscore everything that we do: customer service and accountability. This is not currently in all cases a service-oriented organization, and we are going to make it one. We are all accountable to the people that we serve.

THREE GOALS

We have three goals. One is to improve customer service. The second is to implement management reform, and the third is to meet our budget targets. All of the work that we are doing in the District can be focused around these three goals.

One of the things that I have done in addition to reviewing the 269 management reform projects, which you have seen, is to conceptualize management reform, and these projects as part of a multiyear change process. We are really changing the way we think.

Senator FAIRCLOTH. Dr. Barnett, how many reform——

Dr. BARNETT. Two hundred and sixty-nine projects have been approved.

Senator FAIRCLOTH. For reform.

Dr. BARNETT. Yes.

Senator FAIRCLOTH. 269.

Dr. BARNETT. 269.

Senator FAIRCLOTH. That constitutes a day's work.

Dr. BARNETT. Yes; I think so. I think it will keep us busy.

One of the things that we have done is to talk about this new management system in terms of quality management techniques and business process reengineering techniques that are familiar not only in the private sector, but increasingly in the public sector.

What we have done is to put together a performance management system. It is based on a simple cycle of plan, do, check, act, where you do some planning, both strategic planning as well as operational work planning. Then you actually accomplish it. You check the results, both in terms of reports that you do on performance measures, but also with your customers to see how well you are doing. Then you take action based on those results. It is a very simple concept that can really transform the way we manage.

PERFORMANCE MANAGEMENT SYSTEM

This is what it looks like when we apply it to the District of Columbia and the initiatives that we have underway. This summarizes the report that we gave you on March 2, 1998, of what we are doing in the District of Columbia to institute a performance management system. The darker blue circles on this chart are things that exist now. The lighter blue circles either exist only partially or we are creating them. Let me briefly walk through this management cycle because it is our philosophy, and it shows you how management reform fits into a new way of doing business.

Senator FAIRCLOTH. Dr. Barnett, may I say there is not any need to rush. We are going to take our time. We are here today to thoroughly review what we are doing and where we are headed.

Dr. BARNETT. Great. My time is your time.

Senator FAIRCLOTH. So, you take your time.

STRATEGIC PLAN

Dr. BARNETT. What we are going to be doing is putting together a 5-year strategic plan for the District. This 5-year strategic plan I hope to accomplish in the next 2 months where we talk about our long-term change process. This 5-year strategic plan will also drive long-term strategic plans in each of the agencies. You see that on the outer circle of the chart.

This 5-year strategic plan then every year has an operational plan, and the inside circle on this chart is really the plan, do, check, act cycle. It goes on an annual basis.

So, you will have a District of Columbia commitment each year, much like the one I just reviewed with you, that is a one-page summary of what we are doing that year. That will be the work plan that has specific projects, timetables, people assigned, performance measures and outcomes.

That annual work plan then drives the budget and the management reform initiatives. Both of those activities are indicated in other circles there.

One of the things that we have done, in conjunction with the Chief Financial Officer, is to institute performance measures

throughout the budget. These measures now are in some cases not totally tracked by the agencies. In some cases they are targets more than they are measures, but we are beginning to look at the budget as performance based budgeting.

We are also tracking performance measures with each of the management reform projects and all of the management reform initiatives.

Those two items, as well as the agency's strategic plan, then work toward developing the annual work plan of each of the agencies. This is what summarizes what that agency is going to do, and it is tied to the budget so that the funding and the plan are matched.

That agency work plan is the basis for individual performance contracts with each of the agency directors.

PERFORMANCE CONTRACTING

We are beginning performance contracting now. I have briefed all of the agency heads on performance contracts. I expect in the next 30 to 60 days to have signed performance contracts with each of the agency heads where they will commit to results to accomplish by the end of this fiscal year.

Senator FAIRCLOTH. May I ask you what is a performance contract?

Dr. BARNETT. Sure. That is a negotiated agreement between me and each of the agency heads on what they will accomplish during the remainder of this fiscal year. Each year we will execute new performance contracts where there will be objectives for each of the years that the agency directors are personally accountable for achieving. A performance contract is a way to make operational this value of accountability and customer service.

Senator FAIRCLOTH. What is the fiscal year here? When does it end?

Dr. BARNETT. September 30, 1998, fiscal year 1998.

Senator FAIRCLOTH. September. Thank you.

Dr. BARNETT. Then these individual performance contracts are the basis for the evaluation of the agency directors and would be the basis for any kinds of increases in pay as well as any kinds of changes in position. I expect that we will be able to do performance contracting with all of the agencies and all of the second tier of the agencies starting next fiscal year.

PERSONNEL REFORM LEGISLATION

In addition, the personnel reform legislation that is making its way through the Council now allows us to tie pay to performance throughout the whole organization. I am hopeful that this concept of performance management is really brought home to everyone in the organization because they will know their part in doing this, and when they know their part, they can be held accountable.

Then we go into the next part of the plan, do, check, act cycle, which is actually producing the results and checking to see what we are doing. I am hopeful that we will be able to get to a point where we will be giving you and others quarterly reports not only on management reform, not only on our financial performance, but also on the operational performance of the city.

We need to be able to standardize our reporting and to connect both the performance and the financing in one document so it is easy for everyone to see what we are doing, what we are accomplishing, and what issues need to be addressed. So, we will be working on redesigning reporting so that it is easier to read, and it is more comprehensive.

CUSTOMER SERVICE SURVEY

But we do not want to just check our results based on reports. We want to see what our customers think. We have done a customer service survey. We did that last year. I am sure you have seen and reviewed the results. They are not good. They are some of the worst results I have ever seen in terms of customers' evaluations of their services. We are not going to be able to say that we have improved customer service until our customers agree with us. One of the things we want to do is to use customer surveys, focus groups, and other ways of thinking through how we are measuring our performance with our customers. That is part of our checking.

When we do that checking, that then feeds back into the long-range planning as well as the next annual plan.

This is what we call our performance management system. We have talked with the agency directors about it. We are beginning to fill in each of the pieces, and I am confident that if we implement this system, we will not have to talk about management reform as a separate initiative. We will not have to talk about a number of separate projects. If we do this, we will have changed the way we manage, and that to me is true management reform.

We are beginning, as is indicated in my written comments, a thorough analysis of all of the management reform initiatives and encouraging and facilitating their implementation through the organization.

With that, I will conclude my initial remarks and be happy to answer any of your questions.

[The statement follows:]

PREPARED STATEMENT OF CAMILLE CATES BARNETT

Mr. Chairman and Members of the Subcommittee: Good morning. My name is Camille Cates Barnett, the Chief Management Officer appointed by the District of Columbia Financial Responsibility and Management Assistance Authority to oversee management reform in the Nation's Capital. I appreciate the opportunity to present testimony on this important topic.

INTRODUCTION

Mr. Chairman, as you know, I have been CMO for about two months, specifically since January 15, 1998. Previous to this position, I have been privileged to hold a number of positions in City government, and in private sector jobs that focused on the improvement of local government services. Most recently, I was employed by the Research Triangle Institute's Center for International Development to implement innovations in the structure and management of cities, primarily in foreign governments.

Previously, I was the City Manager for Austin, Texas, a city with roughly the population of the District of Columbia. In my time at Austin, I believe that the City made considerable progress in improving basic services, and in creating a strategic planning system and a structure for initiating service improvements for years to come. This experience, combined with my 27 years in city management, should prove beneficial as I shift my attention to the problems and challenges of the Nation's Capital.

I believe that the District of Columbia has an historic opportunity. The Authority and the Chief Financial Officer have made considerable strides in the financial recovery of the District. Now, we need to improve customer service and build institutional capacity to sustain those improvements. The National Capital Revitalization and Self-Government Improvement Act (Revitalization Act) provides an effective vehicle for ensuring that we fundamentally restructure the District Government. I am pleased to be a part of the management reform effort outlined by the Authority and submitted to Congress, in accordance with the Revitalization Act.

My focus, as I begin, is on the vision that "The District of Columbia is a model for the very best of American cities." The values that guide us will be customer service and accountability. My primary goals for 1998 are to: (1) improve customer service; (2) implement management reform; and (3) meet budget targets.

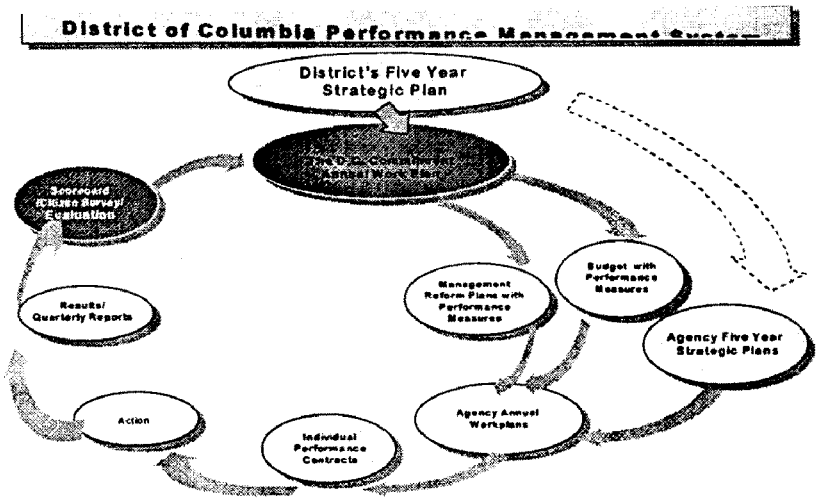
MANAGEMENT REFORM PROGRAM

The goal of management reform is to have government that works for the citizens of the District of Columbia. Management Reform is a multiyear process to change the way we do business in the District of Columbia. As you know, the Authority commissioned studies of the departments, which led to 269 projects being selected for implementation. The departments have reviewed the consultants' reports and begun implementation of some of the projects.

Management reform is more than a list of projects, of course. Reforming management must translate into better performance and improved service delivery. As such, we have begun to develop a comprehensive performance management system. It is a variation of the Plan, Do, Check, Act Cycle of quality management. The system is designed to coordinate and integrate all performance measurement initiatives together in a city-wide organizational framework. This system is described in the Comprehensive Performance Management System Report submitted to Congress on March 2, 1998. The components of this system include:

—The District's five year strategic plan;
—The annual District of Columbia Commitment;
—The District's annual budget;
—The management reform initiatives;
—Agency strategic plans;
—Individual performance contracts;
—Development of Government-wide performance measurement; and
—The District Government performance scorecard.

The performance management system is illustrated below:




The key to management reform is to transform the thinking of our people. We need:

1. *Department heads who know how to deliver services.*—We should not continue to need consultants to tell us what to do—but just to help us implement our plans until we develop sufficient internal capacity. Department heads should be able to efficiently and effectively deliver services. They must implement the needed changes

in business processes. They must be held accountable for the performance of their departments.

*Initiative.*—Department heads will be asked to sign performance contracts which call for them to develop and implement specific outcomes/results for which they will be held accountable.

*Initiative.*—We will recruit for selected department heads where vacancies exist or where performance is lacking.

*Initiative.*—Department heads will develop strategic plans. There will be five year and annual strategic plans for the Government as a whole and for each agency.

*Initiative.*—Consultants will be engaged to reengineer processes and implement reform projects.

2. *A trained, motivated properly equipped workforce.*—Our workforce must be given a chance to succeed by knowing how to properly do their jobs. We must provide them the tools necessary to perform their jobs, such as working phones and management information systems. And, they should have a work environment that is clean and conducive to serving citizens.

*Initiative.*—Implement a working telephone system and develop a phone directory.

*Initiative.*—Implement new automated systems where required.

*Initiative.*—Upgrade the District's Wide Area Network.

*Initiative.*—Resolve year 2000 issues.

*Initiative.*—Continue training the workforce and encourage their attendance at the motivational seminars. Training initiatives include: The Center for Excellence in Municipal Management (CENMS), technology training at the Skill Development Institute housed at the University of the District of Columbia.

*Initiative.*—Conduct a compensation/classification study.

*Initiative.*—Select a vendor to conduct physical assessments of our facilities so that plans can be made to upgrade the facilities.

3. *A fully staffed operational Chief Management Officer's Office.*—Key to the full and implementation of management reform is an effective Office of the Chief Management Officer. So that management reforms do not wait for the recruitment, selection and hiring of key personnel, I am bringing on managers under contracting arrangements to assist in reviewing and implementing the projects and to form a partnership with the agency heads to handle critical operational issues.

4. *Responsive internal service functions.*—Operating departments should be able to procure goods and services without a long burdensome process. Department heads should be able to concentrate on service delivery and not spend time trying to get the resources they need to do a good job.

*Initiative.*—Complete implementation of reforms in the Office of Procurement to streamline the procurement process.

*Initiative.*—Complete implementation of the Comprehensive Automated Personnel and Payroll System (CAPPS).

*Initiative.*—Complete implementation of the Office of the Chief of Technology in order to provide reliable enabling technology and be able to leverage technology to improve productivity.

5. *To explore alternative ways of doing business.*—Just as the private sector is reviewing its activities, determining core competencies and instituting selective outsourcing, so should we. Agencies should be encouraged to recommend alternative ways of operating that would improve service delivery and cost efficiency. The goal should be to consolidate and provide best value to our citizens. It is very important that appropriate contracting mechanisms be in place to monitor contractor performance, to hold them accountable and to control costs.

*Initiative.*—Outsource operation of the data centers.

*Initiative.*—Outsource lease administration.

The departmental management reform projects will result in improved service delivery including:

—Implementing a new motor vehicle information system to improve the turnaround time for obtaining drivers licenses and vehicle tags.

—Purchasing fire and EMS equipment to improve public safety.

—Reengineering business processes and implementing a new automated system in the Department of Consumer and Regulatory Affairs to improve the turnaround time on licenses and permits.

—Implementing improvements in the Department of Housing and Community Development which will provide better expenditure monitoring and control to improve the housing stock.

—Developing a solid waste disposal plan, realigning street cleaning and trash collection routes and consolidating transfer station operations to improve the effectiveness and efficiency of solid waste collection and disposal.

—Creating internal capacity and program delivery to improve the street program.

IMPLEMENTATION PROCESS

On March 26, 1998 there will be a Joint Budget Workshop on Management Reform and Budget Enhancements. This session includes the Mayor, the City Council and the Authority. In preparation for that workshop, the Office of the Chief Management Officer (OCMO) and the Office of the Chief Financial Officer (OCFO) are reviewing the status of management reform and budget enhancement requests. The reviews will have the intent of——

—1. Closing out completed projects;

—2. Determining the status of projects started in 1998;

—3. Determining whether funds will be needed for those projects in 1999;

—4. Determining if the project can be integrated into overall operations or needs to be continued as a management reform project; and

—5. Determining what dollars will be required for consulting services in 1998 and 1999.

The remaining reviews are scheduled for March 16th and 17th. The results of these reviews will be presented at the March 26th workshop.

Interim Deputy Management Officers and other staff from my office will be assigned to the departments to work with departmental personnel to:

—Review the products produced by previous consultants to determine their adequacy and the suitability of that consultant to continue the process.

—Review the proposed scope of work for the new tasks and determine its sufficiency.

Work with the agency to determine whether the task really requires outside assistance or could be performed by internal resources.

—Prioritize or group tasks requested to minimize the number of projects to be successfully managed at once.

—Work with the agency to establish joint agency/consultant teams so as to support internal capacity building and to facilitate integrating the project into normal operations.

—Request proposals where the consultant's expertise may not match the work effort required at this time.

Some of my personnel will be sent onsite to work with the agencies where required to assist in the implementation of reform projects.

IMPLEMENTATION STATUS

Briefly, let me highlight some elements of management reform already underway:

—Both the Office of Procurement and the Office of the Chief Technology Officer have been established. Organizations are being defined and new procedures implemented. Council approval is still needed on some issues.

—A contract has been awarded to Maximus for the implementation of the Human Services reform projects.

—The Office of Personnel reports completion of most of its operational type management reform projects.

—The Department of Housing and Community Development has been told to proceed with tasking of its consultant for implementation.

—The remaining departments are in various stages of review to consolidate their projects and issue either tasks to the current contractors or new requests for proposal.

BUDGETARY ISSUES

We are working with the Chief Financial Officer to present a funding plan to the Joint Budget Work Session on March 26 that funds all 269 management reform projects by the end of fiscal year 1999.

1. Approximately $60 million in management reform funds has been set aside in capital for implementation of the major management reform projects as follows:

*Paygo Management Reform Budget*

[In millions of dollars]

| | |
|---|---|
| Integrated Tax System | 15.7 |
| Telecommunications System | 15.0 |
| Material Management System (Procurement) | 1.3 |
| Year 2000 Compliance | 10.0 |
| Automated Fueling System | 0.5 |
| DCRA-Corrective Actions | 5.8 |
| Motor Vehicle information System | 4.8 |
| Facilities Condition Assessment | 2.0 |

| | |
|---|---|
| Comprehensive Automated Personnel and Payroll System (CAPPS) | 5.0 |
| Total | 60.1 |

2. Personnel in this office will assist the departments with implementation of their management reform projects and will manage and monitor operational issues. Further, this office will centrally manage some of the major management reform initiatives.

3. 1998 funding will be required to implement the Office of Asset Management. The Facilities Assessment is included in the capital budget, but additional operating funds will be required to combine functions, obtain consulting assistance and fully staff this Office.

4. The 1999 Management Reform budget requests will most likely include some organizational realignment, which could include the creation of some new entities. The CMO is currently reviewing these issues and will present these reorganizations during budget discussions.

In conclusion, Mr. Chairman, I want to thank you and the subcommittee for your leadership and interest in the revitalization of the District of Columbia. I hope this information has been helpful, and I will be able to supply you with information in much greater detail shortly.

I look forward to the work in front of us—if we are successful, the District and its residents will receive the quality services that they deserve.

I would be pleased to respond to any questions that you or other members of the subcommittee wish to ask at this time.

Senator FAIRCLOTH. Thank you, Dr. Barnett.

We will ask Dr. Brimmer to come forth with his statement. Dr. Brimmer is Chairman of the D.C. Financial—Dr. Brimmer, we use the proper name so seldom—D.C. Financial Responsibility and Management Assistance Authority. He has a distinguished career in both the public and private sector. Dr. Brimmer, it is always a pleasure to receive you.

Dr. Barnett, I just want to say one thing. Just one word you kept using, and I was delighted to hear, referring to those people that do business with the city as customers or clients. I think for so long here the people who had to do business with the city were viewed by city employees as in-the-way irritants, and I am delighted to see we are referring to them differently.

Dr. Brimmer.

STATEMENT OF ANDREW F. BRIMMER

Dr. BRIMMER. Thank you very much, Senator.

Since this is the first time I have had an opportunity to appear before this committee since the full implementation of the Revitalization Act signed in August 1997, I want to take a little time to——

Senator FAIRCLOTH. Well, we are not in a rush for time here today. We are here to get to the facts.

Dr. BRIMMER. Thank you very much.

I have a prepared statement. I will ask that it be included into the record in full.

Senator FAIRCLOTH. Without objection, it will be.

Dr. BRIMMER. Some of what I will say sounds better, to me at least, if I speak it rather than just reading it.

Senator FAIRCLOTH. You speak it as you see fit.

MANAGEMENT REFORM ACT

Dr. BRIMMER. From the point of view of the Authority, management reform really began with the Congress' adoption of the Management Reform Act in 1997. As you all know, Senator, you were

responsible substantially for that part of the act, and we proceeded to implement it promptly.

You might recall that the Management Reform Act provided that in carrying out the reforms, the nine key departments were to report solely to the Authority. It also provided that for four cross-cutting citywide functions, the same arrangement was to prevail. Each member of the management reform team was to take any and all steps within the member's authority to implement the terms of the plan under the direction of and subject to the instructions of the chair of the Authority or the chair's designee.

Thus, Congress expected that the Authority would undertake a far-reaching program of management reform to implement services for the District government, acting through its designated agents and exercising control over the nine departments and four governmentwide functions.

IMPLEMENTATION OF MANAGEMENT REFORM PLANS

Implementation of these management reform plans requires supervision of the day-to-day operations of the government to achieve their purpose. When the Authority accepted this responsibility, we stated that we would engage a Chief Management Officer to whom we would delegate the assignment.

AGENCIES REPORTING TO AUTHORITY

An order of the Authority, issued on August 5, 1997, required the heads of each of the nine departments and each governmentwide function to report to the Authority and to act under the direction and subject to the instructions of the chair of the Authority with respect to the exercise of all powers and performance of all the duties of the office. Using my options, I have instructed the heads of these departments and functions to report to the Authority through the chief management officer.

Mr. Chairman, I pause to emphasize the reporting arrangement because there is some question that has been raised as to whether the Congress intended that the heads of the departments should report to the Authority, as opposed to the traditional reporting arrangements whereby they had reported to the Mayor. We have interpreted that to mean that Congress meant what it said, that these departments report to the Authority solely, and we are acting on that assumption.

MANAGEMENT REFORM TEAMS

The Management Reform Act stipulated that management reform teams would be established to implement reform plans recommended by consultants and approved by the Authority.

Senator FAIRCLOTH. Dr. Brimmer, I just might interject that that part of the plan was not drawn lightly, carelessly, or flippantly. That is exactly what it meant.

Dr. BRIMMER. Thank you. That is our interpretation.

Senator FAIRCLOTH. There is no other way to interpret it.

Dr. BRIMMER. Thank you.

Senator FAIRCLOTH. If you read the English language.

Dr. BRIMMER. Thank you.

Now, the teams consist of the Mayor, the chair of the Council, and the chair of the Authority, and we have been working to implement the plans, but the implementation is really the responsibility under the statute of the department heads, and we have delegated that to the Chief Management Officer. That is the framework within which we are working.

MANAGEMENT REFORM PLANS

Since the passage of the act, the Authority has moved aggressively to develop and to implement management reform plans to address service delivery. The Authority has developed those plans. In many areas we already have begun to fix the problems, and we are beginning to deliver some improvements in services.

The Management Reform Act declared vacancies in the position of agency director of the nine agencies. As I said, the act itself began the management reform process. As a result, the Authority named acting heads for each of the agencies and functions. In subsequent action, the Authority named permanent agency heads. Some of them were recruited from outside the government, and others were persons who were serving in other capacities but who in our judgment had the capacity and the ability to assume these responsibilities of pursuing management reform and improving service delivery.

CHIEF MANAGEMENT OFFICER

To carry out its responsibilities in accordance with the act, the Authority also created the position of Chief Management Officer. In announcing this decision, I stated that the person appointed to that position must have substantial, high-level experience in municipal management. The task of identifying and recruiting a CMO has already begun, I said, and it will be accomplished promptly.

We accomplished that. After a nationwide search, we were able to identify Dr. Camille Barnett, and we selected her to be the CMO. I should say, Mr. Chairman, that the response to our search was very strong. We had a number of very promising candidates, and Dr. Barnett stood out head and shoulders. I want to stress that again. She was not competing against second-raters. We had a very rich list of candidates, and she was the best of the lot, and we selected her solely on that basis.

Senator FAIRCLOTH. I think we are all proud of your selection and looking forward to seeing her show us that you made the right one. [Laughter.]

Dr. BRIMMER. Thank you.

OFFICE OF CITY ADMINISTRATOR

I will also note that as part of the process, the Office of City Administrator is currently downsizing its operation. Previous to the passage of the Revitalization Act, the City Administrator's Office was responsible for the management oversight of most District government agencies. Since the Authority has been mandated by Congress to assume responsibility for the majority of these functions, both in terms of personnel and budget, the Authority is working closely with the Mayor to restructure the City Administrator's Of-

fice to ensure that its resources are in line with its current responsibilities. Thus, we expect that the size of the City Administrator's Office will decrease in the coming months.

Let me pause and amplify on those comments because I know that the committee is interested in that matter, and I may as well answer it directly at this point.

Before the act transferred oversight responsibility of the nine departments and four agencies, the City Administrator, acting under the Mayor's direction, had oversight responsibility for about 75 percent of the employees in the District government and for about 85 percent of the budget. If we add in the Police Department, the numbers increase. If we look at the City Administrator's Office then, that office had 29 persons and a budget of about $4 million.

With the transfer of the responsibility to the Control Board and our delegation of the day-to-day oversight of the bulk of the government to this CMO, there is no need for a City Administrator's Office of the magnitude and the level of resources we just described.

So, we are in the midst of conversation with the Mayor right now to restructure that office and to reallocate and reprogram those resources. The conversation, as I said, is going on and has not been concluded. We have some differences of opinion, but I am confident we will resolve those in the near future and that the office will be refashioned and revamped because we do not need two persons, two offices, with the level of responsibility we have just described.

SERVICES OF CONSULTANTS

Now, with respect to the management reform legislation, it was required that the Authority obtain the services of consultants within 30 days. These consultants were supposed to review the departments and make recommendations for improvement.

We met the deadline. We engaged those consultants, and they made recommendations. As was already mentioned, we, in fact, are implementing those reform plans.

In developing the management reform plans, the consultants first conducted an assessment of the program. Basically, Mr. Chairman, I have characterized their work as the first round of effort at problem finding. They found a lot of problems. The second phase of their work I have described as problem solving, and they have done that. Now the implementation is up to us. As already stated, we are in the midst of doing that right now.

Briefly I wish to indicate to you the range of the management service delivery problems that will be addressed by management improvement projects. As mentioned, we did in January 1998, submit a report to the Congress. It had some 269 improvement projects. All of those projects cannot be implemented simultaneously. We have approached the matter roughly as follows.

There are a number of proposals that cut across the city. Many of these deal with information systems, communications. We will need to invest substantially in the improvement of computers, telephones, other communications activities. Let me give you one example.

MOTOR VEHICLES

Motor Vehicles is far behind in its improvement of systems and the acquisition of computers so that Motor Vehicles has been unable to respond to the public in a timely fashion. Moreover, the systems are so decrepit that Motor Vehicles cannot provide the assistance which we normally would provide for police and others because of the fact that its records are in such poor shape.

CONSUMER AND REGULATORY AFFAIRS

Consumer and Regulatory Affairs issues thousands of licenses to businesses and others. It has a wide range of responsibilities. So, while I had low expectations of what they would find, I was really stunned to find that in that department much of the work is still done on 3 by 5 cards. Many fees are not collected because they cannot perform.

They need improvements in equipment and systems, and above all—and this cuts across the government as well—while the District has many, many employees that you just noted, thousands of employees, the level of training of employees has been abysmal. The city simply has not kept pace with the requirements. Because of the early retirement program in effect a few years ago, the city lost a substantial number of its skilled employees who were the more experienced employees. They have not been replaced by persons who were equally able.

So, we can talk in greater detail about the individual projects, as you wish, but I want to stress that we are underway, and we will be able to finance the services of the projects. Let me talk a little bit about that.

Thanks to your efforts, sufficient resources—I want to take note of that. You started us off with $8 million. The Congress approved the use of the net benefit of the Revitalization Act, which was appropriated to the Authority, some $200 million. We said that if Congress were to appropriate that to us, we would use it to finance a number of improvements in the government. Our first task, of course, is to use some of that surplus to make certain we reduce the deficit.

We said also that we would set aside $30 million to pay for productivity and management improvements.

So, we got the $8 million you provided, $30 million from the net benefit earmarked.

BORROWING

We said we would also use $3.5 million to pay the cost of borrowing $50 million in additional capital funds. We have decided to do that. We will borrow an additional $50 million, and we will allocate about——

Senator FAIRCLOTH. You did decide to borrow.

Dr. BRIMMER. Yes; we have decided.

Senator FAIRCLOTH. To borrow.

Dr. BRIMMER. We will borrow the additional $50 million in capital. I instructed the staff yesterday to combine that $50 million for capital purposes with the city's planned borrowing of $150 million.

I see no point in having two borrowings for the same purpose. So, that will go forward in the next few weeks.

Of the $50 million of borrowed capital proceeds, we will use $10 million to aid the schools in their capital expenditure program. We will use another $10 million explicitly for public works, to provide capital expenditures for public works. That will leave $30 million which we will use to finance some of the capital components of the management reform program. So, that will give us immediately $68 million of funds available promptly.

It turns out that there were some capital funds already appropriated in the 1998 budget, and those have been identified, and those funds will also be earmarked for improvements.

IMPLEMENTATION OF MANAGEMENT REFORM PROGRAMS

Mr. Chairman, the implementation of a number of the management reform programs will result in some savings, cost avoidance, or some revenue generation. We believe that additional revenues of about $140 million would be available. Those figures are being refined. Mr. Williams, the Chief Financial Officer, and his staff are working to do that.

The basic point I want to make is that the implementation of the management reform programs will not be hampered by lack of funds. We will make certain the funds are available to do that.

As I said earlier, the projects are being scheduled. We anticipate that we can make some start on most, the substantial proportion of those, but a number of these are multiyear projects. So, some will get started this year. They will continue into next year and the funds should be available because we have identified the funds to the project. Once we have committed those funds to finance the project, they should be available until the end of the project. My budget people tell me that this is an interpretation which is consistent with the appropriation language because we said to the committee and to the Congress that we would use the funds to finance the projects. So, in our view these funds' availability should not lapse at the end of this fiscal year. Now, Mr. Chairman, I could amplify that somewhat more fully if you wish.

But let me say that the next steps with respect to implementation have been described amply by Dr. Barnett. This is now her responsibility. We on the management reform teams will support her in every way, and the steps she has described will be implemented promptly.

Rest assured that the Authority has fully backed the management reform efforts. All of us are working hard at it. We are confident that the benefits we have projected will accrue and that we will, in fact, see an improvement in service delivery and some improvement in the management of the city's business. As I said, we started with the passage of the act. We have new people in place. Others are being recruited, and I am quite confident that we will fulfill the mandate which Congress gave us.

Thank you very much.

[The statement follows:]

## PREPARED STATEMENT OF ANDREW F. BRIMMER

Mr. Chairman and Members of the Subcommittee: Good morning. My name is Andrew F. Brimmer, and I am Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority (Authority). Accompanying me this morning is Dr. Camille Cates Barnett, the Authority's Chief Management Officer. I appreciate the opportunity to appear before the Subcommittee today to discuss management reform of the District of Columbia government.

### INTRODUCTION

Mr. Chairman, the National Capital Revitalization and Self-Government Improvement Act (Revitalization Act), which was signed by the President on August 5, 1997, included the Management Reform Act which required that the Authority engage consultants to develop and to implement management reform plans to improve public services for the following departments and government-wide functions: Administrative Services; Consumer and Regulatory Affairs; Corrections; Employment Services; Fire and Emergency Services; Housing and Community Development; Human Services; Public Health; Public Works; Asset Management; Information Resources Management; Personnel Management; and Procurement.

The Department of Administrative Services encompassed the government-wide functions of information technology, procurement and real property asset management. With the implementation of management reform plans, the Department of Administrative Services will cease to exist as a separate entity. The heads of these separate functions will report directly to the Chief Management Officer (CMO).

### AGENCY REPORTING RESPONSIBILITIES

Management Reform of the District Government is a considerable undertaking, but the Authority is committed to the results such reform can achieve in terms of improved public service delivery. For the Authority, management reform began when we accepted the Congressional mandate to implement the legislation and to effect a reorganization in the leadership and responsibilities of major public agencies.

In the Management Reform Act, Congress provided that, "in carrying out any of the management reform plans," the "head of a department" of the District government "shall report solely" to the Authority.

With respect to the four government-wide functions, Congress directed that "each member of the management reform team shall take any and all steps within the members' authority to implement the terms of the plan, under the direction and subject to the instructions of the Chair of the Authority (or the Chair's designee)".

Congress thus expected that the Authority would undertake a far-reaching program of management reform to implement services for the District government, acting through its designated agents and exercising control over the nine departments and four government-wide functions. Implementation of these management reform plans requires supervision of the day-to-day operations of the government to achieve their purpose. When the Authority accepted this responsibility, we stated that we would engage a Chief Management Officer to whom we would delegate the assignment.

An Order of the Authority on August 5, 1997, required the head of each of the nine departments and each government-wide function to "report to the Authority and act under the direction and subject to the instructions of the Chair of the Authority with respect to the exercise of all the powers and the performance of all the duties of the office." Using my options, I have instructed the heads of these departments and functions to report to the Authority through the CMO.

### MANAGEMENT REFORM PROGRAM

The Management Reform Act stipulated that management reform teams would be established to implement reform plans recommended by consultants and approved by the Authority. The management reform teams consist of the Chairman of the Authority, the Mayor, the Chairman of the Council of the District of Columbia, and the head of the affected department. To ensure that the management reform teams are knowledgeable about the plans and projects prior to their implementation, and to facilitate the participation of the elected leadership in the development of the plans, teams were established and convened early in the reform process, and the participation of all parties was sought and provided.

Since the passage of the Management Reform Act, the Authority has moved aggressively to develop and to implement management reform plans to address service delivery problems facing the District of Columbia government, and to establish the

capacity and capability for permanent and continuing improvement in government operations. The Authority has developed those plans and, in many areas, already has begun to fix the problems of poor service delivery to our citizens.

The Management Reform Act declared vacancies in the position of agency director of the nine agencies. As a result, the Authority named acting heads for each of the agencies and functions, in subsequent action, the Authority named permanent agency heads. Some of them were recruited from outside the government. For example, Richard Fite, the Chief Procurement Officer, came to the District after a career with the Ford Motor Company. Others, such as Ms. Jearline Williams, Director of Human Services, were already employees of the District Government.

To carry out its responsibilities in accordance with the Act, the Authority also created the position of Chief Management Officer. In announcing this decision on August 5, 1997, I stated that "The person appointed to that position must have substantial, high-level experience in municipal management. The task of identifying and recruiting a CMO has already begun, and it will be accomplished without delay."

The Authority undertook a nation-wide search for the Chief Management Officer to assist us in implementation of the management reform plans and the operations of the departments and functions under our purview. After completion of the search and interviews with leading candidates, the Authority on December 22, 1997, announced the selection of Dr. Camille Barnett to be the CMO. She is charged with overseeing the implementation of the management reform plans and working on a daily basis with agency directors. Dr. Barnett, a former City Manager of Austin, Texas, began her employment on January 15, 1998. The CMO reports to the Authority through the Chairman, and she is already working to improve management practices and the reform of city services. The CMO is appointed for a fixed term of five years.

I would also note that, as part of this process, the Office of the City Administrator is currently downsizing its operations. Previous to the passage of the Revitalization Act, the City Administrator's office was responsible for the management oversight of most District Government agencies. Since the Authority has been mandated by Congress to assume responsibility for the majority of these functions—both in terms of personnel and budget—the Authority is working closely with the Mayor to restructure the City Administrator's office to ensure that its resources are in line with its current responsibilities. Thus, we expect that the size of the City Administrator's Office will decrease in the coming months.

MANAGEMENT REFORM PROCESS

The Management Reform legislation required the Authority to obtain the services of consultants within 30 days of enactment. Therefore, on August 20, 1997, the Authority issued a solicitation requesting proposals for assessing, developing, and implementing management reform plans. One hundred and thirty-three solicitations were distributed, and 71 proposals were received and evaluated. By September 4, 1997, within the 30 day requirement, contracts were awarded to management and program experts. The total cost was $6.6 million. On January 2, 1998, within 120 days of obtaining the consultants, the Authority submitted the management reform plans to Congress.

In developing the management reform plans, the consultants first conducted an assessment of the management and program operations of the agencies and District wide functions enumerated by law. The assessment entailed the review of strategic plans, organizational structures, service delivery systems and processes, and the actual delivery of services to citizens. The consultants were instructed to solicit the views of citizens, stakeholders, and employees at all levels, as well as to review existing analysis and studies where available. Citizen surveys, group meetings, and interviews also were conducted to provide insight into satisfaction levels with service performance, and to obtain recommendations on how to improve service delivery.

As the Authority discussed in its report to Congress, the assessments documented serious deficiencies in how the agencies were delivering public services. The findings ranged from the lack of capable staff with the requisite skills to do their jobs; the presence of outdated and, in some instances, obsolete technology to support service delivery; inadequate business practices; and an absence of effective cost reduction methods.

The second step in developing the management reform plans consisted of the identification of management improvement projects that would address the many deficiencies cited by the contractors during the assessment phase. On October 25, 1997, the consultants submitted recommended improvement projects, which outlined the costs and benefits of implementing the projects and the capacity of agencies to im-

plement them. Then, on November 25, 1997, the consultants submitted the final management reform plans, containing 340 management improvement projects.

Through a collaborative process with the members of the management reform teams, the Authority reviewed and selected 269 management improvement projects to be included in the management reform plans. The selected projects, once implemented, will have an immediate and long-term impact on the provision of public services. The projects will address serious deficiencies in infrastructure and organizational capacity, and will help to alter fundamentally how services are performed. Some projects will reduce costs, while others will generate increased revenues.

REFORM ISSUES

Briefly, I wish to indicate to you the range of management and service delivery problems that will be addressed by management improvement projects. They include some of the following:

—In the Department of Human Services, contractors found that the organizational structure and current staffing patterns needed to be aligned more effectively with the priorities of the agency. The DHS Management Reform Plan includes projects to eliminate the Office of the Commissioner for Social Services and consolidate functions into the Office for Social Services, to out-source some functions of the Office of Facilities Management, and to establish generally a new administrative structure.

—Contracts are developed in agencies without benefit of a District-wide Procurement Policy and Procedure Manual, or without any commonly-accepted quality assurance standards. Performance based Statements of Work, objective comparison of bids, and contract management practices are of poor quality. The lack of standards makes it time consuming and expensive to do business with the District, and risks supplier protests, which in turn disrupt contract executions. The District will develop a procurement and operations manual to provide standards and contract formats, so as to ensure consistent and uniform performance.

—The Department of Consumer and Regulatory Affairs collects over $25 million in revenue each year, primarily from permit and license fees. However, it does not have a policy for setting permit and license fees, and the agency does not review them periodically. A comprehensive review of all fee schedules and the development of a policy for setting permit and license fees is one element of the management reform plan.

—The District will implement a one-stop shopping system in the Bureau of Motor Vehicles, similar to systems in the states of Virginia and Oregon, which will reduce customers' waiting time by 50 percent.

—In the Department of Housing and Community Development, the consultants found weak loan underwriting and monitoring procedures, poor financial record keeping, and high loan default rates which have jeopardized program performance and future funding. The Department of Housing and Community Development Management Reform emphasizes outsourcing loan underwriting and other loan servicing functions.

—The fire death rate per capita in the District is 60 percent above the national average. Response times for advanced life support calls are extraordinarily high on the average, and do not come close to meeting national goals. One project for addressing response times is the development of a Fire/EMS automatic vehicle location system to facilitate dispatch of vehicles.

—Fundamental communication needs are unmet due to a failing and archaic telephone system. This problem negatively impacts staff productivity and service delivery, and increases the cost of doing business. Forty percent of the District Government's telephones are of the rotary style, and many lack telephone features such as voice mail and transfer capabilities. The plan calls for replacing the District's telephone system.

—In the Department of Health, at a time of scarce resources, an average of 25 percent of grant funds was not expended in fiscal years 1991 through 1997. The Department of Health plan contains a project to redesign grant management operations in order to utilize better available funds to provide more effective services.

REFORM PLAN COSTS AND IMPLEMENTATION

Mr. Chairman, it is important to state that, thanks particularly to your efforts sufficient resources exist to support implementation of the management reform projects in fiscal year 1998. To fund the projects, a variety of sources will be used. The CMO, working in collaboration with the Chief Financial Officer of the District,

have reviewed the estimated needs for expenditures on management reform activities. They report that there is approximately $47 million contained in the consensus operating budget, and approximately $79 million contained in the capital budget. The total estimated cost for management reform projects in fiscal year 1998 is $126 million.

This is partially financed from the operating budget by the direct appropriation of $8 million contained in the Fiscal Year 1998 District of Columbia Appropriations Act, $30 million we have anticipated using from the net benefit generated by the Revitalization Act's implementation, and $9 million that was already in the budget. In addition, we anticipated an increase of $50 million in capital borrowing, to be combined with the $29 million for management reform projects that were already included in the estimated fiscal year 1998 capital program. Finally, it is expected that some of these projects will result in cost savings, or additional revenues estimated to total $140 million, which can be used to support the projects in future years.

To ensure that sufficient resources exist to support the projects, it will be critical to track the spending and revenue streams associated with each project. Working with the Chief Financial Officer, we are in the process of developing detailed spending plans to accomplish this task.

The Authority has instructed the department heads to implement all of the selected reform plans, both those which can be effected immediately, and projects which first require additional scheduling and coordination. There are opportunities to address performance problems, to make employees more productive, to increase revenues, and to improve service delivery. Some projects are already being implemented. They range from stabilizing the Motor Vehicle Information System at the Department of Public Works to strengthening the Special Operations Function of the Fire Department. All of them will give citizens better quality services at lower cost.

NEXT STEPS

Mr. Chairman, the Authority looks forward to the implementation of the reform plans, and to the revitalization of City services that will be improved as a result of this program. The Authority will continue its collaborative approach with the management reform teams to ensure that all actions are taken to ensure implementation of the reform plans. Moreover, the Authority, members of the District Council, and the Mayor are engaged in a series of meetings that will lead to the development of a consensus budget and financial plan for fiscal year 1999.

In the weeks and months ahead, the Authority, utilizing the offices of the Chief Management Officer and the Chief Financial Officer, will work to integrate important elements of the District's overall reform structure with the Management Reform Act's efforts. First, we will require that agencies engage in a strategic planning process that focuses on their appropriate mission, goals and objectives, to ensure that they are supported by the reform plans. Furthermore, under the CMO's direction, the District is developing a Comprehensive Performance Management System to coordinate and integrate all performance measurement initiatives together in a city-wide organizational framework. The details of this Comprehensive Performance Management System and a timetable for its implementation were submitted to the Congress on March 2, 1998. Additionally, we will ask that agencies, as they develop such plans, to link performance outcomes to budget factors. Implementation of the reform plans should reflect these factors, and we look to the CMO and the CFO to ensure their effective implementation.

The Authority will, through the CMO, use a centrally-managed automated project tracking system to monitor the effective implementation of the Management Reform Plans. The data base will contain the detailed plans for each management improvement project. The data base will stipulate the time frames, the major tasks, and the person responsible for each major task. We will also refine the performance measures for each management improvement project. In turn, this will help us to determine the progress made in implementing the projects and the impact of the projects on service delivery.

The Authority will provide regular updates to the Congress and the public on the progress made in management reform plan implementation. We wish to make sure that information is widely available to the public on the improvements in City services, and we will use, where appropriate, the Internet, timely public briefings, and other means to ensure communication with all stakeholders. Finally, the Authority will continue its regular survey of citizens to measure the impact of service delivery improvements on residents' daily lives.

The Authority will produce swift and sustained improvements to the quality of life of District residents and visitors—positive change that our citizens can measure and support on their own. We believe that the District can achieve sustained improvement in City services with a determined implementation of this reform program.

Mr. Chairman, that concludes my prepared testimony. I would be happy to respond to any questions that you or other members of the Subcommittee have at this time.

Senator FAIRCLOTH. Thank you, Dr. Brimmer, and thank you for the report.

Before we get into questions and more discussion than questions, I would like to hear from Mr. Tony Williams. If we could first take just a brief break.

[A brief recess was taken.]

Senator FAIRCLOTH. Thank you. The hearing will come to order, and we will hear from Mr. Tony Williams, the Chief Financial Officer.

STATEMENT OF ANTHONY A. WILLIAMS

Mr. WILLIAMS. Mr. Chairman, thank you for the opportunity to testify today before the subcommittee. It is always a pleasure, and I would like to thank the subcommittee for its support in our efforts to improve the financial and fiscal status of the District over the last year, calendar year 1997.

If I may, Mr. Chairman, I have some charts I would like to use to illustrate some of my points.

Senator FAIRCLOTH. Any charts. As I said earlier to the other people, there is no rush. Take your time.

Mr. WILLIAMS. OK, Mr. Chairman.

POSITIVE FINANCIAL NEWS

Our written testimony has been submitted for the record.

I want to start by just highlighting for the committee some of the recent positive financial news that we have seen in the District and some of the issues behind this good financial news.

CLEAN AUDIT

I would start first and foremost with the clean audit that the District received, the unqualified opinion, on our 1997 financial statements. This was the first unqualified opinion in some time for the District. I think it represents a number of things. It represents, one, the fact that we have at least met the minimum acceptable accounting standards in terms of our processes and procedures that produce those reports and allow those reports to be judged fairly with other institutions like the District. So, investors, stakeholders, citizens, this Congress, the leadership in general can make informed decisions, and I think that is important.

I think it also represents, Mr. Chairman, some significant achievements we have made in bringing our people, our employees, up to a higher level of service. There was a lot of consternation, a lot of questions about the introduction of the new financial management system and whether our people were ready to accept the challenge of implementing and managing that system. I think the fact that we are able to challenge our people, bring them to the

level of producing this clean audit says a great deal about their ability and capacity as we move forward.

BALANCED BUDGET

Next, let me talk about the balanced budget. Mr. Chairman, the surplus that we produced in fiscal year 1997 was a result not only of a robust economy—that certainly contributed to an increase in income revenues for the District—no question about it—but very, very importantly, improvements in tax administration, tax collection, and improvements in our funds control and reporting also contributed to the budget surplus. All those factors, I think, contributed to that improved fiscal outlook in 1997.

TAX SYSTEM

Just to give you an example of how we have improved the tax system—I may not have shared this with you, Mr. Chairman, before, but last year as of this date, I think we had processed on the order of magnitude maybe 150 tax refunds that we had sent back to citizens. That is not in thousands. That is 150. This year we have sent back over 30,000. Last year the cycle time for tax refunds was 4, 5, 6 months, God knows how long. This year our cycle time is something like 15, 16 days. We have made a commitment to process our refunds ahead of the IRS. We are doing that as I speak, and I am very proud of that. I would like to thank Dr. Nat Ghandi, our Tax Director, for a lot of his work in bringing us to that point.

Senator FAIRCLOTH. Last year we had sent back 159 refunds.

Mr. WILLIAMS. I may be off by 100, but an extremely low number.

Senator FAIRCLOTH. And this year you are at 30,000.

Mr. WILLIAMS. Over 30,000 now have been sent back.

Senator FAIRCLOTH. Well, talk about spectacular turnarounds. That is one.

CASHING CHECKS

Mr. WILLIAMS. Another, Mr. Chairman, is posting, cashing our checks within 24 hours. John Hill, the Executive Director of the Authority, and I were out visiting California and their introduction of a new tax system, and they were showing us their floor, their management floor, where they literally had runners pick up checks and rush them to the bank. We were comparing this with the District where last year I was getting calls from folks. One gentleman called me and said that he had sent a check of $60,000 to the District and would we please get around to cashing it because it had been something like 3 or 4 months.

Senator FAIRCLOTH. $60,000.

Mr. WILLIAMS. $60,000. Dr. Ghandi implemented a policy where checks are deposited on a 24-hour basis. We now have cashed over $40 million in checks, and on that basis will save the District $4 million a year on interest alone.

INVESTMENT GRADE

So, with these different improvements, we have reentered the public market. Even though our credit rating is still below investment grade, we are trading on an investment grade basis. As you know, Mr. Chairman, we have enjoyed two rating upgrades now, one from Moody's and one from Standard and Poor's, which put us on the threshold of investment grade.

I have talked about the budget surplus. We are paying our vendors on time, and as we speak under the direction of Dr. Barnett and our new Procurement Director, we are integrating our financial operations and procurement operations to see that the remaining vendor payment problems are addressed and rectified.

FINANCIAL REPORTING

Finally—and something that we are very proud of—we are providing decisionmakers throughout the District with consolidated, streamlined financial reporting. It is not on the speed we would like. It is still 60 days old, but I think we have come light years, given the fact that we have an inadequate and decrepit financial management system.

So, Mr. Chairman, on the basis of these improvements in our financial and fiscal affairs, I think we can see now a difference in our general fund revenue and expenditure patterns.

In this first chart, we basically show the period from 1994 to 1997, and we see before 1996 expenditures trending ahead of revenues in the District, and we see in 1997 that red line diving below the black line, the revenue line, for the first time.

In the second chart, we see——

Senator FAIRCLOTH. The red line is the——

Mr. WILLIAMS. The red line is expenditures.

Senator FAIRCLOTH. And the dark blue line is——

Mr. WILLIAMS. Total revenues in the general fund. So, you see on the basis of the work that we are doing, the Authority, and the work of this committee with the Revitalization Act, you can look now, projecting 1998 to 2002, and see that revenue line running ahead of the expenditure line.

Mr. Chairman, that is good news for the District, and it shows that we are now facing the potential for real structural balance in the District. I say potential because, I think as Dr. Brimmer would agree, this balance is tentative, fragile, and subject to change. I think, as the Authority would also agree, the District still faces, notwithstanding this good financial news, a number of deficits.

TAX DEFICIT

One deficit I would call our tax deficit. If you take information technology firms, biotechnology firms, services, associations, we tax these folks too much to be competitive.

Senator FAIRCLOTH. Would you say that again?

Mr. WILLIAMS. Information technology firms, biotechnology firms, service firms, and associations, all of these entities are taxed on a noncompetitive basis in the District. We tax them much higher than surrounding jurisdictions, and this does not put the District in a competitive position going forward.

REVITALIZATION ACT

Even though the Revitalization Act has meant a lot for us in terms of our fiscal status, and our net benefit from the Federal Government has increased since the Revitalization Act, there is still a deficit between what we feel the District deserves, if you will, from the Federal Government and what we have actually obtained.

CAPITAL DEFICIT

There is a capital deficit that remains in the District both on the physical side and the human side. A study of the schools has shown that there is $1 billion left in capital investment. The U.S. Department of Transportation has shown that there is a $2 billion capital deficit.

Senator FAIRCLOTH. How much?

Mr. WILLIAMS. Two billion dollars, sir, for public works, transportation, and a study last year by the schools showed a $1 billion capital shortfall. So, there is a huge capital shortfall in the District.

Senator FAIRCLOTH. Did you say there was a $2 billion capital deficit for public works as in streets and——

Mr. WILLIAMS. Yes, sir, bridges, public works in general, streets, sewer systems, all of the capital you need to have a solid public works infrastructure in the District.

Senator FAIRCLOTH. Thank you.

SERVICE DELIVERY DEFICIT

Mr. WILLIAMS. Then finally, Mr. Chairman—and this gets us to the next point and the whole reason for the management reforms—a service delivery deficit. And it is in service delivery, coupled with economic development and tax restructuring, that we can boost the city's economy and improve its revenues.

BUDGET PROCESS

Which allows me to wrap up, Mr. Chairman, with this final chart. The Chief Management Officer, Dr. Barnett, and I, working in conjunction with the Authority and under the direction of Dr. Brimmer, based on legislation by this committee that gave the District the ability to streamline and reorganize the budget process, are focusing in this year's budget process, which includes the Financial Authority, the Mayor, and the Council, on 10 key areas.

One, financial management, meeting some key financial targets. Obviously they are subject to policy, but they are general goals we all want to shoot for, whether trying to create structural balance in the District, creating a reserve fund or trying to manage our debt load better.

Management reform, the purpose of the hearing today.

A comprehensive labor strategy, matching pay and performance on a consolidated basis, I believe, under the direction of the Chief Management Officer.

Tax restructuring we have talked about already.

Federal relations. I think the committee is well aware of all of those issues.

Capital priorities. We have talked about the capital deficit in the District.

RECEIVERSHIPS

Managing the receiverships, a big joint effort on all of our parts, under the auspices of the Chief Management Officer and the Authority, to try to enter successfully and ultimately collectively with all of the receiverships into an agreement that would allow the District to be assured that it will move out of these receiverships by improving service delivery in these key areas, whether it is foster care or mental health or whatever.

I would personally think that the Congress would pay a lot of attention to that because I think that the District itself in general is in fix-up mode, and the courts have ordered fix-up mode in some of these receiverships. And there may be some way to try to reconcile all the fix ups so that we are working on a coordinated basis.

D.C. public schools is a big funding issue for the District.

Health care policy, trying to get the most bang for our buck in health care.

And then, finally, all the different program enhancements that will be part of the overall improvement efforts of the Chief Management Officer.

Mr. Chairman, those are the 10 issues that we face and why I think the 1999 budget is one of the most important budgets the District is going to formulate and enact.

With that general testimony, Mr. Chairman, I would be happy to answer any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF ANTHONY A. WILLIAMS

Chairman Faircloth, members of the committee, my name is Anthony Williams and I am the Chief Financial Officer for the District of Columbia. Thank you for this opportunity to testify on the issue of management reform in the District, specifically with respect to the financing of these reforms and its associated effect on the District's financial and fiscal stability. In addition, you requested that I discuss the current status of the new financial management system and any other important issues facing the District.

BACKGROUND

The District's recent financial crisis was years in the making. Poor financial management practices that had been masked in the 1980's by the healthy stream of real estate revenues became acutely obvious in the 1990's. The District faced a bleak revenue picture, both because of a shrinking tax base and an ineffective tax collection system. Compounding this, the District's spending pattern continued unchecked. Also, the District's budget was and continues to be structurally imbalanced. While we now have reversed the trend of expenditures outpacing revenues, without further assistance from the federal government, like the President's revitalization plan, District expenditures, in the long term will continue to outpace revenues. This is primarily due to the District's narrow tax base. And our financial reporting system was abysmal. By 1995, the years of financial mismanagement and neglect posed a significant threat to the long-term viability of the District government.

Today, the District has a balanced budget, due in large part to more effective spending controls and better collection efforts by the Office of Tax and Revenue. Indeed, we have gone from a projected budget deficit of $75 million to a surplus of $105 million. We have recently had our bond ratings upgraded by both Standard and Poor's and Moody's Investor Service. In addition, we have achieved the first clean audit for the District government since 1993. These successes would not have been possible without the support and assistance of this Committee.

However, we still have a lot of work to do. With our financial house in order, the District is now in a position to successfully implement management reforms that will result in better service delivery to our citizens.

MANAGEMENT REFORM

We recognize the need for management reform. At the same time, we must also recognize the need to implement reform in a financially responsible manner. Management reform must be brought about along with the reduction of the District's accumulated deficit. District stakeholders must maintain and continue to improve upon the financial health that we have worked so hard to restore.

FINANCIAL REFORM CREATED THE CONDITIONS FOR SUCCESSFUL MANAGEMENT REFORM

The enormous progress that we have made in reforming the District's financial management provides the foundation for successful management reform. Additionally, the Council, the Mayor and the Authority have made the difficult decisions to help put the District on sound financial footing. The District's overall financial position improved dramatically in fiscal year 1997, and, with responsible decision making by District leadership, we expect that to continue into 1998 and 1999.

—This improved financial outlook is not just a byproduct of the economy. Much of the District's increased revenue is due to improved collection efforts of the Office of Tax and Revenue.

[In billions of dollars]

| *Fiscal year* | *Estimated local revenue* |
|---|---|
| 1997 | 2.749 |
| 1998 | 2.811 |
| 1999 | 2.870 |

Indeed, the fiscal year 1997 financial audit results show that improved revenue collection and spending discipline left the District with a surplus for the first time since 1993.

—The improved budget process produces better information for making decisions while aggressive budget execution increases the capacity to enforce accountability.

—The efforts of our Treasury department have given the District new credibility in the bond markets. Our improved financial performance has been recognized by the bond markets through lower rates and the recent upgrade of the District's credit rating.

—The Controller's Office has made tremendous strides in rebuilding our financial infrastructure.

Our financial progress gives the District's stakeholders the institutional capacity to implement management reform. Working closely with the new Chief Management Officer, we can now ensure that the District connects resources with results.

FUNDING

One of the most important issues regarding management reform is funding: where will the money come from. The starting point should be the fiscal year 1998 consensus budget. Our analysis of the management reform proposals indicates that it will be possible to implement a substantial one time management reform program with current available funds. While the Chief Management Officer is still reviewing and assessing agency implementation plans, it is now estimated that at least $38 million will be spent on management reform in fiscal year 1998. Funding for the $38 million is already included in the District's fiscal year 1998 budget. Additional funds have been identified to the extent additional projects are approved.

The funds identified in agency budgets are based on existing spending plans, although the decision makers are still working out the final numbers on management reform. It is possible to increase the funding available for management reform even further by reducing spending for current programs, but I strongly urge all stakeholders to remain consistent with the overall consensus budget framework.

REDUCING THE ACCUMULATED DEFICIT

As we move forward with management reform, it is important that the District make progress in reducing the District's accumulated deficit. I believe that all the stakeholders have this priority at the forefront. It is also one of the key requirements to move the District toward regaining Home Rule. The following principles may serve as a useful framework for discussion:

—The District should live within its approved fiscal year 1998 budget. Management reform funds must only be used for approved projects, not diverted to fund ongoing agency operations. To ensure that this happens, the Chief Management Officer and I required agencies to develop detailed spending plans for each project. After the plans are approved, we recommend that management reform funds be placed in separate accounts to track projected expenses and progress. We will show the District's residents exactly how much was spent for each project and exactly what results each project achieved.

—Management reform should be directed towards one-time expenses. Projects which have significant continuing costs should be implemented through the regular budget process.

—Although the primary purpose of management reform is to improve services, many projects are also projected to either increase revenue or create cost avoidance. We must ensure that projected savings and revenues actually materialize or clearly identify funds to pay for needed reforms. The Chief Management Officer and I will work closely together to track progress in cost reductions and revenue enhancement.

COORDINATION AND COLLABORATION BETWEEN CFO AND CMO

As the financial organization moves from a control posture to a support posture, we are committed to integrating financial management into program management in order to improve governmental efficiencies. As we move out of a control period, this integration will be central to the long term success of the District. Our office has supported the Chief Management Officer in her initial efforts at implementing management reform and we are committed to continuing that support.

OVERVIEW OF FISCAL YEAR 1999 BUDGET PROCESS AND PRIORITIES

Working together, the Mayor, the Council of the District of Columbia, and the Financial Responsibility and Management Assistance Authority reached agreement on the top budget priorities for fiscal year 1999. These were identified as follows:

1. *Meet financial management targets*.—Obviously, enhancing the District's financial position remains a primary concern. The budget must support achievement of key financial goals, including the following:

—Eliminate accumulated deficit

—Establish a positive fund balance

—Achieve investment grade bond rating

—Reduction of debt burden

—Develop structural budget balance

2. *Funding for management reform*.—Baseline budgets will not include management reform funding. Initiatives must be prioritized and implementation decisions must be made concurrently for fiscal year 1998 and fiscal year 1999.

3. *Develop a labor strategy*.—To better prioritize and support the compensation needs of District employees, decision-makers must first devise a comprehensive labor strategy, which will then guide budgeting and negotiating decisions for fiscal year 1999.

4. *Tax restructuring policy*.—The Office of Tax and Revenue has developed options for modifying the tax code to promote economic development and parity with surrounding jurisdictions. These options, in conjunction with the Tax Revision Commission's proposals, will provide the foundation for discussion and policy decisions.

5. *Federal relations*.—The federal government provides financial contributions to the District through various forms. This discussion will focus on the best approach to negotiating and leveraging these contributions for fiscal year 1999 and beyond.

6. *Capital financing priorities*.—The District faces substantial capital needs in excess of available funding. The Capital Review Team has prioritized the requests of agencies according to sound criteria. Providing adequate funding will be a central focus of budget discussions.

7. *Returning receiverships to District control*.—Currently, receiverships and court orders account for $200 million of the District budget. To improve service delivery and regain budgetary discretion, decision-makers must develop a strategy to improve these operations so that they may be returned to the District.

8. *Funding for D.C. Schools*.—Improving the public schools continues to be a major priority for the District. A combination of reform initiatives and funding support must be evaluated for fiscal year 1999.

*Health policy*.—Rising costs, operational issues, and a rapidly changing federal environment will require essential policy and funding decisions to be made regarding health policy in the District. Particularly, this discussion should focus on the following issues:

—Funding for D.C. General/Public Benefit Corporation
—Medicaid policy

10. *Program enhancements and service improvements.*—As part of their budget request, agencies submitted specific program enhancements. Decision-makers must set priorities and review the associated budget requirements to determine which will be funded.

The District's decision makers have a window of opportunity to set the District on sound financial footing for years to come. Therefore, it is critically important that these ten priorities be achieved.

The Mayor, the Council of the District of Columbia, and the District of Columbia Financial Responsibility and Management Assistance Authority have also agreed to a revised budget process for fiscal year 1999, as provided for in Section 11603 of the National Capital Revitalization Act. The process includes a series of joint budget workshops held with the Mayor, the Council, and the Financial Authority. Each workshop is focused on these ten priorities.

After the final work session, options will be submitted to the Council for passage, then to the Financial Authority for approval. The Financial Authority plans to transmit the complete consensus budget to Congress for enactment.

IMPLEMENTATION OF FINANCIAL MANAGEMENT SYSTEM

Mr. Chairman, due to the leadership of this Committee, the District was able to let a contract for the installation of a critically important new financial management system. The need for a new system is vital for the long term financial stability of the District. And I thank you personally for your support.

There are two aspects to the new Financial Management System (FMS): Hardware/Software and the reengineering of process/training of personnel. With the assistance of this Committee and the Authority, we secured funding for and selected a vendor to implement the first piece, a new system. This system has already been installed on a pilot basis at the Metropolitan Police Department and the D.C. Public Schools. The feedback from these agencies has been positive. Over the next few months, we will include the Department of Public Works and portions of the Department of Human Services and procurement and personnel functions. The system will be fully operational by October 1, 1998.

The new FMS allows agency heads and others to access financial information in real time: that is, instantaneously. Currently, financial information is usually 60–90 days old by the time it is compiled into a report for officials. Some information is never available. With the new system, agency heads will be able to access financial information at their desktops with the click of a mouse button.

Having timely information available will allow managers to make informed decisions regarding departmental priorities. The new FMS will dramatically improve the ability of District officials to make the important budgetary and programmatic decisions necessary to streamline and improve agency operations while at the same time ensure that spending caps are not exceeded.

Another major component of the FMS installation includes an intensive, ongoing training program and reengineering of our financial processes. As you know, these elements of the implementation are critical to the success of the overall project and ones that we take very seriously. All users will be fully trained in the operation of the new system. Training for these pilot agencies has been completed. Additionally, we are undertaking a reengineering of our financial process in order to ensure that our systems and processes are synchronized for maximum efficiency and performance.

I want to thank the Committee for their support of this critically important system and will continue to meet with you and your staff as we make progress towards completion.

ECONOMIC DEVELOPMENT CORPORATION

Although the District has balanced its books and realized a budget surplus for the current year, and continues to enhance its revenue collection efforts, real recovery requires the growth of the District's economy. The National Capital Revitalization Corporation (NCRC) consolidates the currently fragmented economic development functions of the City into one entity which will stimulate the economy and create new jobs in the District.

Initially, the NCRC will be charged with preparing a strategic plan for economic development. As we all know, the District has been lacking an economic development strategy. Unfortunately, this has cost us significantly, in terms of lost opportunities to attract and retain businesses, thereby reducing the increase in revenue that many other cities have been experiencing. With the NCRC, the District will

begin to see the benefits of a growing economy and a rebirth of the city, both downtown, and perhaps more significantly, in the surrounding neighborhoods.

Too often in the past, economic development entities did not have the right staff to make the important decisions that had to be made. The NCRC will be staffed with economic development professionals that will be held accountable for achieving specific results.

The NCRC will have the authority to finance economic development through the issuance of revenue bonds, including tax increment bonds, as well as other financing, including the use of loans and grants.

CONCLUSION

In closing, a properly financed management reform plan will provide immediate and visible benefits to the citizens of the District. However, we must remember that management reform should be part of a broader strategy of revitalizing the District: economic development, tax relief, and long term financial stability are equally vital components of the District's recovery, as is deficit reduction. If the District acts responsibly it will be possible to improve basic services and reduce excessive taxes.

Thank you and I am pleased to answer any questions the Committee may have.

Senator FAIRCLOTH. Thank you, Mr. Williams, and thank all of you for what we are doing here and what we are trying to do.

Just as a broad statement on where we stand and what we are doing, we have begun to make a start in this city in straightening out the problems that have tended to inundate it for the last 20-plus years. I find and feel a spirit of excitement in the city and among the citizens that I see and talk to on a regular basis. Somebody is always saying that they are beginning to see improvements, and I think that is an excitement that we can all share and be proud of, that it is beginning to happen.

As has been pointed out by each of you, we are a long way from being where we need to be and where we want to be and where we want the city to be. But I think there is a strong feeling both here and certainly in the Congress—there is the feeling with you all and with the citizens of the city that we have started to make the turn. And there is the determination to continue to make it and to make the city the type of city we want it to be.

PRESS COVERAGE

Now, Dr. Barnett, everyone else at that table and most of them in this room know it, but you will rapidly find it out, that in Washington you are under a very finely filtered spotlight. Anything we do here, both good and bad I must say for the press, gets excellent coverage. [Laughter.]

And that is good because the things we do right, the improvements we make will be properly reported and we will know about them. Those tend to inspire further improvements in things.

I have got a lot of questions. When I say questions, I mean we are here to discuss what we can do to make the city better, so do not hesitate to speak up or ask questions yourselves.

POLICE DEPARTMENT

I want to start. One of the first things, Dr. Brimmer and Dr. Barnett, is the police department. The Metropolitan Police Department is currently operating under a memorandum of understanding. Some have criticized the MOU partnership because it has too many chiefs and creates too many lines of authority. Among those who have criticized it, I am in the group.

I was disappointed to see that after 1 year, the MOU received a report about the number of police still behind desks. The police still do not deploy officers to the streets as recommended. Some are there. It is a little better, but it is a long way from where it should be.

Do you all share the criticism of the MOU partnership? Would you recommend continuing MOU as a structure, or is it something we should monitor very, very closely in the next year?

We have time to think. We have begun to make the turn, so we can take the time to think.

I think we have made great headway, Dr. Barnett, in speeding tickets and getting building permits, and we are beginning to function as a city should.

POLICE CHIEF CHAUFFEURS

But the Police Chief, Chief Proctor, who I think is doing a good job and trying, has three chauffeurs. That is the type of ludicrous thing we have been reading and the public has been reading about the city now for far too many years. It is time that we cut out that kind of stuff and move to running it like a hard, tough, real city should be run and eliminate the fluff.

MEMORANDUM OF UNDERSTANDING

That having been said—and I will ask any one of the three—do you share the criticism that has been levied against the MOU, not as individual members of the MOU because I think that every one there has truly tried to make it work, but as an operating entity, as a way of doing business?

Dr. BRIMMER. Mr. Chairman, I will speak to it. I am a member of the MOU group. Three of us at the Authority are members: Vice Chairman Harlan and Ms. Newman.

The group was formed in order to bring to bear all of the resources in the city concerned with criminal justice in order to mobilize those resources and use them most effectively. It got started when the police department was under the day-to-day direction and supervision of the Mayor.

BOOZ ALLEN STUDY

You might recall that soon after the group was started, we engaged a management consulting firm, Booz Allen and Hamilton, to study the department, tell us what is wrong, what can be done to improve it. We thought it was better to have that study and review paid for by the Control Board. We paid for it. We engaged them, but we thought the one way to get it done was to take responsibility for it.

MEMBERS OF MEMORANDUM OF UNDERSTANDING GROUP

But we also concluded that the members of what later became the group had different responsibilities. The memorandum of understanding group includes the three members of the Authority. The Mayor is a member, the chair of the Council is a member, as is the chair of the Judiciary Committee, and the Corporation Coun-

sel. The Chief of Police is a member. The U.S. Attorney is a member and the Chief Judge of the Superior Court. All are members.

Senator FAIRCLOTH. How many members total? Seven?

Dr. BRIMMER. Seven, that is correct.

It is an informal group. We meet, we discuss a number of issues. The group is chaired by Mr. Harlan who is the Vice Chair of the Authority and the member among us who already had oversight responsibilities for public safety, the police, corrections, and fire.

What has the group done in relation to the implementation of the reforms and now the role it is playing in the search for a new police chief?

The group serves in an advisory role. The MOU group does not give day-to-day instruction and direction to the police chief. When we empowered the Chief in February 1997 to run the department, we made it clear, first, that the day-to-day operations of the department were in the hands of the Chief. The Mayor delegated that authority to the Chief.

AUTHORITY DELEGATED TO CHIEF

Senator FAIRCLOTH. I am sorry?

Dr. BRIMMER. The Mayor delegated his day-to-day oversight and direction.

Senator FAIRCLOTH. The Mayor does not have that.

Dr. BRIMMER. No, no; under the statute he has it, but we encouraged the Mayor in the winter of 1997 to delegate that authority to the Chief of Police.

One of the recommendations of the Booz Allen group was that the day-to-day direction of the department be transferred from the Mayor and vested in the chief. They said that as a result of their study, they had concluded that there was an unnecessary degree—there had been an unnecessary degree of day-to-day intervention by the Mayor's office in the conduct of the police department. They said that intervention had not been helpful, but it had been a source of difficulties.

We took that advice seriously, and we discussed the matter with the Mayor and encouraged him to delegate his authority to the chief for day-to-day operations and oversight.

At the same time, we at the Control Board used our authority, which we could do under our legislation. We gave the chief the power to make personnel decisions outside of the city personnel rules. We delegated to the chief the power to make procurement decisions outside. Booz Allen and Hamilton told us that those powers were necessary to enable the Chief to function. So, for well over 1 year, the Chief has had the responsibility to run the department.

Now, the Chief does consult, and I want to stress that. The Chief does consult with the MOU group, and particularly the Chief does consult with the chair of the MOU group, Mr. Harlan, because Mr. Harlan is available and devotes more time and attention to it. But the MOU group has not been running the department, and I am going to stress that. The Chief runs the department, and the oversight is provided basically by the Control Board. I want to stress that because there are three of us, and Mr. Harlan is the chair.

SEARCH FOR POLICE CHIEF

Now, let me say one thing about the role of the MOU in the search for the police chief. Under the statute the Mayor has the authority to appoint the chief with the approval of the Council, but at the very beginning it was understood, and the Mayor has said it publicly, that the search, while technically it will be conducted by the Mayor, in fact——

Senator FAIRCLOTH. Would be conducted by——

Dr. BRIMMER. Would be conducted by three people, the Mayor, the chair of the MOU group, Mr. Harlan, and Mr. Evans, the chair of the Council's Judiciary Committee. Those three persons are, in fact, acting as the search committee for the chief.

However, all of us are participating and discussing the search. I participate. Ms. Newman participates.

The search was put in the hands of a management recruiting firm, Norm Roberts of California. He has produced a list of candidates that is very strong. The list has been reviewed by us, and we will be interviewing those candidates. I can assure you that, just as was the case with our search for the Chief Management Officer, we will play a strong role in identifying those candidates. I can assure you—and the Mayor has said it publicly—the candidate recommended to be police chief will be the candidate agreed to by the MOU group. I said that that means the whole group. All of us are participating.

The search is quite far along, and my review of the list and the references convinces me that we will end up with a first-rate chief of police.

Now, I know the Mayor has established a committee. He is looking for public input, and that would be appreciated, and their views will be considered. But in the end the selection of the Chief of Police will be the result of the process I have just described where the search is in the hands of the MOU, and those of us who are members of it will be playing a strong role.

Senator FAIRCLOTH. Thank you, Dr. Brimmer. I thank you. I have a question I want to ask you in a little bit but not right now.

MEMORANDUM OF UNDERSTANDING WIN-WIN SITUATION

The MOU started out in a win-win situation because from where the Police Department was, there was not much you could do to make it worse. So, the MOU had a pretty good base to begin with. Booz Allen did not have to bring their top brains to the table to figure out that there was an unnecessary degree of interference in the Police Department by the Mayor. That did not require deep and long study. It was pretty obvious from day one.

Dr. BRIMMER. Mr. Chairman, may I just say one other thing? I realize you did ask the question, is the MOU needed, should we keep it?

Senator FAIRCLOTH. Yes; that was my one question I wanted to ask you. Dr. Brimmer, in a word, yes or no. Is it good or bad?

Dr. BRIMMER. Yes. Yes, and I reached that because I raised the question myself 1 week or 10 days ago.

Senator FAIRCLOTH. Is that the way to run a police department with an MOU? Yes or no.

Dr. BRIMMER. In the District's setting with this diversity and dispersion of authority, the answer is yes, but I would hope that the need for the MOU would disappear very quickly.

Senator FAIRCLOTH. Thank you, Dr. Brimmer. I have got some other questions.

Dr. Barnett, I do not mean to put you on the spotlight, but this is a question we are going to face. You have had a fairly full plate with nine agencies and have not really had time to get beyond your purview of what you are assigned to do. But would you recommend the change of the MOU structure in the way the Police Department has been handled?

MEMORANDUM OF UNDERSTANDING PARTNERSHIP

Dr. BARNETT. I think the MOU partnership is a good way to get people together from a criminal justice system and coordinate activities. In that sense, I think it has been an extremely valuable group, and I would hope that it continues.

In terms of the management of the police department, I have not seen any police department managed by a group like this, and as Dr. Brimmer has indicated, I do not think it was the intent for the MOU partners to manage the police department. I think we do need to look at clarifying the lines of authority in the police department, and I think in the police department, like many of the other agencies, we need to bring the government back together because we all need to work together.

One of the things that I am trying to do operationally is to be sure that the police department and the nine agencies that I work with and any of the other agencies work together to provide the service because that is ultimately what it is going to take. I recognize that we are in a transition period, and so some things are necessary now that may not be necessary later, but I do hope that we will be able to bring the government back together.

Senator FAIRCLOTH. Thank you, and that is a good summation, I think, of where we stand. The MOU has certainly served well. They have served without benefit of pay or anything else. They have just dug in and the three members of the Control Board, totally unpaid, have done work, and have tried to make it work.

Tony, would you care to——

Mr. WILLIAMS. Mr. Chairman, as the CFO, I really do not have any public, formal opinion on the matter. I think that is best to have it that way.

Senator FAIRCLOTH. I am sorry?

Mr. WILLIAMS. I think it is best to have it that way, for me to focus on the financial issues.

Senator FAIRCLOTH. Since we are on you, Mr. Williams, I wanted to just say one thing in great praise. I have heard nothing, in visits with you and Dr. Barnett, but of the cooperation between the CFO and Dr. Barnett's office. Behind your back, she has been high in praise of your cooperation and what you have done and how it is working together to bring a coordinated effort. For that, I thank both of you.

MANAGEMENT IMPROVEMENT PROJECTS

Dr. Brimmer and Dr. Barnett, following the release of the management reform plan, the Control Board selected 269 management improvement projects to be included in the reform plan. These projects cover pretty much every area from welfare to work to street cleaning, trash collection, improvements that are long overdue. It appears that some of these projects will be completed this year and some will extend on to the turn of the century.

Could you tell us what percentage of the projects are short term, to be completed immediately and what percentage are long term, to be completed over an extended period of time? Dr. Barnett, would you——

Dr. BARNETT. I can estimate that for you. Much of the management reform projects are——

Senator FAIRCLOTH. Name me some examples of what we are trying to do immediately.

Dr. BARNETT. Well, a lot of the immediate work has to do with what I would call short-term operational issues that require attention. In some cases a management reform project is characterized as stabilizing the leadership of the department, which means hiring where there has not been a permanent director. Or it is developing a strategic plan, as I discussed in my testimony earlier, that we will be doing citywide. Or it might be buying a piece of equipment such as a fire truck or an ambulance that is needed to provide the service. So, in those cases, those types of management reform projects are pretty easy to accomplish within the scope of the remainder of this fiscal year.

Other types of projects are mostly systems implementation. There are computer systems that need to be designed and installed to do things like support the motor vehicle registration or the grants processing in the Housing Department, or a wide area network throughout the city, or installing telephone systems. Those may not all be completed. In fact, they will not all be completed by the end of the year.

YEAR 2000 COMPLAINT

One of our major projects is to be sure that all of our computers are year 2000 compliant. That is one of our major initiatives under management reform. That project is underway, but it is not anticipated that we will complete that until midyear 1999.

So, those are the examples of them. The large dollar projects generally, where most of the effort and most of the money are, are going to take more than this fiscal year to complete just because of the nature of the project. Some of the shorter-term projects I think we will be able to finish this year.

Senator FAIRCLOTH. Dr. Brimmer, if I heard you correctly in earlier testimony, you mentioned, however the phrasing was, that once money is appropriated for a major project, that it stays there. It is not chopped off at the end of the year to be redone. Would you tell me what you said again?

Dr. BRIMMER. Yes; before I do, Mr. Chairman, may I call your attention to my testimony?

Senator FAIRCLOTH. All right.

PROJECTS UNDERWAY

Dr. BRIMMER. I did include some of the examples of the projects that are underway. They give the flavor of what is being done. A couple of items Dr. Barnett mentioned are included. I put this in deliberately to indicate that we are not twiddling our thumbs.

Senator FAIRCLOTH. You are not what?

Dr. BRIMMER. We are not twiddling our thumbs. It is not just efforts being planned, but project that are actually being done.

Now, I will call your attention to some of those. They illustrate what under certain circumstances I might be tempted to call low-hanging fruit, but I will not. These are examples of activities that are going on in a variety of departments already. Some of them will be completed in months. Some will be completed by the end of the year and so on. So, they are actually being implemented. Very soon the service delivery associated with these will be showing up.

Senator FAIRCLOTH. I hope we are gathering the low-hanging fruit quickly and carefully.

Dr. BRIMMER. Yes.

COMPLETION OF GOALS AND PROJECTS

Senator FAIRCLOTH. My question was really—and maybe Mr. Williams will speak to this—that there had been a tendency in the city of no continuity of a project, that we would start a plan, a program and chop it off and the budgeting did not flow from year to year to arrange for the proper completion of a given goal or project.

Dr. BRIMMER. Yes; that is the point I was addressing, Mr. Chairman. It is my understanding that in the past most appropriated funds were fiscal year funds that gave rise to the deplorable habit of agencies finding themselves during the year rushing at the end to spend the money before the authority lapses.

FUNDS AVAILABLE FOR LIFE OF PROJECT

What I am saying is that—and this is what we spelled out in our testimony when we were before you with the budget—the funds we are earmarking for management reform we would like to have available over the life of the project and not have it lapse at the end of the fiscal year simply because the funds were appropriated during a given fiscal year. So, the $8 million, for example, that you provided. The chances are that we will spend all of it this fiscal year, but if we do not, we do not want to see it lapse. That is what I meant. We want the funding earmarked for management reform to be available to finance the implementation of that project, however long it takes.

Senator FAIRCLOTH. Thank you, Dr. Brimmer.

Mr. Williams, I had two questions. One I am sure is overlapping and I am not into the details of the city's operation enough to understand, but I remember very clearly in time—maybe it was almost 2 years ago—that we met and maybe with the Control Board at the time.

ACCOUNTING SYSTEM

In essence what you said was that the city did not have an accounting system, that the equipment was antiquated to broken,

that a lot of the people were untrained. I am not trying to quote you, but that is in essence what you said and that we just did not really have an accounting system for the city.

What I would like to know—and I heard what Dr. Barnett said, that one of our first goals and moves was to improve equipment. Would you tell me how that is coming, how much of it we have outsourced, which is one thing we were going to do? Would you tell us how that is coming? Because the core and the basis of the operations of the city have to come from sound accounting practices. So, would you tell us what you have been able to do and where we stand?

Mr. WILLIAMS. Yes, sir; when we talked to you, we discussed with you the fact that, in our estimation, the District was lacking in a number of the key elements of a workable financial system, and we defined a financial system to include not only hardware and software but operations, people, and processes, and that we needed to do a lot of work in each of these different areas.

FINANCIAL MANAGEMENT SYSTEM

As we began to do work on the people, process, and operations front, under the auspices of the Authority and in conjunction with them, we issued a solicitation for a new financial management system. We had involvement from the Congress in terms of oversight and critique of that solicitation. The GAO was involved in terms of critique. The OMB was involved as well. It was directly involved, along with our people and staff of the Authority, to move forward on the solicitation.

After an exhaustive amount of analysis and review, including an analysis of the capabilities of the current system, we made a decision. That decision was based on comparing the existing, as-is situation, with a situation in which we basically took the system, tried to improve it, bought a new system, and another option in which we took the new system and looked at what additional people or combinations of people and staffing patterns we needed to make this thing work best. We decided that of all of the different options, the option to implement was a new system, and so we proceeded with the solicitation on that basis.

Having done that, I think we did two things in the financial management system from a risk management point of view that have allowed us to move forward I think on time and under budget.

RISK MANAGEMENT

The first is we enlisted, again on the basis of a nationwide solicitation, the help of a contract management firm, James Martin, known around the country for contract management of projects like this. To provide us assistance and consultation in managing the firm, Peat Marwick is being used for installing the project. And I think that was a big step in terms of risk management.

Another risk management step that we have taken was that we have all along planned on installation of the system on an incremental, as opposed to what is called a big bang, basis. In other words, rather than waiting to a certain point in the year turning the system on in all the different agencies, we decided that what we would do is prioritize the major service areas, the agencies with

the major dollar volumes, bring them up on a pilot basis, test them on an experimental basis while we still use the old system as what we call the system of record, and then over the summer bring the remaining agencies on board so that on October 1, the beginning of the next fiscal year, we can execute the new system throughout all the agencies as the system of record. This will leave us another 6 months to do what we call the reengineering, the final indepth fix on all these processes and operations that plague the District.

Senator FAIRCLOTH. Mr. Williams, where does that stand now? How far are we into that?

Mr. WILLIAMS. Mr. Chairman, we have now installed the major initial pilots. Those are the police department, public works, public schools, and part of the Controller's Office, my office, that services the smaller agencies in the District.

Senator FAIRCLOTH. This will all, as I understand it, feed into one entity.

Mr. WILLIAMS. That is correct, sir. Essentially all the different financial accounting activities feed into the general ledger, and then associated with this general ledger are different what you call modules, many of which we do not have right now, I might add. If I go down the list, you will not believe what we do not have right now. We do not have, for example, an accounts payable.

Senator FAIRCLOTH. You are getting them.

Mr. WILLIAMS. Right. We do not have accounts receivable. We do not have grants. We do not have budget. I mean, it is incredible.

Senator FAIRCLOTH. But we are getting there.

Mr. WILLIAMS. But we are getting them, yes, sir.

One final thing—and I think you would appreciate this with your experience, Mr. Chairman, in highways—is we really are insistent on the belief that while we are essentially digging up the road that we not only fix, let us say, the storm drains, we fix everything while we have got the road open. So, the analogy here is that, while we have got this system being installed in the agencies, we use this opportunity to aggressively and thoroughly reengineer not only the financial operations and processes, but in conjunction with the CMO, also look at all the other related and interfaced management information processes, a spectacular example of which would be procurement.

Dr. BRIMMER. Mr. Chairman?

Senator FAIRCLOTH. Yes; Dr. Brimmer.

Dr. BRIMMER. You said we could make comments or questions.

Senator FAIRCLOTH. Yes; we are wide open. There are no strict rules here.

Dr. BRIMMER. I want to take this opportunity to report to you that the progress Mr. Williams just described was made possible entirely by your efforts. You might recall well over 1 year ago, we had a great deal of difficulty getting authorization to proceed with the acquisition of the financial management system and the implementation of the plan Mr. Williams described. In fact, there was active opposition which, if it had prevailed, we would have still been stuck with the old system with no progress being made. So, what you see here today is a result of the position you took when you insisted that these funds be included and that the management

of the system be left to the Authority and Tony Williams. I want to report that because this is good news, a favorable outcome.

Senator FAIRCLOTH. I sure appreciate it. I need it in North Carolina worse than I do here. [Laughter.]

But thank you.

Mr. WILLIAMS. I want to echo that, Mr. Chairman.

Senator FAIRCLOTH. I do have a question for Mr. Williams. As I said and alluded to a while ago, I guess no city in the country, certainly not in this country, is more under the intense scrutiny, that problems are more magnified than here.

DECEASED RETIREES ON PAYROLL

So, saying that, I ask you, Mr. Williams. Peat Marwick determined that 20 deceased retirees from the District's payrolls were receiving retirement benefits. I understand where we are moving, but would you explain to the committee how this happened and what we are doing to avoid that kind of glaring bad publicity in the future?

Mr. WILLIAMS. Yes, sir; what had happened was—essentially, Mr. Chairman, what you are always trying to do in these personnel and payroll situations is you are trying to take three universes, if you will, and make sure that——

Senator FAIRCLOTH. Three?

Mr. WILLIAMS. You are trying to take three universes or databases, if you will, and you want to make sure that they are always synchronized. So, you have got people who show up or people who have filed for retirement, and you want to make sure that the count of who is working or who is eligible for retirement matches, who you are paying matches your records for what you have budgeted. Position control in the District is something that is one of our top priorities and something we have been working on all along to try to bring forward.

What had happened with this particular case was that we were getting these accounts and the Social Security numbers related to these accounts coming to pay and retirement, and we were only reviewing them on a yearly basis. In reviewing them only on a yearly basis, we had accounts falling between the cracks or under the radar.

What we had already started doing when the audit came out was accelerating that review to every quarter or every 3 months, using outside help to review these files to see that all the different databases matched, to make sure all the accounts are authentic before the retirement payroll was actually sent.

I also might add, Mr. Chairman, I believe we have reclaimed one-half of these accounts, and we have efforts underway to reclaim the amounts owed the District in the remaining accounts as well.

Senator FAIRCLOTH. By reclaiming the accounts, you mean get the money back?

Mr. WILLIAMS. Getting restitution for the money we paid out, right.

Senator FAIRCLOTH. Well, that is great.

I understand that what you took over, and we have to evaluate where we are from, where we came from.

FINANCIAL OPERATIONS

Mr. WILLIAMS. If I could say, Mr. Chairman, I think it is important you mentioned that case because it is our goal now in the financial operation. You talked about the win-win situation for the MOU. In a lot of ways, I inherited a win-win situation because things were so bad, you could not do anything but win in some cases.

We have got to do more than simply get an unqualified opinion. We have committed ourselves now to really bringing the District ahead of the rest of the pack or ahead of other governments in the country, in that it is our goal now to eliminate all material weaknesses and to minimize the management letter comments that the District has. Most governments are happy if they have got one or two material weaknesses and some management letter comments. We want to have no material weaknesses and minimum management letter comments because I think that is a testament to the soundness and integrity of the financial operations.

Senator FAIRCLOTH. Well, thank you. This is a goal of where we have got to go. As I say, we have begun to move, and I redundantly say I sense a spirit of revitalization among the citizens of the city. It might not be total and unanimous, but I think the vast majority of the people in the District feel that we are doing the right thing and moving in the right direction.

MEDICAL MALPRACTICE REFORM

Dr. Brimmer, I had a question here and maybe Dr. Barnett would like to help on it. I ask this question because it is of interest to a lot of people and a lot of Members of Congress. The Senate report accompanying the fiscal year 1998 appropriations bill required the Control Board to submit to Congress by March 1 of this year a report on malpractice reform for the District.

Malpractice reform is not only an area of interest to members of this subcommittee, but it is pretty high on the radar screen of all the Members of Congress. In fact, medical malpractice reform is an issue of concern to the entire Nation. Sometimes it seems trial attorneys are running up the cost of everything we do.

Dr. Brimmer, we have not received this report. When can we expect it and when it arrives, will it be making recommendations for reform? What will it say?

Dr. BRIMMER. Actually, Mr. Chairman, it was submitted yesterday. It probably got to your office very late, but it was submitted yesterday.

Senator FAIRCLOTH. Would you tell us very briefly what it says?

Dr. BRIMMER. Yes; we concluded, based on the evidence in front of us, based on our hearings, based on our investigation, that there was no basis for imposing the kind of caps that the proponents of the reform had recommended. We did recognize that the evidence is conflicting.

Senator FAIRCLOTH. I am sorry.

Dr. BRIMMER. The evidence is conflicting.

First, the cost of medical malpractice insurance is higher in the District than it is in Maryland or Virginia.

But we also found that the cost of medical malpractice insurance for the various specialties is very close to the cost in Baltimore, that when the setting, population groups, demographic characteristics, members with insurance coverage are compared, there are very few differences.

The proponents were not able to demonstrate that the cost of insurance is uniquely related to settlements and awards in the malpractice suits.

That is the essence of the proposal that was in front of us.

Senator FAIRCLOTH. Well, thank you.

Dr. BRIMMER. We concluded that that was an area where it would be better for the local government, the City Council specifically, to address the question, and if the evidence demonstrated that the effects were adverse, they should act.

We also said that the economic case was not made at this time, but if evidence comes to our attention, if experience shows that there is a negative impact on the economic viability of the District and the availability of services, we would come back into the matter. But for the time being, we concluded it with the recommendations I just made.

Senator FAIRCLOTH. I thank you.

One thing that brought it to my attention, I saw that a prominent malpractice attorney was attacking maybe me and the Control Board for what we were doing in trying to reform some of the problems. I understand that you are making no recommendation, but I do think the issue requires close scrutiny.

Dr. BRIMMER. I am sorry, Mr. Chairman. Our recommendation was that the Congress leave this to the locals.

Senator FAIRCLOTH. I was somewhat, if I must say, disappointed at your not making recommendations on the caps because this is a problem. But we have many problems and we are going to solve them, and we will address that one later, too, if it needs attention.

Dr. Barnett, you are new to the job. You have been on the job 2 months now, or 3?

Dr. BARNETT. 2 months.

Senator FAIRCLOTH. 2 months.

Prior to your coming to the board, the Control Board approved management reform plans which were developed by consultants. These plans identified management improvement projects that you have discussed, the 269 projects.

Let me ask you. I am sure you have had an opportunity to look at the recommendations. Are these areas of priorities with which you agree with the Control Board?

Dr. BARNETT. Yes.

Senator FAIRCLOTH. Of the 269, you are going to be undertaking some of them, as you said, earlier this year and some are not.

CONSULTANTS

I have always had a theory that if a private company, if the executives went out and hired consultants, that there was something wrong with the executives if they needed somebody to come tell them what to do.

How can we make sure that the city learns and that we keep our management practices up to date, that we are not forever getting

into the pit that we feel like we need outside intelligence to lift us out?

IMPLEMENTATION OF MANAGEMENT REFORM

Dr. BARNETT. The first thing that we are doing is looking at the consultant contracts that we have on the table for implementing management reform. One of the things I have asked all the agency directors to do is to tell me whether they think the plan for implementation is appropriate, whether they think the consultant that has done the recommendations is the appropriate one to do the implementation, and to convince me that we need the consultant at all, that we do not have internal capacity. If the recommendation is that we do not have internal capacity to implement all or part of these management reforms, then part of what the job of the consultant will be is to build that internal capacity so that we are restructuring the way we are using the consultants and the implementation of management reform.

The question you ask, however, goes to a longer-term issue in the District which is the capacity of the managers and the work force, and this is something that is going to take us a while to address, but we have some training and development initiatives underway. I expect that we will expand those greatly, and I expect that we will also be recruiting additional talent. So, in these ways I think we will be able to fill the gaps and also build the organization so that it is not dependent on outside consultants.

Senator FAIRCLOTH. Thank you, Dr. Barnett, and I thank you, Dr. Brimmer and Mr. Williams.

As we have said here this morning, and each of you have pretty much said the same thing, we are making headway. We have come a long way. I must say that I want to briefly praise what you all have done and where you have come from in the relatively short time.

The people that have been by with various ones of you, and I will not name the people, but I have been impressed by each of the assistants and people that are working under you to bring about the spirit and the enthusiasm with what we are doing.

STATUS OF RECEIVERSHIPS

I had one last question I wanted to bring, and it would be to Dr. Barnett and to Mr. Williams. It is the status of receiverships. I think this city has probably had more problems with judges, and particularly I am referring to the school system and keeping the schools closed for weeks and months beyond what I think should have been.

But what we have are receiverships running several of the District's departments and programs—child welfare, mental health services, public housing, and the health system at the D.C. jail. I assume that is the jail rather than Lorton.

When can we expect to get out from under these receiverships? They are burdensome, they are bothersome, and they are in essence an insult to the city. When do we hope and think we can begin to get rid of some of these?

Well, you both have worked together beautifully on it, so I will listen to both answers.

NUMBER OF RECEIVERS OR TRUSTEES

Dr. BARNETT. One of the things that I mentioned earlier was the need to bring the government together. One of the ways that we need to do that is to deal with these receivers. We have 14 receivers or trustees or special masters running parts of the city operation. Our objective, and one of the reasons that we have identified this as one of the 10 budget issues for the Council and the Mayor and the Control Board to deal with, is because of the effect that it has on both our finances and our operations.

We are going to be discussing plans for exit strategies for receivers this Friday in the budget work sessions that we have with the policymakers to begin discussions with the receivers and with the policymakers about how we can improve the services so that the receivers are no longer necessary.

I cannot specifically answer your question on how long it is going to take us to do that because in many cases we do not have clear exit strategies from the receivers. We do not have clear performance expectations that we need to achieve before we are sure that we have met the standards. But more importantly, we need to develop new kinds of dialogs and negotiations so that we can develop those in such a way that we can do them.

MENTAL HEALTH AND CHILD WELFARE RECEIVERS

We have made some progress with the two receivers that you particularly mentioned in mental health and also on child welfare. We have negotiated what we are calling memorandum of understanding agreements with those receivers that has to do with how we will conduct ourselves operationally and financially. We have got some agreements about how we will work together, and how they will develop what is essentially their management reform initiatives so that we can support each other in doing that. I am encouraged by that progress and I think that there is opportunity for more progress with the other receivers.

As you know, it is a substantial portion of our budget that is not controlled by our regular budgetary process because of the court ordered initiatives. So, it is in everyone's best interest to have an exit strategy. It is one of our top priorities. Working with the Corporation Counsel on the legal side of all of this, I think we will develop some strategies, for the first time in a long time, that not only set the goal of bringing services to the point where these receivers are no longer necessary, but that actually achieve that goal.

Mr. WILLIAMS. Mr. Chairman, I would agree with everything that Dr. Barnett has stated. I think for a long time we have not been able to chart a path for getting out of the receiverships because we have not really had the kind of program information, let alone the kind of financial information, matched to it from them that allows us to make that kind of projection. So, this effort to work with them to develop that information, develop these plans, we wholeheartedly support.

But I would also mention, Mr. Chairman, this is just a thought and I guess it does intrude slightly, if not completely, into the policy area, and it does not represent anyone's official opinion. But it seems to me that the receivers are all in the process on behalf of

the courts in pursuing remedies. In pursuing those remedies, they are generally operating under a Federal mandate and ultimately a legislative mandate. It seems to me the financial plan for the District ultimately is the responsibility of the Authority, reporting to the Congress, to see that the District's recovery commences.

FINANCIAL AUTHORITY RESPONSIBLE FOR MANAGEMENT AND FISCAL RECOVERY

The Financial Authority is responsible ultimately for the management and fiscal recovery of the District, responsible to this Congress for that, if you want to call it, remedy.

Senator FAIRCLOTH. The Financial Authority meaning the Control Board.

Mr. WILLIAMS. The Control Board.

Senator FAIRCLOTH. Yes; OK.

Mr. WILLIAMS. Just using the fancy title. The Control Board for basically financial management and recovery of the District, reporting to the Congress.

RECEIVERS PURSUING THEIR OWN FIX

Now, you have got a number of these different receivers also pursuing their own fix. Right? The problem is they are not coordinated in any way or synchronized in any way with the overall management/fiscal fix in the District. It seems to me there may be some opportunity for some legislative language that would at least put these remedies pursued by the receivers under the same kind of fiscal auspices and framework the rest of the District operates under. It just would make good management sense.

Senator FAIRCLOTH. Well, it certainly does to me, and this is one reason I was pursuing the question. If your job is being a receiver, there is a tendency to perpetuate your job.

Dr. BRIMMER. Mr. Chairman.

Senator FAIRCLOTH. Yes; Dr. Brimmer. Just one second.

And recommendations from all three of you is what we need to do to get control of the city from the receivers. I would like to have just a call or visit, whatever we need to do, to begin to effect this.

Yes; Dr. Brimmer.

Dr. BRIMMER. The question of receivers and the relation between the city and the receivers is a policy matter. The Authority has taken the initiative to try to work this through. The Corporation Counsel is taking the lead because it is a legal matter, a matter of the courts, in working with the Authority, and the CMO has joined that effort most recently.

But the fundamental issue is the extent to which the conditions which gave rise to the receivership——

Senator FAIRCLOTH. I am sorry. What now?

CITY NOT PROVIDING SERVICES

Dr. BRIMMER. The receiverships, the masters are there because the courts concluded that the city was not providing the services, was not carrying out the law, and the only remedy was to have the court step in, provide a mechanism for enforcing the law.

The task now is to correct the deficiencies so that the basis for the receivership can disappear, and that is the responsibility of the Authority. We are making certain that some of these deficiencies are being corrected, and I call your attention to the editorial in today's Washington Post which deals directly with the question you have just described.

Senator FAIRCLOTH. Well, I am glad to hear the gospel. [Laughter.]

YOUTH DETENTION

Dr. BRIMMER. But it reports that the city administration did nothing about—this is the youth detention case—until the court stepped in, and the Authority then stepped in to enforce the changes.

Senator FAIRCLOTH. The Authority being the Control Board.

Dr. BRIMMER. The Control Board stepped in, provided the resources, ordered the revamping of the management, and the condition has now improved, not to the point where the court is likely to disappear anytime soon or the receivers disappear anytime soon, but it describes how it is to be done. It is not simply denouncing the receiver but correcting the problems, and that is what we are trying to do.

Senator FAIRCLOTH. I understand, and I thank you. I am thoroughly familiar with why they were appointed, the necessity for them, but my question is—and it is not a question. We have to begin to get rid of that oversight because of the inefficiency in running the city. What form we go at it, I do not know, but all I know is that whatever a governmental agency happens to be—and the receivership is a governmental agency—usually its primary goal is not to terminate its existence. So, I think that is something that, as people running the city, we need to make sure that we stay alert to, and as soon as these masters can be eliminated, we need to eliminate them.

RECEIVERS—BUDGETARY IMPLICATION

Dr. BRIMMER. I agree, and the budgetary implications are very serious. As matters stand now, basically the receivers, while one or two of them consult with us over their budget, basically write their budget and pass it through. This will have serious budget implications.

We are now seeking to have discussions with all of the receivers, and I can tell you now that you might see some more controversy because at the Control Board, we have to weigh these budget claims against all other budget claims. The time might come when we will simply have to say to the receivers, please try to operate more efficiently because we cannot provide all the money you are seeking.

Senator FAIRCLOTH. This is what I am saying, that we need to get this receivership thing behind us, and the quicker we can do it, the better off we are.

ADDITIONAL COMMITTEE QUESTIONS

Again, I say I thank you for what you are doing for the city. We certainly all have the same goals, the same hopes in mind, and no question we have turned the corner and we have started to move in the direction that we are going to have to go. I want to say to you as one of the representatives of the Congress, certainly from the Senate, and Congressman Charles Taylor from the House, we all want the same thing, and we will give you total cooperation from the Congress to bring it about. I thank you so much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO DR. BARNETT

QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

IMPROVED CUSTOMER SERVICE

*Question*. You have stated that your primary goals for 1998 are to (1) improve customer service; (2) implement management reform; and meet budget targets.

Please explain in detail how you intend to achieve each of the stated goals.

Answer. It should first be noted that many of the improvements to customer service are facilitated by management reform. Our department directors have been asked to implement any management reform initiatives that relate to customer service as well as any service delivery improvements that they feel can be implemented within existing resources.

Our directors' commitment to delivering services will be documented in their performance contracts. They are developing specific performance targets and will be held accountable for directing their departmental personnel toward the achievement of those goals. Their goals must be specific and measurable and geared toward results. Our other personnel will also be asked to sign employment contracts, which document the expected outcomes of their positions, customer service being a primary component of their job performance.

The performance contracts are a part of our overall performance management system that is illustrated on the following page. Our performance measurement system is based on the PDCA Cycle—(Plan Do Check Act). The first step is to plan a change for improvement. We will expect our department directors to develop specific strategic plans that involve service enhancements geared toward improving the services they deliver to our citizens. Second, we implement change. The actions suggested by those plans will be implemented along with the management reform projects. Third, we analyze the results. The departments will record activities against their performance measures. The results will be provided in quarterly reports. In addition, we will evaluate the outcome by citizen surveys. These surveys will allow us to determine how our citizens feel about our service delivery.

In order for our services to improve, we must have a trained, motivated, equipped workforce. Significant resources have been devoted to training and motivating the workforce. It is my belief that we have dedicated, hard working employees who desire to do the best job of delivering service. In some instances they simply lack the skills necessary to perform at the required level. In order to assist them, skills training, supervisory training, and automation training is being made available.

In addition, a compensation study will be conducted to determine where inequities in pay might exist that could dampen the motivation of our employees to do a good job. Further, we will assess the condition of our facilities so that improvements can be made to the working environment of our employees as well as the public access areas. Finally, we must provide them with the equipment necessary to do their job. This includes computer resources, management information systems, working telephones, telephone directories and the like.

MANAGEMENT REFORM

We are implementing management reform with both consulting resources and internal resources. Personnel in my office are involved in a review of the 269 original management reform projects to determine which ones have been completed or will be completed by the end of the fiscal year. Further, we are reviewing the remaining

projects for activities which are in process and have been integrated into the normal operating functions of the department. These projects will become a part of the normal course of business and not be counted as management reform in the future. Our field personnel will monitor the continuation of these activities as warranted.

The remaining management reform projects are in process. The Office of Procurement and the Office of the Chief Technology Officer have both been established and their reform projects are in process. The Department of Human Services has contracted with its implementation consultant and is moving forward. The Department of Housing and Community Development has been given approval to move forward with contracting for its implementation consultants.

In order to establish appropriate accountability for resources, my personnel are reviewing the remaining management reform projects for which consulting assistance has been requested, to determine whether the internal capacity exists to perform the work, whether some projects could be consolidated, or whether the consultant who performed the initial study are the appropriate consultants to assist with implementation. Once a determination is made, contracts or tasks will be awarded to begin the reform effort in all remaining departments.

Where there are major projects that cannot be completed by the end of the fiscal year, we have established, with the assistance of the Chief Financial Officer, carryover capital funds to pay for these ongoing activities. Some of the major projects will be managed from my office, in order that I might pay personal attention to their progress.

BUDGET TARGETS

The District's Chief Financial Officer and his Budget Office staff have assisted me greatly in the monitoring of the budget. Through the vigilance of our department heads and the oversight of the CFO's Office we appear to be on track to meet our budget targets. Joint reviews being conducted by his staff and mine are reviewing with departments their expected spending for the remainder of the fiscal year. Although those sessions have not been fully completed, I am not aware of any problems with regard to the budget. All department heads have been instructed to monitor their budgets monthly and notify me immediately of any projected deficits.

*Question.* Can you estimate the overall costs associated with improving customer service for fiscal year 1999?

Answer. The primary means of improving service delivery, as previously stated, are the management reform initiatives, training and budget enhancements for 1999. We will have our Budget Workshop on Management Reform and 1999 Budget Enhancements on March 26, 1998, and following that session we will have significantly better information. I will certainly provide detailed information subsequent to the completion of our budget process.

*Question.* Can you estimate the overall costs associated with implementing management reform for fiscal year 1999?

Answer. First, it must be noted that the review process we have underway will identify some management reform projects that will be completed in 1998. Further, some previous reform projects will be incorporated into the ongoing operations of a department and will become part of operating budget for 1999. Again, once we have gone through the budget development process, we will be in a better position to accurately quantify what the funding needs are for management reform in fiscal year 1999.

*Question.* You are familiar with the provisions of the Management Reform Act of 1997. In your opinion, should Congress have included all of the District's departments and agencies in the legislation, or are you satisfied that only the nine listed agencies are in need of reform?

Answer. I believe that it is important to have all agencies involved in management reform whether they are included in the Revitalization Act or not. We are achieving that in part through funding provided through the four cross cutting agencies. Further, we are inviting all agencies to participate in department meetings and government-wide initiatives such as strategic planning.

Many of the agencies are inter-dependent and need shared information. One of my objectives is to facilitate inter agency cooperation in the way that I manage.

*Question.* What is the status of the spending plans you are developing with the CFO for each of the reform projects?

Answer. As previously stated, we are in the midst of joint reviews of the departments' current spending and 1999 requests. The information will be reviewed by the Council and others during the March 26, 1998 budget workshop.

*Question.* Have you identified any reform project that has generated a net benefit or revenue stream?

Answer. With respect to reform projects having revenue-generating ability, there are approximately 40 such projects identified. As noted in earlier testimony, consultants estimated that by implementing these projects in the first quarter the city could potentially reap roughly $140 million in revenue and cost savings. As you may recall, key factors in the selection process were both revenue generation and cost savings.

It is important to emphasize as well that time frames for realizing such proceeds will vary with project implementation. Such projects require time intense startup and in most cases, we have determined that the city will not realize revenue growth until well into the next fiscal year. However, in other cases the city will benefit upon immediate completion of the project. We have requested that the Office of the Chief Financial Officer analyze these projects and make a judgment on the revenue projections. The Office of the Chief Financial Officer will also set up accounting procedures to track additional revenue and cost savings. We estimate that upon full implementation, the city's revenues will substantially increase and improve the revenue stream.

Among these projects are:

—Compliance with Regulatory Requirements, to be implemented by the Department of Consumer and Regulatory Affairs. This project will result in stricter compliance with regulatory requirements and bolster $2.3 million in revenue as a result of issuing increased numbers of business licenses.

—The Revenue Realization initiative, to be implemented by Asset Management. Consultants estimate that this project will generate approximately $1.5 million by year-end 1999. This project will both improve the management of accounts receivable functions and out-source the collection of receivables that have aged over 120 days.

—*Process Redesign*.—Fraud and Abuse Detection, to be implemented by Public Health. This project will generate an estimated $3 million in Medicaid fraud recoveries and hopefully serve as a deterrent to future crimes.

*Question*. Prior to your coming on board, the Control Board approved management reform plans, which had been developed by consultants.

These plans identified management improvement projects that could address many of the deficiencies plaguing the District government. The Control Board selected 269 projects for implementation. You have had an opportunity to review the Control Board's recommended priorities. Are there any areas or priorities with which you disagree with the Control Board?

Answer. My discussions with the department directors who have reviewed the projects for their departments have indicated broad agreement. These projects address issues of primary concern to the residents of the District and as such, are all warranted and needed in order to significantly improve service delivery. We are combining some reform projects to facilitate implementation and allow for more effective monitoring.

*Question*. One of the most expensive components of the city's operations are the receiverships that are operating four agencies of the DC government. Please tell us what management reform steps are being taken to end the receivership in the Department of Human Services?

Answer. The Department of Human Services consists of the Commission on Mental Health Services and the Commission on Social Services. The entirety of the Commission on Mental Health Services is currently under the Dixon Receivership. A portion of the Commission on Social Services, the foster care and child welfare functions, is under the LaShawn General Receivership.

All components of the Department of Human Services, including the functions under receivership, were reviewed or are being reviewed under the management reform process. (The review of the mental health system is currently in process. Authorization of the review was held until the new receiver, Dr. Scott Nelson, was appointed and on site.) While the receivers have a great deal of latitude in determining the course of reforms they will pursue, the Authority commissioned these reviews in order to assist the receivers in their reform efforts.

The Authority has also executed memoranda of understanding with the LaShawn and the Dixon receiverships. These documents serve to facilitate the day to day working relationship by clarifying policies and procedures related to procurement, fiscal accounting, and the like.

Two criteria were established by the court that must be met before returning control of the mental health system back to the District. The Dixon court order states that "the Order will remain in effect until such time as the Service Development Plan and the orders of the court are fully implemented, and the receiver is no longer necessary to assure the ongoing operation of the District of Columbia's mental health system."

We are working with the Dixon Receiver to create a plan that will satisfy the two criteria identified by the court. Again, these are (1) to meet the specific service mandates of the court order and (2) to put a system in place that will ensure that the service mandates will continue to be met once the receivership is concluded. Once the reform plan is completed, we will be assisting the receiver in carrying out these plans. A similar process is being undertaken with the LaShawn Receivership.

In total there are 14 receivers. More information is available from the Corporation Counsel. A budget workshop on receivers is being held on March 20, 1998. Issues surrounding the receivers will be discussed in that session.

*Question.* What steps have been taken to ensure that the Department of Human Services shifts its efforts from the old entitlement focus to the new temporary assistance focus?

Answer. No set of reforms are more critical to the health of District families and communities than those of welfare reform. This opinion is shared by District residents in that nearly three quarters of District residents rank the need for improvements in services to low-income District residents as a top priority. For the past six months, the District's Department of Human Services has been intensely engaged in the welfare reform effort. The management reform process is serving to support and expedite the welfare reforms efforts that are underway.

The District's welfare reform program is moving from a basic cash subsistence program to an aggressive effort to provide the necessary support services to guide current and potential recipients into viable employment opportunities.

To accomplish this, we are working to connect the needs of the business community with the activities of the human services and employment services agencies of the District government. The federal Department of Labor has been tapped to provide technical assistance. A working group has been established, led by DC Agenda, to better define the roles of the various participants in this effort, such as government agencies, the Private Industry Council, and private contractors.

While still in its infancy, welfare reform has produced results in the District. At present, the welfare rolls are declining at a rate of 1.2 percent per month. This is an annual rate of decline of 14.4 percent. Since October 1996, the District's welfare caseload has fallen by 3,700 families, representing a 14.7 percent reduction over the period. It is important to note that no family was dropped from receiving cash assistance due to the imposition of a pre-established time limit. The families leaving the rolls are doing so because of their actions to secure employment or because they have chosen not to comply with the new requirements.

Under the District's redesigned program, a "Work First" strategy is being employed. When first contacting the public assistance office, applicants are immediately encouraged to undertake job search activities. If the recipient is not successful in securing employment during the initial 30-day period, the individual will be assigned to a contractor that has experience with, and will receive compensation based upon their success with, transitioning welfare recipients into employment. The contractor will be provided additional compensation for ensuring that the welfare recipient retains employment over an eighteen-month period.

To implement this "Work First" strategy, the District Government must restructure its internal operations and must build a capacity to monitor private contractors. Fourteen of the management reform projects currently underway relate to this restructuring effort.

*Question.* Please report to the committee on reforms currently being implemented in real property asset management.

Answer. The 1997 Asset Management Reform Report, the 1996 Strategic Facilities Report, and the 1990 Rivlin Report, have all found that the District's real estate management structure is highly decentralized and fragmented, and operates without a consistent operational strategy or leadership. As a result, the District is generally unable to manage its real property assets to their highest and best use, or ensure that high quality management and maintenance services are delivered to tenants.

The District's real property management system is characterized by a highly decentralized structure, with each agency, office, or division within the government primarily concerned with managing their respective office space or buildings. There is limited centralized coordination of these efforts, There is also significant duplication and waste among the various management and administrative support services, and in service delivery. This results in excess office and warehouse space, the inability to efficiently manage inventory and tracking functions, contractual services, and equipment purchasing. Altogether, these factors result in valuable properties sitting vacant or underutilized. This lack of coordination is also evident in the District's poor maintenance schedule, deferred maintenance, and unfunded capital repairs.

The Office of the Chief Management Officer has begun to implement structural and operational reforms in the management of District owned real property. We are currently recruiting for a Chief Real Property Officer, whom we expect will have significant public and private sector experience in real estate management, as well as experience in overseeing and implementing comprehensive change management and process reengineering efforts.

We are also creating a new centralized organization to be called the Office of Real Property, for which we will leverage funds from the management reform process. We expect this new office to operate in a manner similar to a responsive commercial real estate management company. Its primary mission will be to attain the highest return on all real estate investments. It will also assume the responsibility and accountability for the life-cycle management of all of District owned real property—from acquisition, management and maintenance, to ultimate disposition. We are currently redefining the organizational structure, personnel characteristics and skills, job descriptions, and budgetary requirements necessary to implement and operate this new office.

We are also performing a comprehensive skills assessment of personnel involved in the management of real property, creating new position descriptions where necessary, and determining the appropriate staffing levels for each unit involved in the real property management process. We are also identifying functions that are required to be in-house, and those that can best be obtained under private sector contract. We are identifying and building performance measures to be employed in connection with the real property management process, and identifying appropriate feedback mechanisms to gauge the level of internal (District employees), and external (business, community and neighborhood development organizations, District residents) stakeholders satisfaction with service delivery. Finally, we are working to establish and implement new operational policies, procedure manuals, and regulations required to effectively manage all aspects of real estate. We expect this new organization to be operational and functional by September 30, 1998.

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## QUESTION SUBMITTED BY SENATOR BOXER

### LABOR-MANAGEMENT PARTNERSHIPS AS A TOOL FOR REFORM

*Question.* Dr. Barnett, welcome and congratulations on your appointment.

I am advised that the City government has set up a "DC Labor-Management Partnership Council." The expressed purpose of this partnership is to be a forum for communication and cooperation between unions and management to support their joint mission to deliver high quality, cost effective service to D.C. residents and visitors, while maintaining a high quality work environment for employees of the D.C. government.

I am told that a goal of a robust Labor-Management Partnership is to transform the labor-management relationship from the traditional adversarial model to a joining-of-forces model to focus on improving service, and performance.

It would appear that a strong and healthy partnership between managers and the workers closest to the delivery of services is vital if the D.C. government is to improve its operations.

I am told that on February 24, 1998, the Chief Management Officer (CMO) signed on to the D.C. Labor-Management Partnership Council as the Management Co-Chairperson representing both the CMO and the D.C. Financial Authority.

Dr. Barnett, how do you intend to use the D.C. Labor-Management Partnership Council to review, implement, and re-evaluate the various recommended management reform changes?

Dr. Barnett, what more can you tell us about this?

Dr. Barnett, is there anything else you wish to report to the Committee about the matters under your jurisdiction?

Answer. I am very pleased that you have asked this question, Senator Boxer. I have decided to use the Labor Management Partnership Council as one of the primary mechanisms to bring about management reform, to improve the quality of customer service, and to foster greater job satisfaction among District government employees. On behalf of the Authority, I have become a signatory to the Council's Charter, and in the future, I will serve as one of the three co-chairs.

In addition, I am proposing that the District expand the scope of the Council to include the membership of the independent entities, such as the District of Columbia Public Schools, the University of the District of Columbia, and the Public Benefit Corporation (formerly D.C. General Hospital), and the entities currently under the control of court-appointed receivers. In this way, I intend to introduce the coopera-

tive labor-management relations approach to the entire District government. I am convinced that this approach will greatly facilitate the acceptance of the management reform projects and ultimately expedite their implementation.

Furthermore, to ensure that this process continues, I am attempting to obtain from the Department of Labor full time personnel with experience in this area to oversee this activity. Initial indications are that the Department is willing to detail such an individual to my staff to serve in this capacity.

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## QUESTIONS SUBMITTED TO DR. BRIMMER

### QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

*Question.* In November, the Congress appropriated $8 million to the Control Board for a program of management reform for the District of Columbia.

Please give the Committee an accounting of how this money has been spent.

Answer. On January 2, 1998 the Authority reported to the Congress on the management reform plans as required by Public Law 105–33, the District of Columbia Revitalization and Self-Government Improvement Act of 1997. Contained in that report is the approval of 269 projects selected for implementation as part of the management reform plans for the eight agencies and four city-wide functions.

The $8 million will be used to fund a portion the implementation of these projects.

*Question.* In December, 1997, Cotton & Company completed an audit of the summer capital repair program for the District's Public Schools. In particular, the audit focused on the process used by the school system to conduct procurement operations in connection with the repairs.

The audit concluded that the school system did not have an effective procurement system in place, and that the system did not meet statutory and regulatory needs in the schools. The District will soon embark on another round of capital repairs of the District's public schools.

What steps are being taken by the Authority to correct the errors in the District's system for the procurement of goods and services?

What improvements can we expect in the upcoming contracting procedures for the District's school repairs?

Answer. The public schools' procurement operations have been placed under the District's Chief Procurement Officer, and has been reorganized under new leadership. This change has the support of the Chief Executive Officer/Superintendent, General Julius Becton. New procedures are being developed for the entire District government, and will apply to the public schools.

*Question.* How many repair projects are planned for the public schools this summer?

How many contracts are currently in place for the commencement of those repairs?

Since the Parents United law suit has been settled, can the repairs begin before school is over for the summer?

Answer. DCPS facilities personnel are continuing to execute the current emergency program of replacing boilers and chillers, and is putting together a program for the fiscal year 1998 capital funds. Procurements are underway for design of the next phase of school repairs. The planned completion date for these repairs is August 15, 1998.

*Question.* In January, 1998, the D.C. Court ruled that the Control Board went too far in transferring its authority to the Emergency Transitional Education Board of Trustees. The Control Board elected not to appeal the court's ruling.

What role is the Emergency Board playing in the management of the District's public school system since the Court's decision, and what is the future role of the Emergency Board?

Answer. On February 12, 1998, the Control Board adopted a second order relating to the District of Columbia public school system. It reconstituted the Emergency Transitional Education Board of Trustees as its agent for purposes of making recommendations to it with respect to the school system. The Emergency Board has done so, and the Control Board presently has its first set of recommendations under consideration. I have written to the Emergency Board advising them that the Control Board will hold a public meeting to consider these recommendations and to take action on them. The Authority expects the Emergency Board to play a constructive role in the development of policy for the school system.

*Question.* Are you confident that given the court's ruling, the Control Board and the Emergency Board can continue to address, in an effective manner, the crisis in the District's public school system?

Answer. I am confident that, if the order of February 12, 1998, is permitted to be effectuated, the Authority and the Emergency Board of Trustees, working together and with the advice and input of the Board of Education, can continue to address in an effective manner the crisis in the District's public school system.

*Question*. Mayor Barry has insisted that he be allowed to hire a new City Administrator and staff that office. You have opposed the filling of this position and stated that such a person would simply interfere with the Chief Management Officer's duties.

What is the status of the City Administrator and Assistant City Administrator positions within the Office of the Mayor?

Answer. The City Administrator post remains open. Section 1–242(7) provides that the Mayor shall appoint a City Administrator to be the chief administrative officer of the Mayor, and shall assist the Mayor in carrying out the Mayor's functions as the chief executive of the District. The City Administrator, who is not a part of the Office of the Mayor, has no statutory powers of his own, but rather performs such duties as are assigned to him by the Mayor.

With the implementation of the Management Reform Act the Authority has chosen an experienced municipal manager, Dr. Camille Cates Barnett, to act as the Chief Management Officer (CMO) over the nine city agencies and four cross-cutting functions now under the Authority's control. Those agencies and functions constitute 75 percent of the total budget of the District and 85 percent of the personnel of the city government. These facts make clear that, at this time, the District does not require a person to fulfill the statutory role of the City Administrator. The Authority has informally requested that the Mayor simply leave the office vacant for the time being.

*Question*. What is the status of staffing of the office of the Chief Management Officer?

Answer. The Authority has transferred many of its program analysis staff, and several support staff to the CMO's office. It is expected that the CMO will obtain additional staff in the coming weeks.

*Question*. Do adequate District funds exist to fund both offices?

In your opinion, can the District government justify fully staffing both offices?

Answer. The Authority is now reviewing appropriate staffing levels for a restructured City Administrators Office.

*Question*. The Federal Payment Reauthorization Act of 1994 required the Mayor to develop and submit to Congress by March 1 of each year, beginning in 1995, a "Performance Accountability Plan" which would include measurable performance goals for all departments, agencies and programs of the District of Columbia.

The Mayor did not comply with this law. Following the shift in control of nine District agencies from the Mayor to the Control Board, Congress amended the original law to require the Control Board to prepare the report by March 1, 1998.

On March 2, the Control Board submitted its "Report on a Comprehensive Performance Management System." This report does not provide the details Congress anticipated when it required the Control Board to produce a Performance Plan. Instead, it is more of a schedule for the production of more reports. The Committee recognizes that the Management Reform Act has had a significant impact on the plans for operating most city agencies. However, the information required by the Performance Plan is valuable to both the District and Congress in having a vision for the future.

When will the Control Board produce a performance accountability plan for all of the District's departments, agencies and programs?

Will the plan include, as required by law:

—a statement of measurable, objective performance goals for all significant activities;

—the title of the manager responsible for achievement of each performance goal; and

—a statement of the status of any court orders and actions taken by the government to comply with the order.

Answer. In the ongoing fiscal year 1999 budget development process, agencies have been asked to develop performance measures for every program within a department. The Offices of the Chief Financial Officer and the Chief Management Officer are currently working with agencies to refine these standards and to ensure that the measures reflect outcomes and customer satisfaction, as well as outputs. Additionally, a vigorous training and coaching schedule is being developed to make government managers more comfortable with the concept of performance measurement—so that managers may view it as a management tool, and not as simply a reporting requirement.

In concordance with the budget development schedule, these performance measures are to be complete, and will be made available, by May 15, 1998.

*Question.* Would you please give us an update on the status of the various receiverships that are running several of the District's departments and programs: child welfare, mental health services, public housing, and the health system at the D.C. jail.

Answer. A number of receiverships remain in effect, including foster care, community mental health services, public housing, and the health system at the District of Columbia jail. The Authority has entered into working agreements with the receivers for foster care and community mental health services. It reviews budgets and contracts proposed to be entered into by a number of these receiverships. The Authority has established collaborative relationships with a number of the receivers and the judges who are administering the receiverships.

Meanwhile, the Office of the Corporation Counsel has devoted increasing attention to determining how the District may best comply with the court orders that led to the creation of the receiverships, with a view toward persuading the courts eventually to lift the receiverships. The Authority supports the Corporation Counsel's Office in this effort.

The Chief Management Officer is working closely with the Corporation Counsel and the receivers to develop an exit strategy for each receivership. It is the Authority's expectation that the needs which led to the imposition of the receiverships on the District government by the courts will be met, as the District's economic situation improves. The ultimate object is the return of all segments of the District government to the control of that government.

*Question.* In January, the U.D.C. Law School received a 5-year provisional accreditation by the American Bar Association. The Fiscal Year 1998 Appropriations Act for the District of Columbia required the Control Board to report to Congress by March 1 on whether or not the law school should (1) continue to operate; and (2) continue to receive funds from the District Government.

What improvements is the law school required to make in order to receive full accreditation?

What are the costs associated with these improvements?

Given the limited resources available for the University of the District of Columbia, can both the undergraduate program and the law school continue to be funded to the degree required to give the students the quality of education they deserve?

What are the Control Board's recommendations with respect to continued operation and funding of the law school?

Answer. The Authority will submit answers to these questions upon completion of its report to the Congress on the D.C. Law School, which will be submitted shortly.

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## QUESTION SUBMITTED BY SENATOR BOXER

### COLLECTIVE BARGAINING AGREEMENTS WHICH WERE NEGOTIATED AND RATIFIED IN JULY 1997

*Question.* I am advised that the management representatives of the District—with clear guidelines from the D.C. Financial Authority—sat down at the bargaining table with labor to negotiate a comprehensive Collective Bargaining Agreement with the City's employees. The parties reached agreement in July 1997. I am told that there has been a question about who has the authority to move the agreements forward, and thus, the agreements which the unions negotiated with the City have yet to go into effect.

The Chief Financial Officer just recently sent the bargaining agreement to the City Council for its consideration. After 60 days it must move to the Control Board.

Dr. Brimmer, do you see any apparent reason that the Control Board would not act quickly and positively on the collective bargaining agreement, once it is received, inasmuch as the negotiating teams followed the D.C. Financial Authority guidelines for the negotiations and that the CFO has already reviewed and forwarded the collective bargaining agreement to the City Council?

What can you tell us about this, Dr. Brimmer?

Dr. Brimmer, is there anything else you wish to report to the Committee about the matters under your jurisdiction?

Answer. At present, the Authority has no specific information about the collective bargaining agreement referenced by Senator Boxer. However, as a rule, the Authority moves expeditiously to review and approve labor contracts. The Authority understands that once the parties have reached an accord, they are anxious to see that

it is implemented as soon as possible. The Authority has not approved agreements that do not contain sufficient funding for their implementation. As long as an agreement has sufficient funding and otherwise comports with the Authority's Guidelines for Collective Bargaining, it should move rapidly through the Authority's review process. We will look forward to the agreements from the Office of the Chief Financial Officer, and we shall endeavor to review them quickly.

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## QUESTIONS SUBMITTED TO ANTHONY A. WILLIAMS

### QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

#### FINANCIAL MANAGEMENT SYSTEM (FMS)

*Question.* GAO recently issued a report placing the contract for the procurement of the new financial management system (FMS) for the District in a "high risk" category.

For example, the report states that the District has not established the necessary evaluation process to ensure that the new FMS will meet the contract requirements, such as testing requirements to be used for acceptance testing.

Please respond to the concerns raised in this report.

What procedures are in the place to ensure that District personnel are adequately trained to operate the new FMS?

Answer. The District does have an immature software acquisition process and the implementation of the system is a high-risk effort. However, the report does not consider that the District has not acquired any new major systems or software for many years. As a result, policies and procedures do not exist for software acquisitions. Despite this weakness, we disagree that our process for this acquisition is "undisciplined". A comprehensive source selection plan was applied that objectively assessed and evaluated proposed solutions for the FMS including upgrading the existing system, outsourcing the financial operations, and acquiring a new system. Furthermore, an oversight group to address the need for the new financial system was formed that included OMB, HAC staff, the District's CFO, the Authority's Executive Director, the District's Inspector General, and the GAO. Ultimately, the group developed an aggressive time line for considering solutions for the FMS. The aggressive time line is a result of the looming Year 2000 Problem that must be addressed. The aggressive time line represents a primary reason for the high risk scenario the new system is being implemented under.

While the District agrees that the implementation of the new system is a high risk effort, we do not agree with the reasons cited in the draft report. The system is high risk due to the aggressive schedule required to implement a solution before the Year 2000; the lack of infrastructure to support a modern financial system; conversion of unreliable and inaccurate data into the new system; and the complexity of the system.

Furthermore, the district does not agree with the characterization of the draft findings related to requirements development, contract tracking, and risk management. The following discusses the District's actions in more detail:

*Requirements development.*—Initial requirements were defined in a capabilities assessment in December 1996. These were further refined during the spring of 1997 by James Martin and Company and were fully defined by the KPMG as part of the new system solution during the fall of 1997.

*Contract tracking.*—The District contracted with James Martin and Company to supplement the program management of this monumental effort. Their responsibilities include a variety of contract monitoring efforts including the measure of performance versus payment, timeliness of deliverables (as well as quality), and constantly monitors the project plan and risk mitigation plans.

*Risk management.*—Two separate risk assessments have been developed for the project. The primary management focus of the program management office continues to be risk management. A comprehensive risk management plan calls for the identification of risk, source of the risks, analyzing the risk, developing alternative risk mitigation strategies, constantly tracking the status of the risks, and ensuring implementation of risk action plans. Proactive risk management is a continuous emphasis for the program management of this effort.

Many of the GAO recommendations are changes that the District will embody as we continue to develop and refine our policies and procedures for financial operations.

*Question.* The Office of Tax and Revenue is recommending a "tax restructuring framework" that would: (1) cut current taxes by $355M by fiscal year 2002 and mod-

ify the code and regulations; (2) eliminate as many as 7 taxes, streamline user fees and charges, and make additional modifications to the code; (3) increase revenue from not-for-profit activities and create a D.C. gross-receipts tax; (4) implement administrative improvements, an integrated tax system, clear policies and professional management.

Please identify the 7 taxes that are under consideration for elimination:

Answer. *Personal property tax.*—currently assessed only against business equipment.

*Unincorporated business franchise tax.*—currently assessed against the entity income of some partnerships and proprietorships.

*Arena Fee.*—revenue to be folded into the proposed broad-based, low-rate (−0.350/0) gross receipts tax that is similar to the current arena fee.

*Motor Vehicle Excise Tax.*—with sale of motor vehicles to be folded into the existing sales and use tax.

*Hotel Occupancy Tax.*—with revenue for the convention center fund generated, instead, through the hotel ad valorem sales tax.

*Professional License Fee and Vendor License Fee in Lieu of Tax.*—with revenue generation folded either (1) into the professional and vendor licenses collected by the Department of Consumer and Regulatory Affairs or (2) into collections of the broad-based, low-rate gross receipts tax.

*Question.* Please explain in detail the gross-receipts tax under consideration by the OTR?

Answer. The proposed broad-based low-rate gross receipts tax is modeled after the current Arena Tax-All business entities doing business in the District would be subject to the tax on their D.C. generated gross receipts. This tax 2 is very similar to the gross receipts tax in use in Virginia's counties. Either actual gross receipts in the District could be reported, or all gross receipts could be apportioned according to an apportionment factor; for the Arena Fee the apportionment factor is the equally weighted average of D.C. payroll, property, and sales of all payroll, property, and sales. At a rate of 0.35 percent of gross receipts, the tax is believed to generate roughly $110 million annually.

*Question.* Please outline the process and date line for enactment of the tax restructuring proposal under consideration.

Answer. The District Government is in the process of building a consensus budget proposal for fiscal year 1999. As part of this process, the Council, CMO, CFO, Mayor, and Financial Authority have met jointly to discuss tax restructuring. Other key decisions for the consensus budget also have been or will be reviewed by these bodies. The actions will be folded into the budget document. We do not know the extent to which these recommendations will be incorporated into the fiscal year 1999 proposed budget.

The framework prepared by OTR proposes to revise and reduce certain taxes in fiscal year 1999, to introduce the broad-based gross receipts tax and other changes and reductions in fiscal year 2000,and to complete restructuring in fiscal year 2001. In total, these changes should improve the tax structure to "track" more fully with the District's economy, while also reducing individual income taxes by $60M and reducing business taxes so that no industry pays materially more and virtually all industries have a net tax reduction.

*Question.* The February 5, 1998 KPMG Marwick Independent Auditor's Report found that the District's financial statements conformed to generally accepted accounting principles. In other words, it received a "clean" opinion. At the same time, the report identified material weaknesses in internal control over the District's financial reporting related to:

—the District of Columbia Procurement Practices Act of 1986
—the Anti-Deficiency and Home Rule Acts
—the Quick Payment Provision of the District of Columbia Code
—electronic data processing
—business tax information system processing
—monitoring of Department of Housing and Community Development loan activity
—DC Lottery and Charitable Games Control Board financial management
—bank reconciliation controls
—controls over transactions involving the Authority
—lack of timely entry of transections into FMS
—other reconciliation and management items

For each of these material weaknesses, please explain for the committee:

—A description of the exact nature of the material weakness; and
—Steps being taken to remedy the material weakness.

Answer. The Office of the Chief Financial Officer, through its Office of Financial Operations and Systems, will continue its efforts to correct all internal control structure deficiencies and management letter comments to and maintain a "clean" audit opinion. To facilitate this goal, the Office of Financial Operations and Systems established a goal committee composed of agency chief financial officers, controllers, and OCFO central finance personnel. The committee reports its progress through 8 subtasks, each representing an area of attention critical to elimination of the District's internal control structure deficiencies.

As in fiscal year 1996, the goal committee will review the auditor's reports, meet with the designated agency representatives to ascertain the agency's position on the weaknesses identified; evaluate the appropriateness of each agency's written responses; observe the extent of the agency's follow-through; ensure multi-agency resolution coordination, as necessary; examine and evaluate available remedial documentation, systems and processes instituted to resolve the issue and recommend further corrective actions, as appropriate. The review is dynamic. With the recent release of the fiscal year 1997 report, the goal committee and OFOS are only in the initial stages of the process—ascertaining the agency's position on the weakness identified and obtaining actions plans as to how the agency will correct the problems. Thus, while the responses are preliminary in nature; we remain available to provide subsequent updates as the process and corrective actions unfold.

VIOLATIONS OF THE DISTRICT OF COLUMBIA PROCUREMENT PRACTICES ACT OF 1985

While violations of the District of Columbia Procurement Practices Act of 1985 remained a problem during fiscal year 1997, improvements were made in the instances cited in the following areas:

—Improper extension of emergency procurement contracts down by 21 percent from fiscal year 1996.

—Splitting of invoices to avoid dollar ceilings down by 41 percent from fiscal year 1996.

Procurement and contracting policy and processes is the responsibility of the Chief Procurement Officer under the purview of the Chief Management Officer. The District does not require agencies to prepare quarterly listings of emergency procurements. DAS' system does not include a mechanism for extracting this information and/or for tracking emergency type procurements. In 1997, DAS, however, was in the process of developing an automated tracking system for contracts. This system was to include a field which can be coded with the contract type ("E" for emergency and "S" for sole source). Based on this coding process, reports of various types of contract information, would be generated, as needed.

DAS staff indicated that emergency procurements are frequently required to provide continuous financial support to critical city services. Services such as ambulatory care, food services, and respiratory care, cannot be suspended for any period of time. Thus, as contracts expire, emergency procurements are conducted to continue service/support.

DAS has implemented procedures whereby staff must closely examine emergency requests to first determine whether there is a true emergency need. Unless there are circumstances which are life threatening or potentially detrimental to the operations of the District, a procurement is deemed not to be an emergency and is denied. These requests will then be processed as a "regular" procurement.

The District does not require agencies to prepare quarterly listings of sole source procurement. DAS' system does not include a mechanism for extracting this information and for tracking sole source procurements.

In 1997, DAS was in the process of developing an automated tracking system for contracts. This system would include a field which can be coded with the contract type ("E" for emergency and "S" for sole source). Using that information, various types of contract reports can be generated.

The District experiences sole source procurements problems primarily because there is no acquisition plan in place at the agency level. There is consensus that there must be a system for procurement planning throughout the year. Accordingly, agencies should be aware of time frames for exercising contract options and dates of contract expirations. Agencies should use this information to plan ahead and should forward the relevant documents to DAS as necessary throughout the year rather than all at once at yearend.

As such, DAS plans to implement a process where agencies will be required to submit packages several months before their contract expiration date. For example, contracts expiring on September 30 should be sent to DAS before June 30. This will allow DAS sufficient time to review and process agency procurement requests and should reduce the need for sole-sourcing. DAS, however, maintains that some sole-

source contracts will be awarded in cases where it is necessary to protect the life/health of individuals.

DAS agrees with the audit findings that emergency procurements are an inappropriate substitute for well-planned procurement of requirements on a systematic, timely basis, but disagree that the act of tracking emergency procurements, whether manually or automatically, is an effective way to manage the problem preventatively. The root cause of the problem is the absence of a comprehensive procurement planning process. The Office of Contracting and Procurement is presently engaged in establishing such a process to manage the procurement of goods and services across all District of Columbia Government agencies and commissions. A descriptive outline of the process which is currently planned to be deployed is included in this reply below.

A secondary root cause of the excessive dependence on emergency procurements is the fiscal year paradigm, which refers to the fact that the substantial majority of District contracts are unnecessarily and inappropriately aligned in terms of expiration date to fiscal year funding mechanisms employed by the District. In practical terms, this means that the majority of contracts expire on September 30 of each year, making their timely replacement unmanageable by definition and process. In an operating environment of unmanageability, agencies must necessarily rely on emergency procurements to avoid interruption of supply. In this context, it is not reasonable for agency contracting officers to be expected to differentiate, as the audit report suggests, between critical services such as medical care and food services and all other goods and services since government operations would not be able to function without continuity of supply of most goods and services. The Office of Contracting and Procurement is in the process of orchestrating a realignment of all contract expiration dates to address this problem.

Sole source procurement has a justifiable role to play in many cases of proprietary know-how and expertise or other unique areas of specialization in goods and services. Sole source procurement in the District of Columbia Government has attracted a negative connotation as a result of the lack of organizational competence which is responsible for the absence of a sound procurement planning processes. This in turn drives excessive emergency procurements, a high percentage of which are also sole source procurements because they can be put in place in the least amount of time. The misuse of sole source procurement methodology will be addressed by the implementation of Demand-Pull Procurement Planning discussed in the attached.

The issues raised in the audit report concerning splitting of invoices and inadequate file maintenance are presumed accurate by virtue of disclosure in the audit report. These types of problems will be addressed by the procurement reform initiatives which are now underway.

Parenthetically, it would be appropriate for the audit report to refer to the Office of Contracting and Procurement in future audit reports inasmuch as procurement is no longer organizationally aligned with DAS.

*Demand-Pull Procurement Planning*

Procurement transactions in the District are uniformly sub-optimized in economic, operational and regulatory terms by mix-aligned timing between procurement efforts and the realities of program delivery requirements. The root causes of this condition are inappropriate focus on expiration dates of contracts, the alignment of contract periods to the fiscal year paradigm, and the syndrome where program managers wait for Procurement to do something and Procurement waits for Program Management to do something. The result is that neither does anything until "do nothing" becomes operationally egregious, at which point it is already too late.

Organizationally, it is unrealistic to expect multiple program management operations throughout the city to adopt the correct forecasting and milestone practices to correct this problem for themselves; hence, standardized planning practices will be led by the Office of Contracting and Procurement to institutionalize District-wide prioritization of procurement requirements. These standardized planning practices will follow the "demand-pull" convention in which:

Procurement actions in the future are forecasted by program activities at first inception of knowledge of a requirement. In the case of grants, for example, program activities will be required to forecast all contract spin-offs at the point a grant is either requested or granted, whichever comes first.

Procurement actions are assigned a contract number even at this embryonic stage as required to attract milestone checkpoints for each segment of the procurement process based on timelines which reflect District processing times, supplier and major sub-supplier lead times, and strategic contingencies for economic and regulatory optimization.

The Procurement Planning organization pulls transactions through the system based on milestone tracking and management by exception reporting in which:

—The Chief Procurement Officer is regularly informed of "at risk" conditions as required to facilitate corrective intervention.

—Agency Directors are informed of a pattern of "at risk" conditions and missed deadlines as both a personnel and organizational performance metric.

Key features of the demand-pull process are: milestone tracking based on performance and delivery needs, NOT contract expiration dates; compliance disciplines based on performance and timely feedback; and integration of both program planning and procurement into one process aimed at prioritization, manageability, and optimization of economic value.

Implementation status is a follows:

Procurement Planning operations now staffed at managerial level for Health and Human Services, Public Safety, and Public Management Procurement Divisions.

Senior procurement planning analysts will oversee planning activities by organizational cluster working directly with full-time dedicated analysts in each agency service bureau which are now being evaluated and appointed.

Contract inventories complete for all agency and commission operations responsible to the Office of Contract and Procurement except for Department of Health and being analyzed for vital contract attributes necessary for establishment of milestones by category of affected goods and services.

ANTI-DEFICIENCY AND HOME RULE ACTS

The Office of the Chief Financial Officer executed the issuance of $237,810,000 of General Obligation Bonds, Series 1997A in June 1997. The bonds were issued to provide new money capital funds and a refunding escrow that was used to retire higher coupon outstanding bonds. The new money component totaled $155,440,000 and the refunding component totaled $82,270,000. The refinancing of higher interest bonds was due to lower marketing interest rates and the District's improved financial position. Below, we have summarized the retired bonds.

DISTRICT OF COLUMBIA GENERAL OBLIGATION BONDS, SERIES 1997A—SUMMARY OF REFUNDED DEBT

| Series | Maturity | Amount | Coupon (Percent) | Call Price |
|---|---|---|---|---|
| 1986A | 1998 | $17,045,000 | 7.70 | 101.5 |
| 1986B | 1998 | 7,500,000 | 7.70 | 101.5 |
| 1986C | 1998 | 10,745,000 | 7.90 | 101.5 |
| 1986D | 1998 | 13,140,000 | 7.70 | 101.5 |
| 1986D | 1999 | 14,065,000 | 7.00 | 101.5 |
| 1987A&B | 1998 | 9,105,000 | 7.25 | 101.5 |
| 1987A&B | 1999 | 9,765,000 | 7.40 | 101.5 |

The refunding component of the Bonds was structured to realize debt service savings that resulted in the current refunding of bond candidates. The District's financial advisor performed: standard savings analysis, a maturity by maturity analysis of the savings candidates, a marginal savings analysis, a break-even analysis and an option value savings analysis and recommended bond candidates from the District's outstanding debt portfolio for refunding. The Office of the Chief Financial Office received and has available, the report of the District financial advisors, dated June 4, 1997 which provided the recommendation of the firm and the detail of the transaction.

The refunding bonds were amortized with a 1.29 average life to match the debt service on the refunded bonds (June 1, 1998 and June 1, 1999). The refunding produced over $1,900,000 gross savings over life of the issue and approximately $988,000 in present value debt service savings. Below we have summarized the refunding bonds.

DISTRICT OF COLUMBIA GENERAL OBLIGATION BONDS, SERIES 1997A—SUMMARY OF REFUNDING BONDS

| Series | Maturity | Amount | Coupon (Percent) | Yield (Percent) |
|---|---|---|---|---|
| 1997A | 1998 | $58,065,000 | 5.50 | 4.50 |
| 1997A | 1999 | 24,250,000 | 5.50 | 4.95 |

Under the provisions and requirements of gross budgeting, the refunding bonds were treated as an additional source of funds—an expenditure to the "Repayment of Bonds and Interest" expenditure agency and the "Financing and Other Uses" appropriation title. Under this treatment, the Repayment of Bonds and Interest agency was $78,332,000 over the amount of the approved budget, due to the allocation of $82,270,000 of refunding bonds.

The office of the Chief Financial Officer, Office of Finance and Treasury is reviewing the District's anti-deficiency provisions with regard to Repayment of Bond and Interest appropriation. Home Rule Act, Sec. 483(d) provides that an additional appropriation not apply to "(2) any amount obligated or expended for the payment of the principal of, interest on, or redemption premium for any general obligation bond or note issued under 461(a) * * * of the Act. However, the treatment of the refunding bonds as an additional source of revenues and an additional expenditure, due to the gross budgeting.

The refunding transaction lowered the District's capital and reduced the debt service owed by approximately $1,000,000 due to lower interest rates and the District's improved financial position. The transaction is being reviewed in order to assure a proper interpretation of the federal statutes and to permit the District from taking advantage of future opportunities to lower its debt cost through refinancings.

QUICK PAYMENT PROVISION OF THE DISTRICT OF COLUMBIA CODE

As with the areas in violation of the Procurement Practices Act of 1985, much work remains to be done in the area of compliance with the Quick Payment Provision although the number of citations identified improved by 11 percent from fiscal year 1996. Many of the provisions of the Quick Payment Act are obsolete, particularly those in areas requiring payment to vendors in less than 30 days, and are in need of revisiting. During fiscal year 1998, the Accounts Payable Unit within OFOS in conjunction with the Office of Finance and Treasury will review the Act and propose recommended changes while maintaining the purpose and the spirit of the Act.

ELECTRONIC DATA PROCESSING

Serious Internal Control Structure (ICS) weaknesses remain within the District's management information systems with little improvement to date. Management information systems (MIS) deficiencies represented 57 percent of the fiscal year 1996 ICS findings and appear to remain the most significant aspect of the fiscal year 1997 ICS comments. This lack of progress in MIS specifically warrants a separate, concerted effort for improvement. The Office of the Chief Technology Officer (CTO) aligned with the Department of Administrative Services, under the auspices of the Chief Management Officer. The Chief Technology Officer is a recently created position, with the incumbent only reporting in the winter of 1997. Last year, the Office of the Chief Financial Officer (OCFO), Chief Information Officer coordinated system improvements to assist the agencies then under the Mayor's purview due to their lack of a chief information officer (CIO). Responsibility, however, for developing and restoring systems deficiencies resides with each agency that have identified weaknesses. This effort was largely unsuccessful, since the agency electronic data processing and information resources management staff did not report to the OCFO/CIO.

During fiscal year 1998, it is incumbent upon the District CTO to take responsibility in the correction of these deficiencies and continue the work begun by the OCFO/CIO to motivate the District-wide EDP steering committee, and coordinate the efforts among the different District departments. The District CTO must ensure an overall, integrated effort that avoids duplication of resources and facilitates the proper interface of all systems, finalizing the draft comprehensive data security policies and procedures manual; establishing end user training; and working with the OCFO/CIO to ensure the automated interface between feeder systems and EMS occur. As of September 16, 1997, the reviewer was informed that a new CTO for

the District of Columbia had been selected and is expected to be on board in October, 1997.

As part of a city-wide plan headed by the OCFO/CIO, a contractor was engaged to develop and implement standard policies and operating procedures. The drafted policies and procedures include standards for data security, system back-up, and disaster recovery changes in applications programs, and segregation of duties. The draft policies and procedures have been distributed to all agencies for comment. The newly hired CTO for the District must work with the OCFO/CIO to finalize and implement the policy and procedures, modify, as necessary, the standards to reflect the characteristics of each individual agency, and establish an internal audit team to recommend, oversee and review appropriate changes for the physical processing environment at each installation.

BUSINESS TAX INFORMATION PROCESSING

The qualified audit opinion in fiscal year 1996 was a result of the auditor's inability to obtain sufficient evidence supporting the General Fund Business Tax receivables. That significant progress was made as during fiscal year 1997 is evidenced by the Auditor's removal of such qualification. Additional work is still needed however, in the business tax information processing area.

The Office of Tax and Revenue (OTR) plans to install an additional modification to BTIS that will further improve the returned mail. The enhancement will allow the Returns Processing Administration (RPA) to input corrected addresses into the BTIS master file from forwarding address labels provided by the postal service. This enhancement will reduce the number of documents routed to the responsible areas in the agency. OTR has already implemented an enhancement to flag taxpayer accounts with returned mail for which no forwarding address is provided, and suspend the generation of future mail to those taxpayers. The Returns Processing Administration is not experiencing any staff shortages or lack of resources.

In addition, OTR plans to use the Internet's Switchboard feature, the Haines Directory, taxpayer contact, as well as a National Change of Address vendor which utilizes the U.S. postal service's Code I program. In addition to implementing the system changes to track returned mail, OTR also sent a tape of the addresses in question to the National Change of Address vendor. Of a population of 17,000 questionable addresses, approximately 1,200 new/corrected addresses were received. Currently OTR is analyzing the remaining questionable addresses to determine the materiality and collectibility of the receivable accounts, and whether the taxpayer has any valid addresses (e.g., for a different location) on the BTIS master file. OTR plans to continue further efforts in fiscal year 1998, as part of their normal course of business, to obtain corrected addresses. Efforts planned include data entering addresses from returns, data matches with the Real Property Administration, as well as continued use of the National Change of Address vendor.

KPMG noted tax returns were not readily available or easily traceable due to an inadequate system. During fiscal year 1997, OTR acquired the additional space and the new filing system equipment. The Returns Processing administration (RPA) completed its re-filing of tax returns in the new filing system. In addition, RPA updated the applicable portions of OTR's record retention policy and will continue to refine the process.

To reduce the occurrence of processing errors, OTR plans to (1) implement several enhancements to its on-line data-entry system for the sales and withholding tax returns; (2) work with the Office of Finance and Treasury to ensure that a new lock box contract is issued that will address OTR requirements; and (3) continue data purification as needed until system enhancements are in production.

MONITORING OF DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT LOAN ACTIVITY

The Department of Housing and Community Development (DHCD) concurs, in part, with the comment that "the District does little to monitor the financial condition of the borrower to determine the ultimate collectibility of the note. Rather, it relies on foreclosure notices from the primary lender to determine whether a loan should be considered uncollectible. A deferred loan normally has no repayment requirement on the principal balance until the housing unit is sold, transferred or ceases to be the borrower's principal place of residence. In addition, deferred loans take on a "quasi grant" characteristic because the loan may be transferred at the borrower's death to a member of the borrower's household who has resided in the property for at least one (1) year and who will occupy the property as his or her principal residence.

However, the vehicle for performance measurement on deferred loan borrowers with the primary lender is the current contract with the new servicer. It provides for monitoring the delinquency status of all superior liens on borrowers' collateral (including deferred loans), as well as monitoring to ensure that the residency clause has not been violated.

On an annual basis, a sample will be selected from the deferred loan population by the Department and the servicer will confirm whether the deferred borrowers are current with their primary mortgage. This will assist the Department in determining whether the contractor is in compliance with their duties under the contract, and the potential collectibility of the deferred loan.

Regarding the auditor's statement that there were a "significant number of loans past due greater than 120 days; however, no loans were forwarded to the collection agency during the year", DHCD concurs, in part. A work order was completed and executed for $1.4 million on August 19, 1997. An additional $18.3 million in loans greater than 120 days were transferred to the collection agency during the first quarter of fiscal year 1998. The Department is working with the contractor to develop a system whereby this provision is implemented on a routine basis. This would reduce the time required to move a loan from the servicer to the debt collector, and enhance the possibility of collection.

DHCD concurs with the comment that "DHCD maintains little historical information on collection of deferred payment loans and amortized loans to allow it to determine the adequacy of the loan reserve on a recurring basis. Where some collection data is available, it has not been compiled to develop trends from one fiscal year to the next, and therefore has not been utilized to develop a strategy on the loan loss reserve." The Department is currently developing a strategy which will encompass the use of data from the debt collector, and in-house analysis from reports provided by the loan servicer. Fiscal year 1997 will serve as the base year for development of future trend analysis.

DHCD does not concur with the comment that they did not adequately monitor the performance of the contractor. Meetings were initiated by DHCD and held with both the prior and current contractor to address ongoing concerns regarding the transfer of data and reporting requirements. Weekly meetings and site visits were held and written correspondence was addressed to the current contractor to assist in facilitating the expeditious handling of the related problems which occur in a transfer of approximately 6,300 loans to a new contractor with one month remaining in the fiscal year.

Regarding the loans receivable subledger not reconciled to the FMS loans receivable balance during the year ended September 30, 1997, DHCD indicated that the loan receivable subledger was reconciled to FMS at year end and has instituted procedures for this reconciliation to occur on a quarterly basis in fiscal year 1998.

BANK RECONCILIATION CONTROLS

The Office of Finance and Treasury (OFT) and OFOS share the burden and responsibility to ensure the cash is recorded in FMS, is reflective of the true cash position maintained by the banks and other holding institutions in the name and for use by the District. Questions raised by the fiscal year 1997 audit could have been more readily resolved had OFT and OFOS communicated better throughout the year on day-to-day cash accounting. The tremendous workload experienced during the closing days of the audit, in this area, can be attributed to the backlog of reconciling items caused by the following reasons:

—Cash documents being coded with an incorrect cash account number.
—Data entry errors.
—Wire transfers being deposited without a corresponding FMS recording document.
—Wire transfers being sent out without a corresponding FMS recording document.
—Wire transfers being sent out not in accordance with FMS requesting document.
—Items being posted in the Check Writing System without a corresponding FMS recording document.
—Items being posted in FMS without a corresponding Check Writing System document.
—Cash documents being processed to an incorrect fiscal year.
—FMS recording documents are not being prepared at all.
—FMS recording documents not being prepared correctly.
—Non-FMS checks being distributed without corresponding FMS recording documents.

Additionally, there were several contributing factors to the delays in the closing process/audit relating to cash. These contributing factors are as follows:

—The District has too many bank accounts.

—The opening of bank accounts and corresponding FMS bank accounts are neither coordinated, timely, nor have responsibilities and instructions been clearly disseminated.

—Lack of procedures involving recording and distribution of cash.

—Confusion and lack of assumed responsibility in correcting inaccurate FMS documents.

The following recommendations are under consideration to improve the bank reconciliation process:

OFOS revise the cash reconciliation procedures to address these problems that became magnified during the fiscal year 1997 audit. These revisions will be focused on the timely recording of cash transactions and will include the following objectives:

—OFOS/OFT establish clear and finite procedures which will define the role and responsibility of the Cash Reconciliation Unit versus the responsible agency as it comes to clearing reconciling items.

—OFT establish a threshold dollar amount for which reconciling items under the threshold will be recorded in a miscellaneous account—which are not cost effective to pursue—to concentrate needed research on larger value items.

—OFOS identify and seek resolution for the different kinds of errors and the related research that should be performed by the Cash Reconciliation Unit in identifying reasons for outstanding reconciling items.

—OFOS/OFT establish a format for transmittal of information to responsible agencies when notifying them of errors or outstanding reconciling items. These procedures will further address required due dates for responses as well as appropriate follow-up actions that should be taken when items are not cleared within the specified time limit.

Additionally, it is OFOS' plan (with OFT's cooperation) to review the current procedures for establishing new bank accounts as well as analyzing current existing accounts for ways to reduce the total number of District controlled bank accounts.

INADEQUATE CONTROLS OVER TRANSACTIONS INVOLVING THE AUTHORITY

The Office of Finance and Treasury does keep an ongoing record of Authority held funds. This record takes into consideration funds received by the Authority on the District's behalf (primarily the federal contribution and bond/note proceeds) and transfers made to the District from the Authority for operating and capital expenditures. Any other account activity, i.e. interest earnings or transfers to other agencies, are not reconciled on a regular basis due to insufficient information from the authority. Although it is necessary to have actual data in order to reconcile the District's records, OFT has been unable to receive from the Authority actual bank records on a regular basis. As such, the reconciliation occurs at year-end as part of the audit process.

The funds held by the Authority on the District's behalf are used for operating or capital expenditures. The operating funds held by the Authority typically consist of the federal contribution and note proceeds. Given that this pool of money is used for general operating expenditures, OFT tracks the principal amounts of these funds based on a first-in/first-out method. The Authority generally does not share its account information with the District, as such, OFT has no way of knowing whether these funds are pooled or tracked separately by the Authority.

Other funds received by the Authority typically have specific-use requirements. As such, requests for these funds must specify which funding source to withdraw from. For example, capital bond proceeds are deposited into separate accounts and are withdrawn according to approved agency expenditures by bond issue. The Office of Finance & Treasury also tracks the receipt/disbursement of these funds based on limited information received from the Authority. Interest earnings and the use of those interest earnings is not available on a regular basis.

The Office of Finance & Treasury is usually aware of the amount of funds anticipated to be received by the Authority on behalf of the District. Most of the anticipated funds are the federal payment or bond/note proceeds. Information regarding other federally appropriated funding is usually reported to the Office of Finance & Treasury on a timely basis by the Authority.

Monthly receipt of banking records or account activity from the Authority would allow the District to reconcile its internal records on a regular basis and assist the District with improved cashflow management. As stated earlier, the Office of Finance & Treasury has not been able to receive this information from the Authority.

LACK OF TIMELY ENTRIES INTO FMS

An environment in which financial information is timely, accurate and reliable is dependent upon the recordation of all transactions into the District's existing or new Financial Management System as close to the occurrence of the transaction as possible.

Likewise, the timely analysis of data is a prerequisite to the early detection of any anomalies or exceptions subject to correction or further scrutiny. In the past, the District has relied upon the good faith efforts of agency personnel to enter timely and accurate data into FMS during the course of the fiscal year with little or no periodic oversight by the central accounting office. The results have been mixed, with some agencies waiting until the fiscal year-end closing process to enter information and/or make significant cost allocation changes.

To further ensure the integrity of the District's financial information, the OFOS is instituting an interim closing process in fiscal year 1998. While the OCFO and OFOS had determined that an interim close and increased periodic reporting was necessary, the auditor's report citing the untimely entry of transactions into FMS as an internal control deficiency (resulting in significant transaction input, analysis, adjustments and late entries) has accelerated the need to institute such requirements. While OFOS remains cognizant of the workload of the operating agencies, and the hurdles faced during the fiscal year 1997 closing process, the environment reemphasized the need to implement an interim close this year. The interim/monthly closing process will be focused on improving day-to-day accounting activities in the agencies; fostering the importance or connection of their daily activities to the closing process; and creating an appreciation that maintaining good records throughout the year will diminish the transaction amount and volume activity required at year-end.

The approach to ensure the timely, accurate and reliable provision of data will be a two-pronged effort. Beginning in April 1998, OFOS will require the monthly submission of specific information for analysis and tracking. Also beginning in April, OFOS will require the closing of specific packages by certain agencies for activity through the first 6 months of the fiscal year. The forms to be completed will focus upon those agencies and submissions that were inaccurate, extremely tardy or required significant transaction input at year end. The completion of any other quarterly or monthly closing packages will be determined based upon the assessment of information and accuracy of the midyear submissions.

Recommendations:

*Monthly Reporting*

OFOS prepares and OFIS distribute the new reports on non local source potential overspending, revenue recognition and cash collection. The agency prepares monthly explanatory reports on non local source potential overspending, revenue not recognized timely, and cash not collected timely. OFOS submits a monthly status report to the CFO on local expenditure, revenues, and cash collections, along with agency explanations.

Monthly agency reporting of large vendor invoices not vouchered into FMS, using the agency invoice tracking log.

Monthly agency reporting of significant new litigation against the agency.

Monthly recording of WASA bills to District.

*Quarterly Reporting*

Quarterly agency reporting and FMS and subsidiary system updating for fixed assets acquired from operations, and for fixed asset disposals.

Quarterly agency reporting and FMS entries for new capital leases.

Quarterly agency status reporting of significant litigation against the agency.

Quarterly or cyclical inventory counting, reconciling, and recording in FMS.

Quarterly update by agency of Medicaid accrual.

OFOS develop methodology to estimate annual leave accrual change on monthly or quarterly basis.

*Interim Close*

| Closing package | Title |
|---|---|
| Form 2–5 | Checking Accounts Under Agency Control. |
| Forms 3–2/3–3 | Analysis of Outstanding Encumbrances. |
| Form 3–4 | Analysis of Open Vouchers. |
| Form 3–6 | Accrued Expenses and other Current Liabilities. |

| Closing package | Title |
|---|---|
| Form 3–7 | Central Payment Accounts, adjusted to appropriate balance for end of period. |
| Form 4–2 | Analysis of Intra-District Revenue and Related Expenditures. |
| Form 8–3 | Adjustments to Receivables, Revenues and Advances. |
| Form 8–4 | Revenue source ''HOLD.'' |
| Form 10–2 | Reimbursable Revenues and Receivables. |
| Form 10–4 | Clean Up Funding Source ''9999.'' |
| Chapter 12 | Enterprise Funds—only balance sheet, operating statement, and cash flow. |

*Question*. The President's proposed budget for the District of Columbia includes $50 million in start-up funds for a National Capital Revitalization Corporation, designed to undertake economic development projects.

In your opinion, what would be the necessary components for an economic development program to be successful in the District of Columbia?

Answer. The essential components of an economic revitalization strategy for the District of Columbia must include:

—improvement in the capacity of the District to provide efficient financial services and other forms of governmental assistance that facilitate private investment in the District by small, medium and large businesses;

—development and implementation of policies, plans and programs that improve the conditions of private and public infrastructure by eliminating blight, encouraging investment in the acquisition, construction and renovation of business plant and equipment, reducing the incidence of crime, disease, mortality and other threats to the health and safety of residents, workers and visitors;

—expansion of opportunities for intra-regional business linkages and greater cooperation in the training, retraining and placement of residents in jobs within the District and throughout the region.

Each of these components must be developed and implemented in collaboration with local civic, trade, business, not-for-profit-institutional, and neighborhood interests.

*Question*. What aspects of the President's plan for economic development do you support?

Answer. Although, the President's effort last year to create a federally-established Economic Development Corporation (EDC) set forth a specific plan of action for that entity, the proposed fiscal year 1999 request for $50 million of start-up funds for the District-proposed NCRC does not specify an expenditure ''plan''. Nevertheless, the NCRC and EDC initiatives share several similarities that highlight the points of agreement between the respective approaches of the President and District officials. Each plan, among other things, seeks to achieve the following objectives through establishment of a politically independent economic development instrumentality that will:

—eliminate unnecessary and ineffective economic revitalization policies, plans, strategies and programs;

—consolidate fragmented and duplicative economic development functions;

—develop coherent short and long range policies and plans in collaboration with private and federal stakeholders that reflect neighborhood and regional interest in the development of human and social capital and the improvement of public and private infrastructure;

—recruit and maintain a credible, experienced staff of business and economic development professionals with the knowledge, flexibility and institutional capacity required to meet economic challenges and changing market conditions.

The President's support for the District NCRC is, in part, based upon the achievement of a broad consensus among local business, government civic and community leaders on the need for establishment of such an organization to develop and deliver economic development on behalf of the District.

*Question*. With what aspects of the President's plan do you disagree?

Answer. The President's original proposal for federal control over the policies, programs and operations of a District economic development instrumentality generally was not favored by local elected and appointed officials.

*Question*. The recent KPMG Peat Marwick audit determined that 20 deceased retirees from the District's payroll.

What steps are being taken to avoid payment of benefits to these ''payroll ghosts?''

Answer. In concept, the District is in agreement with the overall theme of the draft report. The District does have an immature software acquisition process and the implementation of the system is a high-risk effort. However, the report does not consider that the District has not acquired any new major systems or software for

many years. As a result, policies and procedures do not exist for software acquisitions. Despite this weakness, we disagree that our process for this acquisition is "undisciplined". A comprehensive source selection plan was applied that objectively assessed and evaluated proposed solutions for the FMS including upgrading the existing system, outsourcing the financial operations, and acquiring a new system. Furthermore, an oversight group to address the need for the new financial system was formed that included OMB, HAC staff, the District's CFO, the Authority's Executive Director, the District's Inspector General, and the GAO. Ultimately, the group developed an aggressive time line for considering solutions for the FMS. The aggressive time line is a result of the looming Year 2000 Problem that must be addressed. The aggressive time line represents a primary reason for the high risk scenario the new system is being implemented under.

While the District agrees that the implementation of the new system is a high risk effort, we do not agree with the reasons cited in the draft report. The system is high risk due to the aggressive schedule required to implement a solution before the Year 2000; the lack of infrastructure to support a modern financial system; conversion of unreliable and inaccurate data into the new system; and the complexity of the system.

Furthermore, the district does not agree with the characterization of the draft findings related to requirements development, contract tracking, and risk management. The following discusses the District's actions in more detail:

*Requirements development.*—Initial requirements were defined in a capabilities assessment in December 1996. These were further refined during the spring of 1997 by James Martin and Company and were fully defined by the KPMG as part of the new system solution during the fall of 1997.

*Contract tracking.*—The District contracted with James Martin and Company to supplement the program management of this monumental effort. Their responsibilities include a variety of contract monitoring efforts including the measure of performance versus payment, timeliness of deliverables (as well as quality), and constantly monitors the project plan and risk mitigation plans.

*Risk management.*—Two separate risk assessments have been developed for the project. The primary management focus of the program management office continues to be risk management. A comprehensive risk management plan calls for the identification of risk, source of the risks, analyzing the risk, developing alternative risk mitigation strategies, constantly tracking the status of the risks, and ensuring implementation of risk action plans. Proactive risk management is a continuous emphasis for the program management of this effort.

Many of the GAO recommendations are changes that the District will embody as we continue to develop and refine our policies and procedures for financial operations.

*Question.* The recent KPMG Peat Marwick Audit determined that 20 deceased retirees from the District's payroll.

What steps are being taken to avoid payment of benefits to these "payroll ghosts?"

Answer. The District's Office of Pay & Retirement Services (OPRS) was notified that social security numbers for 21 of 15,000 annuitants on the active retirement roll were found questionable as a result of KPMG's verification of the numbers against the Social Security Administration's Death Index. KPMG utilized a private pension research services corporation to obtain the data.

As a result, OPRS has instituted quarterly verification of social security numbers, as opposed to our previous annual verification, through a private pension research services corporation to report social security number mismatches and deceased retirees. The company will also supply copies of the death certificates.

Of the 21 social security numbers reported as deceased annuitants:

—2 recipients were reported in error and were not deceased;

—3 recipients were removed from the retirement rolls prior to receipt of the audit report;

—annuities for 16 recipients were immediately discontinued and OPRS reclamation procedures were instituted through the banking institutions; eight (8) of these annuities have been refunded in full.

The OPRS is pursuing collections from the remaining estates and/or financial institutions which in some cases have made partial payments toward the District's reclamation request.

QUESTION SUBMITTED BY SENATOR BOXER

COLLECTIVE BARGAINING AGREEMENTS WHICH WERE NEGOTIATED AND RATIFIED IN JULY 1997

*Question.* I am advised that the management representatives of the District—with clear guidelines from the D.C. Financial Authority—sat down at the bargaining table with labor to negotiate a comprehensive Collective Bargaining Agreement with the City's employees. The parties reached agreement in July 1997. I am told that there has been a question about who has the authority to move the agreements forward, and thus, the agreements which the unions negotiated with the City have yet to go into effect.

The Chief Financial Officer just recently sent the bargaining agreement to the City Council for its consideration. After 60 days it must move to the Control Board.

Dr. Brimmer, do you see any apparent reason that the Control Board would not act quickly and positively on the collective bargaining agreement, once it is received, inasmuch as the negotiating teams followed the D.C. Financial Authority guidelines for the negotiations and that the CFO has already reviewed and forwarded the collective bargaining agreement to the City Council?

What can you tell us about this, Dr. Brimmer?

Dr. Brimmer, is there anything else you wish to report to the Committee about the matters under your jurisdiction?

Answer. At present, the Authority has no specific information about the collective bargaining agreement referenced by Senator Boxer. However, as a rule, the Authority moves expeditiously to review and approve labor contracts. The Authority understands that once the parties have reached an accord, they are anxious to see that it is implemented as soon as possible. The Authority has not approved agreements that do not contain sufficient funding for their implementation. As long as an agreement has sufficient funding and otherwise comports with the Authority's Guidelines for Collective Bargaining, it should move rapidly through the Authority's review process. We will look forward to the agreements from the Office of the Chief Financial Officer, and we shall endeavor to review them quickly.

SUBCOMMITTEE RECESS

Senator FAIRCLOTH. If there is nothing further the subcommittee will be in recess.

[Whereupon, at 12:25 p.m., Wednesday, March 18, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# Material Submitted Subsequent to Conclusion of Hearings

[CLERK'S NOTE.—Public witness testimony was unable to be heard before the subcommittee, but the statement of the witness will be made a part of the record.]

[The statement follows:]

PREPARED STATEMENT OF DAVID J. SCHLEIN, NATIONAL VICE PRESIDENT, DISTRICT 14, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to present our views in writing.

The 14th District of the American Federation of Government Employees (AFGE) represents nearly five thousand employees of the District of Columbia and several of its independent Authorities. These are the front-line employees who do the demanding, often dirty, and sometimes dangerous, and almost always thankless work that keeps the city running.

WORKERS WANT REAL MANAGEMENT REFORM

Like you, AFGE believes that addressing the urgent and glaring crisis in management is the long-term key to prosperity for the City and to assuring that the City's residents and visitors to our nation's capitol receive service excellence.

The cause of the City's twin financial and management crises has never been that rank and file City workers are overpaid, or that there are too many people hired to pave the roads, fix the school boilers and roofs, renew licenses, maintain water and sewer lines, clean up the parks, or process the paperwork. Unfortunately, it is that political patronage had come to mean a management job or lucrative private contract. There were, and still are, too many bosses and not enough front-line workers or equipment or spare parts to get the job done. There were, and still are, questionable contracting practices that result in contracts let without proper regard to the price, the quality, or the experience of the contractor.

And like you, as hardworking and dedicated employees, our DC members are extremely frustrated, when the City's government just doesn't work. Our members are the folks who try to continue to deliver services to District residents and businesses in an efficient, and humane way—despite that obstacles and frustrations caused by layers of redundant management, lack of training, materials, and/or equipment. They are the folks who arrive to work on time and do their jobs—despite untrained, unprofessional, politically well-connected "managers" who ignore ideas on how to make government work better. They are the skilled workers who keep plugging away at their work—despite having their salaries cut twice in the past 24 months, their earned benefits reduced or eliminated, and their pay for overtime, hazardous duty, and holiday work being severely reduced. We are proud of our DC members. As public employees for DC Government they truly are the unrecognized heroes and heroines toiling under exceptionally difficult, demanding and often dreary conditions.

Let's be clear. Our members have no stake in the status quo of management. As the front-line workers our members have a keen awareness of the problems with the city's operations. It is because they are closest to the delivery of services, that our members and their union representatives can offer a clear perspective on solving these problems. Transforming the DC governmental system into one that inspires public confidence in the city's ability to deliver high quality public service in a cost-effective manner is our goal.

COLLECTIVE BARGAINING AGREEMENTS ARE KEY TO MANAGEMENT REFORMS

But DC employees cannot participate in the kind of city transformation—that both you and our members seek—unless they are treated with at least the basic te-

nets of worker fairness by sound management. Such basic principles include the right to bargain collectively over the terms and conditions of work.

Unfortunately, the very institution of collective bargaining has been placed at risk because of the absence of clear lines of authority and management accountability in bargaining. With whom are the unions to bargain? What entity is legally able to represent Management and the City? Is it the Mayor, the Chief Financial Officer (CFO), the Control Board, the Council, the Office of Labor Relations and Collective Bargaining, the new CMO, the Congress or all or some of the above? The very modest agreements our union negotiated with the City, which were ratified in July, 1997, have yet to go into effect. They have languished for months, as the Mayor, the CFO, and the Authority play a shell-game of "Who has the authority?" I am glad to report that the CFO has just recently sent the collective bargaining agreement to the Council for its consideration. Then it must move to the Control Board. The forward movement of this agreement will do much to assist the city in improving services.

LABOR-MANAGEMENT NEED TO BE PARTNERS IN CREATING AND IMPLEMENTING SOLUTIONS

We understand that our members' futures are dependent on resolving the city's ongoing financial and management crisis. We also know that it is the front-line employees who do the city's work who must be in the center of any effort to fix the city's delivery of services.

We are pleased to see that Camille Cates Barnett has signed on to participate in the DC Labor-Management Partnership Council. To transform how this city runs we must transform the relationship between management and labor. We must move away from adversarial postures and move towards working in partnership to identify problems and craft solutions, to form an alliance for real change. We welcome the opportunity to work with Ms. Barnett in partnership for real and lasting change in how this city operates.

Indeed, over two and a half years ago AFGE, AFSCME and the City successfully applied for a grant from the Federal Mediation and Conciliation Service (FMCS) to establish a labor-management pilot program at the Fleet Maintenance Division at the Department of Public Works. The project has already yielded impressive results in improving efficiency and labor management relations. Furthermore, the grant required that a city-wide labor-management partnership committee be established. Both FMCS and the Department of Labor have generously donated resources and expertise to make the project a success. The successes achieved by this project as well as its historic successes in the federal government and other cities such as Philadelphia, Cincinnati, Indianapolis, Fort Lauderdale, etc. gives us reason for hope.

MANAGEMENT REFORM CONSULTANT'S REPORTS

We have a few comments on the reports by various business consultants hired by the Authority to analyze shortcomings in the management, operations, and structures of the agencies under its direct operating authority. Attached to this testimony is AFGE's response is entitled: Service Excellence: A Union's Vision for the District of Columbia. In it we respond specifically to the consultants reports on Emergency Medical Services, and the Departments of Employment Services, Consumer and Regulatory Affairs, Public Works, Health, and Housing and Community Development. We have also responded to the so-called "cross-cutting" reports which focus on personnel management.

Our approach to the consultants reports was systematic. We analyzed their "findings" and "recommendations" from the perspective of whether they would further the following eight AFGE goals and principles:

—1. Strengthening collective bargaining in order to make reforms effective.
—2. Empowering employees and treating us with respect.
—3. Improving management accountability
—4. Improving performance management
—5. Improving the rewards system
—6. Flatten and modernize the management hierarchy
—7. Support the development and use of skill
—8. Create Service Excellence.

Number eight is last, but certainly not least, as we believe the preceding seven to be its necessary pre-conditions.

Our findings at this point indicate that where union leaders and members have been actively engaged in the process of analyzing agencies' strengths and weaknesses, and formulating reform proposals, the consultants findings were more accu-

rate and the ideas for restructuring have been seen by workers as more likely to be effective.

Unfortunately, we have little indication that as agency's move to implement recommendations, that employees through their unions will be involved.

Our report makes several recommendations which we hope will be implemented:

1. Accelerate the development to the city-wide labor management committees. The Authority needs to make a strong commitment to the process.

2. Establish labor-management committees in each department. These offer the best channels for workforce participation to shape and implement effective reforms.

3. The severe workforce downsizing of the past several years should be brought to an end. There should be no further contracting out where city personnel can do the job.

4. Improve management accountability. Consistent leadership for reform must start from the top.

5. Allow the collective bargaining process to work. Pay our members the salaries agreed to in our negotiated contract.

## CONCLUSION

The front-line workers of the District of Columbia remain ready, willing, and able to work with any official or authority who approaches the job of improving the financial management and service delivery challenges we face with integrity, with a rational plan, and with respect for the crucial role we will play in any revival of this City.

Thank you for your time and consideration.

## SUMMARY

Service Excellence presents a plan for reforming DC government by involving those who have firsthand knowledge of the District's agencies, their problems and the needed solutions—Washington's front-line workers. Labor-management partnerships for reform have succeeded in building quality public services in other cities. We can build a successful partnership reform here. And the reform process can't work without drawing on the knowledge, insights and concerns of the District's workforce.

As the largest union of DC employees, AFGE has mobilized its members to review 13 consultant reports commissioned by the Control Board to develop recommendations for DC management reform. We knew from experience across the country that labor participation can be a highly effective process for creating successful reform initiatives.

## AFGE FINDINGS

Our principal findings in reviewing the consultants' recommendations tracked eight principles for effective reform that we developed before the consultants' reports were completed.

The different agencies experienced a wide variation in the extent of union/workforce involvement in the development of the consultant assessments and reform proposals. One basic finding ties all the consultant reports together.

—Where the union leaders and members have been more actively engaged in the process, the consultant findings are more accurate and the proposed reforms are seen by front-line workers as more likely to be effective.

When the consultants reached out to the local unions and front-line workers, seeking their full participation their reports hit close to the mark in defining reform programs that are well matched to the needs of the agencies. When the consultants excluded the local unions and had only minimal or deeply flawed interactions with front-line workers, the assessments are full of factual errors and their reform proposals badly miss the target. This shows that labor participation is a highly effective process for creating successful reform initiatives. This participative method should be systematically implemented in following through with the city's management reform process.

### *Principle 1: Strengthen Collective Bargaining to Make the Reforms Effective*

Because of the urgency of rapid, effective reforms, we propose to work with the Authority and with senior agency managers to establish channels for labor participation in the reform process, both city-wide and in each of the city's agencies. An intensive effort to mobilize all the knowledge and good ideas in the Department is needed on a priority basis.

—To provide ongoing problem-solving capability, we propose to accelerate the development of the City-Wide Labor-Management Committee. Meeting on a more

frequent basis, the Labor-Management Committee can help provide an environment supportive of the reform process.

—To directly address and support the organizational change—both city-wide and in each of the Departments—we propose that an active subcommittee of the Labor-Management Committee be created as a City-Wide Joint Redesign Committee.

—Within each department, we propose Joint Redesign Committees and Labor-Management Committees. These offer the best channels for workforce participation in the process of shaping and implementing effective reforms and advancing the city to Service Excellence.

Based on the general principles of successful government reforms around the country, the labor-management partnerships should be undertaken city-wide, not one agency now, and others later. If we're in an emergency reform mode, then workforce participation needs to be organized from the beginning. We need input from the front-line worker: What do you think you need to do your job better, more efficiently, with better customer service?

Finally, the consultants typically see the collective bargaining functions of the city—where they are acknowledged at all—in a negative and defensive way. We think collective bargaining should be seen as a vehicle for problem solving and dealing successfully with the challenges faced by DC government, DC citizens, and DC employees.

*Principle 2. Empower employees and treat them with respect*

A basic premise of employee participation in reforming their organizations is that they can not be punished for that participation—at least not if the reforms are meant to succeed. DC workers and our unions need to be mobilized as partners in the reform process, not treated as uninterested observers or pieces to be moved around on other people's chess boards.

—The severe workforce downsizing of the past seven years must be brought to an end now if we are now to embark on a successful reform process. Most consultant reports recognize this basic fact. One at least plainly does not.

—There should be no more layoffs and no further contracting out where city personnel can do the job. This city can't make further cuts while expecting to rebuild morale and employee initiative.

—Agencies and the city should reject those few consultant recommendations to fire current employees and make them re-apply for their existing jobs, with the likelihood of bringing in new outside hires.

—Agencies should not pursue policy of further "hollowing out" of internal capacity through additional staff cuts and contracting out. This is inefficient and ineffective in improving service quality.

The city must recognize in practice that ultimately "people are our most important resource." Agencies and the city can not give insincere lip service to this principle while continuing to treat the workforce primarily as a cost to be cut—rather than a resource to be developed and built upon. This kind of inconsistent, destructive message will only engender further disillusionment and cynicism among the workforce. And this approach will undermine efforts to reform service delivery in DC government.

*Principle 3. Improve Management Accountability*

The most important prerequisite for effective reform is consistent leadership for reform from the top. This is needed within each agency. Even more important, consistent top level leadership for reform is needed for the city as a whole.

—The Authority needs to firmly express its commitment to workforce and union participation in the reform process. Department directors need to hear this message loud and clear, and more than just once. The Mayor and the City Council also need to endorse this direction for reform of service delivery in the District.

—Agency heads need to provide consistent leadership within their departments and for their senior managers. Labor participation should be built into every manager's job evaluation.

—The city needs to recognize that labor participation in design and implementation of agency systems and technologies, goals, objectives and metrics will yield more effective results for everyone's goals.

*Principle 4. Improve performance management*

Several key points that come up across all the agency reports that demand urgent attention.

—The personnel function needs a radical overhaul, not only on a city-wide basis, but within every agency as well. Hiring decisions, performance evaluations, and promotions today are typically not objective and not geared to meeting agency

service delivery goals. Personal relationships and cronyism must be replaced by objective assessments based strictly on performance and merit.

—Front-line workers should be integral participants in process redesign, bringing in new technologies, and establishing feasible goals for continuous improvement in service quality and cost effectiveness. As designers of the systems and their performance metrics, they will have every incentive for achieving the goals they have helped to establish.

—It is wrong to blame employees for productivity and quality problems. W. Edwards Deming, the long-time DC resident recognized as the father of the quality movement, said that quality problems are 90 percent due to bad management. It is wrong and ineffective to try to remedy quality problems by punishing or replacing workers.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

We think it is possible to design appropriate positive performance incentives, for teams, work groups, and other groups that work together to produce superior quality or greater cost effectiveness. These are issues that ultimately must be collectively bargained.

*Principle 6. Flatten and modernize the management hierarchy*

Modernization of management means more than using new technologies. High participation, high learning, high performance work systems mean demands for new management approaches and skills. We would like to see modernized high performance work systems matched by high performance management.

*Principle 7. Support the development and use of skill in the workplace*

Very few of the consultant reports recognize that workforce skill is fundamental to high quality, high productivity service delivery. High performance work systems and jobs require skill and continuous learning.

—We need to develop skill requirement profiles for the new jobs in our reformed agencies, objectively assess existing workforce skills, and develop systematic training programs for all city workers.

—Joint training committees should be set up in the agencies and city-wide.

—Adequate budget resources must be secured to support a training program that reaches the agreed minimum of 2 percent of payroll for each employee.

*Principle 8. Create excellence in customer service*

We in AFGE believe that this city's agencies can be reformed to provide service excellence for residents, commuters, and visitors to Washington DC. We stand ready to work with the Authority, agency heads and senior managers, and elected officials to make this goal a reality.

"The District must do more to involve the District's labor unions in the financial recovery of the District."[1] The Authority, May, 1997.

PART 1. INTRODUCTION

*Service Excellence*.—A Union Vision for the District of Columbia makes the case for involving front-line union members in the reform of their workplace. In the end, it is up to us, the District's workers, to transform the rough mandate of laws passed by Council and Congress into the indispensable reality of quality government services and benefits. Front-line workers know what it will take to turn this city around. Whether fighting illegal drugs or caring for the poor, DC workers know the barriers to service excellence and we want to help The Authority break them down. Reform can only succeed if it builds on the knowledge and insights of the people who best know what's wrong with DC government and how to fix it—DC workers and their unions.

The Authority has hired 13 outside consulting firms to conduct organizational assessments and make improvement recommendations for seven agencies and four city-wide services. AFGE District 14 has shared these assessments and recommendations with the front-line workers from the respective agencies. This report presents a front-line analysis of the consultants' work. Merging workforce insights with consultant expertise is critical to successful reform.

Service excellence identifies eight basic principles that are the foundation for successful reform efforts. These all hinge on seeing city workers and their unions as valuable resources for reform—not as roadblocks to be avoided.

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[1] "Human Resource Management Reform: A Strategic Approach," May 1997, The District of Columbia Financial Responsibility and Management Assistance Authority, p. 23.

—Strengthen collective bargaining to make the reform process effective
—Empower employees and treat them with respect
—Improve management accountability
—Improve performance management
—Improve the rewards system and allow the bargaining process to work
—Flatten and modernize the management hierarchy
—Support the development and use of skill in the workplace
—Create excellence in customer service

Restoring DC's fiscal health while at the same time improving service delivery is a challenge that can only be met if Congress and the city's political leaders work with, rather than against, DC front-line workers and their unions. This report proposes concrete steps the city can take to achieve effective management reforms through an indispensable method: involving front-line workers and their unions in reform of our city.

The American Federation of Government Employees (AFGE)—in addition to being the largest union representing federal government workers in the United States and overseas—represents some 5,000 employees working for the District of Columbia government. AFGE District 14 provides supervision and support to its 14 locals representing D.C. workers. AFGE Council 211, comprised of all D.C. local unions also serves the membership through coordinated activities. AFGE represents DC employees at the following agencies:

—Department of Public Works
—Water and Sewer Authority
—Department of Human Services
—Department of Health
—Department of Administrative Services
—Board of Parole
—Department of Employment Services
—Department of Fire and Emergency Medical Services
—Department of Recreation and Parks
—Department of Housing and Community Development
—D.C. Public Housing Authority
—Metropolitan Police Garage
—Department of Consumer and Regulatory Affairs
—D.C. Energy Office/Office of Planning

## BACKGROUND

Congress is now spending millions of taxpayer dollars to have outside consultants tell them what AFGE and our members have been trying to tell them for years. Poor management is the biggest problem facing the District of Columbia.

AFGE and the DC workers we represent have time and again raised concerns about the management problems in our city, but no one listened. We also have offered our views on how the problems could be solved, but our advice and offers to help were put aside while the financial fires were put out (largely through reducing pay and benefits for front-line workers). Now, as top-down consultant reports are presenting management reform plans—usually developed without meaningful involvement of the workers who have the best knowledge of what is wrong with DC government systems and of how to fix them—it is time for DC workers to be heard.

## THE TRACK RECORD OF REFORM TO DATE: LITTLE OR NO WORKFORCE PARTICIPATION, DISPROPORTIONATE IMPACT ON FRONT-LINE WORKERS

DC's unionized workers have already borne a disproportionate share of the spending cuts made—without meaningful workforce input—to address the financial crisis we had no part in creating. Over the past two years, DC workers have suffered pay cuts of more than $40 million, which have severely impoverished many working families in the District. What is more, we have borne the shame and humiliation of blame for the City's inability to deliver decent, reliable, effective and cost efficient services to City residents. Yet in agency after agency, budget cuts were implemented by halting needed training, neglecting needed equipment purchases and repairs, reducing front-line staff, and delaying the purchase of essential materials and supplies. When management deprives workers of the resources we need to do our jobs, a crisis like the one now facing the District is inevitable.

Since 1995 when the Authority was established and given ultimate authority over the city's budget, its management, its procurement, and its labor contracts, the only real changes that have been implemented are job reductions and pay and benefit cuts for front-line service delivery workers and reductions in income assistance to the very poor. Meanwhile, the City has twice rolled back property taxes, which now

stand at 1993 rates. These cuts have severely reduced the revenue available to the District to meet its budget shortfall.

In the past two years, unionized city workers have endured:

—12 days of mandatory, unpaid furloughs
—6 percent salary reductions for the last half of fiscal year 1995
—3 percent salary reductions throughout fiscal year 1996 and fiscal year 1997
—A 2 percent reduction in the employer's contribution to the post–1987 pension plan, made up by the employees (in effect, another 2 percent reduction in pay)
—Restrictions on overtime pay
—The temporary elimination of optical and dental benefits.

These cuts were far deeper than those imposed on the non-union workforce. Outside contractors and service providers have not been asked to re-negotiate their contracts at all. In the midst of a severe budget crisis the City continues to spend millions of dollars in wasteful contracting out.

Union workers have also borne the brunt of job elimination. The Authority in its May, 1997 report, Human Resource Management Reform: A Strategic Approach,[2] points out that, instead of targeting reductions at the management level as directed by the Authority, most reductions have been of employees in lower pay grades who actually deliver services. In August 1995, the Authority called for the District to reduce full-time equivalent (FTE) personnel from 40,208 to 35,771 by September 30, 1996. Although the District met the targeted FTE level, the majority of the reductions have occurred in the front-line workforce, not in the management ranks. Seventy-two percent of the net 2,488 non-school reductions have occurred in grades 9 and below; and 42 percent have occurred in grade 5 and below.

In addition to destroying morale, management's self-serving approach to reducing the workforce has resulted in:

—Severe shortages of employees with critical expertise, especially in procurement, information services, and environmental engineering skills
—A disproportionate distribution of workload, with the result that many employees who perform critical tasks are overworked
—An excessive amount of overtime being worked by critical personnel, particularly in the Public Safety agencies.

Collective bargaining, grievance and arbitration are the traditional processes that workers have available to them to voice and resolve these important financial and workplace issues. But even these most fundamental vehicles have broken down under the weight of the City's crisis. Although the Financial Responsibility and Management Assistance Act of 1995 called for the Authority to approve all labor union contracts, there have been no labor union contracts agreed to by the District and a bargaining unit in the two years of the Authority's existence. In fact, agreements reached by City officials and the unions sit waiting for the most basic of decisions: determining who has the authority to implement the agreements. A court-mandated settlement on back pay has languished for months waiting for Control Board approval. Compensation agreements ratified last summer sit in the CFO's office waiting to be submitted to the Authority.

CRITICAL ROLE OF WORKFORCE INVOLVEMENT

According to the Authority's own report, "The District Government must do more to involve the District's labor unions in the financial recovery of the District."[3] The report goes on to recommend that the city work with the city's unions and the Federal Mediation and Conciliation Service to expand the current city-wide joint labor-management effort to include the formation of joint councils in selected departments and agencies. AFGE stands ready to work with the City and the FMCS to expand this important initiative. We believe that a strong partnership will provide our members with the voice in the reform process that we have been seeking all along. However, a strong partnership can only emerge within the context of a strong and viable system of collective bargaining that allows for workers interests in financial and employment security to be aired and addressed.

This is an extremely important point. If workers' knowledge, insights, and interests are not taken into account, then the reform process simply will not work. Whatever the reform process does, whether it cuts costs or not, it is the DC workers who must ensure that it is done well and that it meets the needs of a demanding public. Every endeavor of the DC government ultimately relies on the skills, ability, and motivation of DC workers. Before workers will fully support the reform process, we

[2] "Human Resource Management Reform: A Strategic Approach," May, 1997, The District of Columbia Financial Responsibility and Management Assistance Authority.
[3] "Human Resource Management Reform A Strategic Approach," May 1997, p 23.

must first know that our efforts to improve the city will also serve to improve the quality and stability of our work lives.

A REFORM PROCESS THAT WILL LAST: LABOR-MANAGEMENT PARTNERSHIP

The problems with the District government are deeply rooted in its ineffective organizational structure and obsolete management philosophy. The current organizational model is based on centralized control of a multi-layered, autocratic management hierarchy. With its emphasis on control, rules, and standardization, this model is designed to take the thinking out of work and to devalue and discourage employee participation in workplace decision making. In this system, DC's front-line workers are hamstrung by red tape and often pointless rules, buried under stacks of pointless paperwork, and if managed at all, micro-managed to within an inch of their lives. The central message of this system is that workers can not be trusted to do the right thing.

By the early 1980's American business and government began to abandon this outdated management philosophy of command and control in order to remain competitive and survive in a new world of tough global competition, new complex technology, and lightning-fast communications. These companies learned the hard way that in the transformation from an industrial age to an information age a premium is placed on intelligent, highly trained, creative workers who have the resources and responsibility to analyze new situations and act quickly and effectively in response to new opportunities.

As more organizations moved to form new systems that support the development and use of skill in the work process, they discovered that the knowledge and creativity of their employees was often the margin of difference between mediocrity and excellence. There is no question that the engines that drove the change in successful companies and government agencies have been the principles of employee empowerment and labor-management partnership.

Employee empowerment rests on a simple but powerful notion: the people who are closest to the work know where the problems are and usually have the best solutions. Not all good ideas flow from the top down. When front-line workers are trusted to identify and correct problems, and when their decisions are supported by top management, they will be motivated to make continuing and meaningful improvements to the work they do. The key is to push decision making down and give workers the authority to think creatively and act independently, within the context of the organization's objectives and values.

THE POSITIVE ROLE OF LABOR-MANAGEMENT RELATIONS

The evidence shows that long-term organizational success is bound together inseparably with good relations between labor and management. Time and again it has been proven that effective labor-management partnerships have led to increased productivity, greater quality, better customer service, and greater employee satisfaction on the job. Union involvement in the design and implementation of reforms strengthens both the reforms and the process by which the reforms are designed and implemented. Notable union contributions to reform efforts include:

1. Unions provide reform efforts with credibility. Employees are skeptical about the potential of the reform effort to make a real difference. The involvement of the union will send the message that The Authority is making a meaningful attempt to fundamentally reform the District. Labor-management partnership is the first step in developing a culture based on mutual respect and trust.

2. Unions provide workers with an independent locus of control in the reform process. Collective bargaining will ensure workers that they will receive a share of the gains they help to achieve, and the protection of the union encourages employees to speak their minds on controversial issues without fear of reprisal.

3. Unions promote and help to institutionalize change within agencies. Unions remain long after the elected leaders and top managers who initiated the change process. The union and its members are the only constant, and therefore are the ones who will carry on the changes long after the reforms are implemented.

4. Unions bring needed knowledge, insight, and skill to the change process. AFGE represents workers in a number of government agencies. We can share information, ideas and experiences gained from our other partnerships and joint reform initiatives. This type of learning exchange could help to create a powerful synergy within the DC reform initiative.

As DC employees who believe deeply in public service, AFGE members want to participate in positive ways to improve the performance of our government. But time and again we have been frustrated. For years we have offered thoughts on how to make government work better and more efficiently, but we have been told "that's

management's job." Now the Authority has hired consultants to do what we have been willing to do all along, identify problems and recommend proactive changes in how the city is operated. Next, the consultants' studies and recommendations will go to a team of top leaders and managers to implement, even though the reports have clearly identified management as the primary reason why many of the city's problems exist in the first place.

DC's problems of inefficient and outdated management can not be solved by top-down, consultant driven reforms. AFGE provides the Authority with the only viable path to effective reform—to partner with city employees in the reform process. That is why AFGE urges the Authority to pursue a reform approach that recognizes that DC's front-line workers are the solution. We urge the Authority to involve the union and our members in the Management Reform Teams that are about to implement the consultants' recommendations.

AFGE'S SERVICE EXCELLENCE PRINCIPLES

Underlying AFGE's involvement in the reform initiative will be a set of basic principles we will use to shape and evaluate the DC reform process. These principles are based on a solid understanding of how to make the system changes needed if the DC Reform process is to produce the results it has promised to District residents. Our principles will allow the City to develop and implement a reform process that draws upon the knowledge and talent of its workforce in improving the District Government and enhancing the community we serve.

1. Strengthen Collective Bargaining to Make Reforms Effective. To succeed, the reforms must broaden the scope of bargaining and provide employees with a voice in improving productivity, increasing efficiency and enhancing customer service. New vehicles for labor relations that expedite the bargaining process and grievance administration will provide workers with the protection they need, and serve to free up the time of labor representatives to play a meaningful role in the reform process. The framework of labor-management councils should be expanded to other departments and be provided with a role in the evaluation and implementation of the consultant's recommendations.

2. Empower Employees and Treat Them with Respect. Employees hold the key to solving the City's service problems. No one knows the problems that DC faces better than the dedicated workers who serve this City. Our front-line workers through their unions should be given a voice in the reform process, and in every day decisions regarding the delivery of the services they provide.

3. Improve Management Accountability. Systems that support strategic planning and the establishment of performance goals must be established. Further, these systems must include mechanisms that hold management accountable to achieving goals and to behaviors that support a professional and equitable work environment for employees. If management is not held accountable to reforms, the reform process will not produce needed results.

4. Improve Performance Management. Earlier in the 20th century performance management systems focused on identifying and disciplining individuals for non-performance. The current system in DC still functions in this negative way. Today it is realized that performance results from many factors, some individual, but many more that are group or organizational in nature. DC needs a new performance management system that will provide individuals with clear direction on positive work related goals, and which will support team work and problem solving. Any change in the performance management system should provide for bargaining and direct involvement in its design by the employees whose performance the system will measure. If employees do not have ownership in the system, they will have no real confidence in its fairness or effectiveness.

5. Improve the Rewards System and allow the bargaining process to work. Instead of establishing an arbitrary awards system that will reinforce cronyism, allow us to negotiate a fair system where we emphasize gainsharing and make increased productivity our goal.

6. Flatten and Modernize the Management Hierarchy. The District's current command and control system is supported by an excessive management hierarchy that must be dismantled in size and scope. Once employees are empowered to make operational decisions, managers are freed up to focus on longer term strategic concerns. This system needs less managers and it needs different managers. The managers who remain in an empowered work system must assume new roles that require different skills. For example, managers must build and support teamwork, aid in troubleshooting and provide clear goals and performance measures. Individual managers who remain must be supported through training and performance management mechanisms if they are to succeed in assuming their new roles.

7. Support the Development and Use of Skill in the Workplace. If employees are to take on a broader role in the work process, training and skill development must be viewed as a strategic investment in quality—not as a cost to be controlled or eliminated. One of the worst causalities of the budget crisis has been the virtual elimination of front-line worker training. What little training that still exists in the City is concentrated in mid-to-upper level management while the front-line workers who actually deliver city services are ignored. Action must be taken to turn the training deficit around. However, the skills gap in the city is not merely a training challenge. The current command and control work organization does not support workers in using the skills they already have. The work structure must also change if workers are to bring current and new skills to bear in their work.

8. Create Excellence in Customer Service. Like other governmental agencies and private employers, the DC government must focus on providing prompt, cost-effective, and customer-responsive services. This is what taxpayers demand and what the public has every right to expect. It is also what DC's union-represented employees want to deliver. Our city's government systems, supported by an empowered work force and engaged unions, should aim for and consistently deliver excellence in customer service.

As a first step toward our involvement in the reform process, AFGE shared the consultant's studies and recommendations with union members on the front-line of the agencies under review. This report contains their views on those reports. Included is an evaluation of the recommendations against AFGE's Service Excellence principles, and in cases where we think the consultants are off base, we provide what we believe to be a more viable course of action.

## PART II—THE AFGE RESPONSE TO CONSULTANT ASSESSMENTS AND RECOMMENDATIONS

### *Introduction: Stakeholder Participation and Consultant Recommendations in the Reform Process*

Consultants can use a variety of methods to help a client understand and respond to its strengths and weaknesses. An essential key to success is the degree of involvement the selected method affords the stakeholders in the problem identification and resolution process. Effective assessments generate a consensus regarding the barriers to effectiveness and create ownership within an organization for the implementation of chosen solutions. Without stakeholder buy-in, proposed solutions often sit on a shelf collecting dust, rather than producing the results they were intended to help achieve.

Effective consultants (and managers) involve workers and their unions in the design of studies. They use the knowledge of the people who work within a system to identify issues around which people can be mobilized. Successful consultants go beyond cursory surveys and focus groups and rely heavily methods that involve key stakeholders directly in analyzing problems and crafting solutions.

The consultants hired by the Authority to conduct the organizational assessments and develop reform recommendations often fell far short of the best practice benchmarks for stakeholder participation. The selected consultants relied heavily on managers in the information gathering and assessment process. Those consultants who chose to involve workers through the use surveys, town meetings and focus groups limited worker involvement to discussing questions that the consultants viewed as important. The consultants shaped the questions, assessed the data, and decided what issues to pass on for further consideration and what to leave out. Worker involvement also often occurred on managements terms. Workers were selected by managers to participate in the study, yet many managers may not see it as in their best interest that all views be heard. In most cases basic methodological rules for soliciting worker views were violated: the consultants almost always mixed managers in with front-line workers in their focus groups, thus limiting the ability of workers to freely express their views.

The Authority has invested too much money and political capital in the Reform Process to see it hampered by ineffective studies and implementation processes. The candid, informed views of front-line workers, provided on their own terms, is essential if the process is to produce valid data and positive results in successful, effective reforms.

### *Overview: Main AFGE Findings*

As AFGE members responded to consultant reports for six agencies and the citywide personnel function, we found a remarkably consist pattern in our findings and recommendations across the agencies and the personnel function.

First, we noted the wide variation in the extent of union/workforce involvement in the development of the consultant assessments and reform proposals in the dif-

ferent agencies. Those differences in the quality of worker participation in generating the reports led directly to differences in the quality of the reports themselves.

—Where the union leaders and members have been more actively engaged in the process, the consultant findings are more accurate and the proposed reforms are seen by front-line workers as more likely to be effective.

When the consultants reached out to the local unions and front-line workers, seeking their full participation—as in Emergency Medical Services—their reports hit very close to the mark in diagnosing problems and then in defining reform programs well matched to the needs of the agencies. These reports treat the workforce with respect and generally integrate workforce insights and employee interests (e.g., job security, increased training, adequate resources for doing our jobs) into their reform proposals.

When the consultants excluded the local unions and had only minimal or deeply flawed interactions with front-line workers—as in the report on the Department of Housing and Community Services, at the extreme end of the spectrum—the assessments are replete with erroneous findings and their reform proposals miss the target by a wide margin. These low quality processes have generated resentment and resistance already—creating early barriers to successful reform. These barriers will have to be addressed and overcome soon if reform is to succeed in those agencies.

This remarkably consistent pattern underscores the need for active union involvement in the design and implementation of the reform process. In short, Labor participation is a highly effective process for creating successful reform initiatives. This method should be followed in the rest of the city's management reform process.

Certain other fundamental themes stand out in common across the seven individual agency and functional reports developed by AFGE members and local unions. These basic themes fit well within the framework of the union's eight Service Excellence principles.

*Principle 1: Strengthen Collective Bargaining to Make the Reforms Effective*

Because of the urgency of effectively implementing well conceived reforms in the shortest possible time, we propose to work with the Authority and with senior agency managers (and outside consultants, as needed) to establish a joint reform, redesign, and implementation process in each of the city's agencies. An intensive effort is needed to mobilize all the knowledge and good ideas in the Department on a priority basis. We feel such joint initiatives will make the reform process much more successful.

—To provide ongoing problem-solving capability, we propose to accelerate the development of the City-Wide Labor-Management Committee. Meeting on a more frequent basis, the Labor-Management Committee can provide a forum for solving problems that may arise in the general framework surrounding the reform process. It can help provide an environment that consistently supports the reform process.

—To directly address and support productive organizational changes—both city-wide and in each of the Departments—we propose that an active subcommittee of the Labor-Management Committee be created as a City-Wide Joint Redesign Committee. This would be a practical working group. It would support and facilitate the redesign initiatives in each department and in city-wide functions. Interacting with agency directors and local union leaders, it would work toward consistency in following "best practice" approaches across the agencies.

—Within each department, we propose a similar structure of Joint Redesign Committees and Labor-Management Committees. These offer the best channels for workforce participation in the process of shaping and implementing effective reforms and advancing the city to Service Excellence.

Based on the general principles of successful government reforms around the country, the Labor-Management partnerships should be undertaken city-wide, not one agency now, and others later. If we are in an emergency reform mode, then workforce participation needs to be organized from the beginning. We need input from the front-line worker: What do you think you need to do your job better, more efficiently, with better customer service?

It has to be recognized that most of the consultant reports have poorly recognized the fundamental linkage between collective bargaining and successful reform in union-organized city governments. While there is some variation across the reports from different consultants on the various agencies, the majority of the consultant processes have shown little recognition of the unions as potential partners in the reform process. They have, with important exceptions, limited the engagement of unions in the assessment and redesign processes. They have failed to develop proposals for union participation in the redesign efforts, or for redesign teams. For those consultant reports that did recommend benchmarking of best practices around

the country, they generally selected the "best practice" sites themselves, according to unstated and questionable criteria, and they failed to propose ideas for labor to participate in designing or conducting the benchmarking analyses. None of them recognized the importance of labor-management committees as channels for advancing a successful reform process.

The collective bargaining responsibilities of the city—where they are acknowledged at all—are typically seen in a negative and defensive way.

—Collective bargaining should be seen as a vehicle for problem solving and dealing successfully with problems that that are faced in common by DC government, DC citizens, and DC employees and their unions. Labor-management partnerships for work system redesign are basic building blocks of best practice in municipal government reform around the country.

Workers are principal stakeholders, along with DC citizens as the "owners" of city government and citizens as customers of the full range of public services. Workers as stakeholders participate collectively through their unions and individually in their own workplaces. Several reports advocate a "stakeholder" process (e.g., in DCRA) but fail to recognize that workers are basic stakeholders.

*Principle 2. Empower employees and treat them with respect*

A basic premise of employee participation in reforming their organizations is that it won't work if employees are to be punished for their participation. DC workers and our unions need to be mobilized as partners in the reform process, not treated as uninterested observers or pieces to be moved around on other people's chess boards, and then discarded.

—The severe workforce downsizing of the past seven years must be brought to an end if we are now to embark on a successful reform process. Most consultant reports recognize this basic fact. One at least plainly does not (Price Waterhouse at Housing and Community Development).

—There should be no more layoffs and no further contracting out where city personnel can do the job. This city can't make further cuts while expecting to rebuild morale and employee initiative.

—Agencies and the city should reject recommendations to fire current employees and make them re-apply for their existing jobs (DHCD), with the likelihood of bringing in new outside hires.

—Agencies should not pursue policies of further "hollowing out" their internal capacity through additional staff cuts and contracting out. This is inefficient and ineffective in improving service quality.

—The city must recognize in practice that ultimately "people are our most important resource." Agencies and the city can not give insincere lip service to this principle while continuing to treat the workforce primarily as a cost to be cut—rather than a resource to be developed and built upon. Treating city employees as the problem, rather than the solution, will only engender further disillusionment and cynicism among the workforce and undermine efforts to reform service delivery in DC government.

Finally, it must be recognized that genuine workforce empowerment is not a significant recommendation in most of consultant recommendations for agency reforms. While some agency recommendations do call for more modern organizational structures, notably on the management side (e.g., fewer layers of management), there are virtually no calls for restructuring work systems toward best practice high participation, high performance systems. Traditional top-down bureaucratic thinking predominates.

—There are important opportunities for creating more effective service delivery through empowering employees with wider, more holistic job responsibilities and supporting them in these new roles with appropriate training.

*Principle 3. Improve Management Accountability*

The most important prerequisite for effective reform is consistent leadership for reform from the top. Such leadership is needed in each agency. Even more important, consistent leadership for reform based on workforce participation is needed for the city as a whole.

—The Authority needs to express its commitment to workforce and union participation in the reform process. Department directors need to hear this message loud and clear, and more than just once. The Mayor and the City Council also need to endorse this direction for reform of service delivery in the District.

—Agency heads need to provide consistent leadership within their departments and for their senior managers. The message needs to flow down through senior management ranks as well as through the leadership structures of the unions. Participative change processes are often resisted by middle managers who are

fearful of unfamiliar new roles—in spite of the fact that the new approaches can provide superior service delivery and cost effectiveness.

—Labor participation in design and implementation of agency systems and technologies, goals, objectives and metrics will yield more effective results for everyone's goals.

Without this kind of leadership commitment, the reform process is not likely to succeed.

*Principle 4. Improve performance management*

Several key points come up across all the agencies for improving performance management.

—The personnel function needs a radical overhaul, not only on a city-wide basis, but in each agency as well. Hiring decisions, performance evaluations, and promotions are not objective or geared to meeting agency service delivery goals. Personal relationships and cronyism must be replaced by objective assessments of performance and merit.

—Front-line workers should be integral participants in process redesign, bringing in new technologies, and establishing feasible goals for continuous improvement in service quality and cost effectiveness. As designers of the systems and their performance metrics, workers will have every incentive for achieving the goals they have helped to establish.

—It is wrong to blame employees for productivity and quality problems. W. Edwards Deming, the long-time DC resident recognized as the father of the quality movement, said that quality problems are 90 percent due to bad management. However, several consultant reports seem to place the principal blame for bad performance on workers. They therefore, wrongly, seek to remedy the problems by punishing and/or replacing workers. This approach can not lead to successful reforms or improvements in service quality.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

AFGE is interested in exploring appropriate approaches to positive performance incentives, for teams, work groups, and other groups that work together to produce superior quality or greater cost effectiveness. These are issues that ultimately must be collectively bargained.

*Principle 6. Flatten and modernize the management hierarchy*

Modernization of management means more than using new technologies. High participation, high learning, high performance work systems mean demands for new management approaches and skills. We would like to see modernized high performance work systems matched by high performance management. Neither empowerment nor respect plays a significant role in most of consultant recommendations for agency reforms:

As noted above (principle 2, empowerment and respect) traditional top-down bureaucratic thinking about reforms and operations will cause the city to miss important opportunities for creating more effective service delivery.

*Principle 7. Support the development and use of skill in the workplace*

Very few of the consultant reports recognize that workforce skill is fundamental to high quality, high productivity service delivery. High performance work systems and jobs require skill and continuous learning.

—We need to develop skill requirement profiles for the new jobs in our reformed agencies, objectively assess existing workforce skills, and develop systematic training programs for all city workers.

—Joint training committees should be set up in the agencies and city-wide.

—Adequate budget resources must be secured to support a training program that reaches the agreed minimum of 2 percent of payroll for each employee.

*Principle 8. Create excellence in customer service*

We in AFGE believe that this city's agencies can be reformed to provide service excellence for residents, commuters, and visitors to Washington DC. We stand ready to work with the Authority, agency heads and senior managers, and elected officials to make this goal a reality.

*City Departments: Responses to Consultant Reports*

EMERGENCY MEDICAL SERVICES AFGE LOCAL 3721

The quality of emergency health care response provided by the District's Emergency Medical Services is in a crisis condition that is deeply troubling to many of those who live and work in DC. Response times for the most critical ambulance

service, advanced life support, are unacceptably slow. These dangerously long response times threaten the health and lives of those who need emergency medical service in the District. Turning this situation around, quickly and effectively, is a critical test for DC government and for the reform process.

DC's EMS system has been the focus of many studies over the years, but effective reforms have not previously been implemented. Many EMS employees are weary of good recommendations not being implemented. We want it to be different this time.

TriData Corporation has studied the EMS system since September. TriData's team was built around knowledgeable experts with extensive hands-on work experience in emergency medical systems; they weren't just academic experts. They used two criteria in developing their assessment and their reform proposals. First, "What is best for the patient?" And second, "How to provide the desired level of service most effectively." We think these are good questions to start with.

TriData had extensive contact with the local union representing EMS employees from the beginning of their assessment effort. They reached out to the local union leadership and met and spoke with union executive board members repeatedly as the study moved forward. In addition they went to firehouses and spoke with individual firefighters and EMS personnel. We feel we had a great deal of input. In general we support most of their recommendations because our thinking and insights were included in the process of developing the recommendations.

—Our local union needs to continue participating in the process of shaping reforms as recommendations are finalized and the EMS system moves into the implementation phase of reform. We propose to work with management (and with support from consultants, as needed) to launch a Joint Redesign Team that can work intensively on creating a successful reform effort. We know that active involvement of front-line EMS employees and their union will result in better reform projects that will be more quickly and more enthusiastically put into effect.

—To provide ongoing support for the Joint Redesign Team and to deal with other ongoing issues facing the EMS Bureau, we want to build on recent preliminary discussions to create an EMS Labor Management Committee. Such an ongoing committee can deal with issues beyond the scope of the critical near-term reform and redesign challenge.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

In reviewing the written reports from TriData on Emergency Medical Services, we have compared their recommendations with AFGE's eight principles of Service Excellence. Our main findings are summarized below.

*Principle 1. Strengthen collective bargaining to make the reform process effective*

The good beginning by TriData needs follow-through from top-level management and the union to assure that the collective bargaining aspects of the reforms are properly addressed.

—Some of the contemplated changes in organizational structure, in job descriptions, and in the personnel system require bargaining as a legal matter, but these and other reforms could be strengthened, we feel, by incorporating supportive language in the collective bargaining agreement.

*Principle 2. Empower employees and treat them with respect*

The TriData methodology for gathering information for their reports has been to empower workers to participate from the early stages of the reform process. The report and its methods have also treated front-line workers with respect—recognizing their high levels of qualifications and the extremely high extent to which they are overworked under current inefficient, outmoded EMS systems.

—It is critical for front-line employees to have empowered roles in the next stages of the reform process—when specific reform strategies are finally determined and when implementation plans are put into effect. The EMSB Joint Redesign Team we have proposed can help make sure that this happens properly and effectively.

—Providing supportive telecommunications and other technologies, increasing the number of ambulances, and improving operations protocols will make it easier for employees to do a quality job.

*Principle 3. Improve management accountability*

The proposed reforms go a long way toward upgrading management accountability at the EMSB.

—The critical underlying organizational point is that Emergency Medical Services are medical, public health services. They should be organized under a Director who is a medical doctor to provide patient-centered, medically oriented services. The culture and mission of fire fighting organizations are unlikely to change to give adequate emphasis to the needs of the EMS system.
—Setting a goal for 8:00–8:59 minute response for critical calls provides a measure of progress in system effectiveness.
—Upgrading computer-based automatic tracking systems will allow EMS to understand and continue to improve operational patterns.

The TriData proposal (No. 5) to make the EMS promotion process competitive and to review managerial positions and incumbents is sound. We agree with the TriData's statements that:

"There is an active distrust of the EMSB supervisors and management among the field providers; it is pervasive and organizationally limiting * * * [T]here is a widespread feeling that promotions [to and within management ranks] are made on the basis of cronyism and without regard to the merit of the individual for the position." (p 4–39)

We also concur with their recommendation that "some impartial review of the qualifications of incumbent managers will need to be undertaken."

*Principle 4. Improve performance management*

We believe that greater team-based operational autonomy would be a natural extension of the TriData recommendations, but this is not stated as an explicit goal.

Continuing workforce participation in shaping specific operational goals and performance metrics for individual units will help assure that the goals are realistic and have the support of EMS employees.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

Our local is interested in exploring innovations and improvements in reward systems for individuals and groups of employees who work together in teams or operating divisions.

*Principle 6. Flatten and modernize the management hierarchy*

We concur with the TriData recommendations to flatten, strengthen, focus, and modernize the management hierarchy.

*Principle 7. Support the development and use of skill in the workplace*

The TriData reform project to better integrate EMS documentation, quality assurance and training provides for close, supportive linkages between improving service quality and assuring that employees have all the skills they need to do an outstanding job.

—We would like to expand ongoing involvement of the union in planning for the training office to make sure that skills are defined with broad enough scope to support system-oriented learning and portable skill sets.

*Principle 8. Create excellence in customer service*

We feel that the reforms proposed by TriData provide a strong starting point toward the reform process for creating excellent customer service. If the front-line workforce and the union can play meaningful roles, and if the investments in new equipment, systems, and technologies can be made, we are confident that we can move the District's EMS system rapidly toward Service Excellence.

DEPARTMENT OF EMPLOYMENT SERVICES AFGE LOCAL 1000

The Department of Employment Services (DOES) has a long history in labor-management partnership. We believe that management and the union can work together to rebuild that departmental partnership in a way that can substantially strengthen the reform process that is about to be launched.

AFGE Local Union 1000 has a good working relationship with the current DOES executive director. The local's six person executive board currently sits in on the Director's monthly executive staff meeting. The Executive Director and the President of the local union co-chair a DOES Labor-Management Committee that meets monthly and addresses a range of agency issues. The incumbent Executive Director will have left office on November 21, 1997.

These relatively structured channels for high level labor-management communication and problem solving can be traced back to a departmental Labor-Management Partnership created in 1991. The Labor-Management Partnership facilitated negotiation of a win-win departmental contract in only seven days and laid a solid foundation for joint problem solving and development of high performance organization at DOES. A notable example of our accomplishments at that time was that every

DOES employee received a full week's training on quality service in customer-focused, employee-centered operations—"how to provide customer service the first time, on time, all the time."

Unfortunately, the DOES Labor-Management Committee that succeeded the original Labor-Management Partnership has been more adversarial than cooperative in recent years. Subsequent Executive Directors and many managers have not maintained the same high level of commitment to an active, productive partnership that was shown by the Director and senior managers in 1991.

Over the past 90 days, DOES has been the subject of an assessment and development of recommendations for reforms by the Technical Assistance and Training Corporation (TATC). The TATC consultants met with the two top local union officers toward the beginning of the assessment phase of their work. They said they would follow up with our union leadership, but there has been no further contact from TATC since that first meeting. TATC has likewise not organized strong participation by front-line workers in its process of information gathering and developing recommendations. Front-line employees appear in their report as objects to be reengineered rather than as important agents of the change process. With its organizational focus on training issues, however, TATC does call for important and much needed increases in the Department's investments in staff training. But, again, their approach provides for little labor participation in shaping these training or other reform efforts.

As employees at DOES, we want to encourage senior management to reinvigorate the labor-management partnership that was so productive at the beginning of the 1990's.

—In a setting of emergency priority for agency reform, we would like to work with senior management to create a Joint Redesign Team. This Redesign Team would bring together the best thinking within the Department—from all sources, including the front-line workers who actually deliver the Department's services—and to combine them intelligently with outside resources, such as consultants, on an as-needed basis.

—To address the broader, longer term issues of upgrading the Department's service quality, timeliness, and cost effectiveness, we propose that we work with senior management to recreate the Labor-Management Partnership that flourished under the agency's pro-active top leadership six years ago.

As front-line employees, we understand where the Department's problems lie, and how they could be effectively remedied. All we want is an opportunity to combine our knowledge with that of the management team to design and implement reforms that will really work in practice, not just in theory or on paper. We are ready to take up this challenge with you.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

Local 1000 has studied the assessment and recommendations from TATC. We have analyzed their reform proposals in light of the eight principles of Service Excellence that AFGE has developed for this city-wide reform effort.

*Principle 1. Strengthen collective bargaining to make the reform process effective*

The evidence of best practice reform of government services around the country makes it clear that real workforce participation in, and ownership of, the assessment and reform process leads to the most effective reform proposals and the most successful implementation of reforms. Ownership from the beginning is always more powerful than "buy in" to somebody else's project after it is ready to move forward.

—With union representation of the workforce, labor participation in the reform process can provide highly effective channels for workforce participation in the reform effort. This can take the form of design or redesign teams, labor-management committees, or broad labor-management partnerships. Local 1000 proposes to build on all three of those options, as spelled out above.

Collective bargaining represents a time-tested process for establishing joint reform programs. Consultation, joint fact-finding, problem-solving, benchmarking, or design committees can operate under the umbrella of collective bargaining, without entailing formal bargaining on every issue or even most issues. Collective bargaining is needed when issues of terms and conditions of employment come up. Indeed, collective bargaining is legally required for those issues. But bargaining can provide a broad umbrella under which workers can participate in reform efforts, knowing that their interests are properly represented and protected. It is the best, most inclusive approach to problem solving and organizational improvement.

Unfortunately, neither collective bargaining nor AFGE is recognized at all in the reform proposals from TATC. This repeated oversight is a fundamental flaw in the

process of developing the consultants' proposals. It undermines the prospects of seeing their reform proposals successfully implemented.

—The positive role collective bargaining plays in effecting changes in job descriptions, performance evaluation criteria, training, compensation, and other issues should be spelled out in serious reform projects.

*Principle 2. Empower employees and treat them with respect*

TATC's process of assessment and developing reforms has flagrantly disempowered employees by effectively excluding them from participation. We think it is difficult, if not impossible, for employees who are disempowered in the redesign process to become empowered in the following stages of implementing reforms and operating new work systems.

TATC's reform recommendations at various points come close to proposing basic concepts of high participation, high performance work systems, but they shy away from the target at the last moment, at least where front-line workers are concerned. While it is suggested that managers develop and operate a number of new cross-functional activities, the TATC recommendation on the most basic point of continuous improvement in operations states that the agency should only: consider establishing process improvement teams to involve employees in improving quality of service, and to increase a feeling of employee empowerment. (p xix, p 4–20, emphasis added).

There is an important difference between "a feeling of employee empowerment" and measures that actually empower front-line workers.[4]

—Proposals to further cut Department staff levels are the opposite of both empowerment and respect. Where some areas are found to have excess personnel, those employees should be reassigned and retrained so that the Department can maintain a commitment to its staff members. Treating staff as disposable or expendable fundamentally undermines morale.

Finally, the consultant's the one single concrete proposal for employee "empowerment" deserves to be cited in full: "Empowering employees to decorate their own areas would boost employee morale, improve the appearance of office space, and may make the space more inviting to the public" (p xxiii, p 4–29)

—AFGE recommends that work groups and job responsibilities be redesigned on a joint basis to genuinely empower front-line workers. When workers understand the goals, objectives, and responsibilities of their work groups, they should be able to devise means for fulfilling the mission through benchmarking best practices, studying their own work flows and processes, and solving problems as they are identified. This is the basis of assuring quality and of continuous improvement in the quality and cost effectiveness of service delivery.

*Principle 3. Improve management accountability*

TATC makes a number of positive recommendations for improving management systems and accountability. Achieving longer tenure for the Executive Director is critically important, as would be recruiting a Director who has a proven track record in promoting participation and partnership with workers and their union. Developing systems for planning, more active communication, redesigning how work is done and jobs are defined, establishing performance metrics (including quality but also cost), and upgrading computers and communications systems are all important for a more successful Department.

—What is missing in these recommendations are significant roles for front-line workers in redesigning systems, implementing changes, and operating new processes with high levels of employee participation and empowerment. Those roles need to be added through the work of the proposed Department-wide Redesign Team and in smaller redesign teams within DOES divisions and bureaus.

We are concerned that the consultant's report makes no mention of the pending proposals to merge and privatize the disability and workers' compensation systems. The City Council has held hearings on this subject and it has been discussed on Capitol Hill. We feel that any actual savings from such a move would be generated by denying claims—whether or not those claims are valid.

—AFGE strongly opposes the idea of merging and privatizing the disability and workers compensation programs.

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[4] It should be noted that TATC does call for involving information technology users in their proposed redesign process for information systems [p 4–2]. In this context they describe worker/user participation as key to "a rational, bottom-up planning process" that is otherwise missing in their report.

*Principle 4. Improve performance management*

The TATC recommendations for redesigned job functions with integrated job descriptions and performance evaluation metrics are steps in the right direction. Again, more active autonomous roles for the front-line workforce on issues like monitoring quality and improving work processes would improve these recommendations.

The personnel system needs much greater attention than provided by TATC. Hiring practices are widely perceived as arbitrary, often unfair, and disconnected from qualifications and skills needed to fulfill the Department's mission. AFGE addresses many of these issues in our report on city-wide personnel functions (below).

—We support reforms to move away from cronyism and personal favoritism toward a merit system based on objective criteria and implemented with even-handedness and fairness. Although linked to city-wide reforms, counterpart changes will have to be implemented within DOES itself. Evasions of personnel procedures should be identified and reversed as soon as possible whenever they occur.

—Periodic personnel evaluations should be made more objective and fair by having them performed by coworkers, by more than one supervisor, and by customers inside and outside the agency. This more thorough, balanced system can do more to help identify areas of needed improvement. To be fully effective, it should apply to all employees of DOES, both front-line workers and supervisors and managers.

Finally, AFGE Local 1000 recognizes our own need to change if we are to play a fully positive role in achieving service excellence. As employees we need to clarify our fair expectations of one another on issues such as absenteeism if we are to move into a world of high performance work systems.

*Principle 5. Improve the system and allow the bargaining process to work*

Our union is interested in sitting down with management to explore improved systems for individual and group awards for outstanding performance. In principle we agree that the rewards system should structure positive incentives for improving the quality of our services.

—We need to explore together possible innovations to implement such positive incentives consistent with fairness and even-handedness.

*Principle 6. Flatten and modernize the management hierarchy*

TATC has made several recommendations for simplifying the management hierarchy and setting it up to operate on a cross-functional basis, with improved planning and accountability. These suggestions move in the right direction.

—Work systems built around high employee participation and empowerment would lead to a further set of simplifications in the management hierarchy. In some cases there may be more supervisors than needed trying to monitor employees through outmoded command-and-control observation. Many supervisors might function more effectively in new roles as coaches, with their particular areas of specialization strengthened by additional training. Changing work itself is the true foundation of modernizing management.

*Principle 7. Support the development and use of skill in the workplace*

As mentioned above, the training recommendations are probably the strongest part of the TATC report. We agree that training and skill development should be seen as necessary investments rather than as costs to be minimized. We concur that individual skill development plans should be worked out through a gap analysis based on an objective assessment of skills required for different jobs and the skill portfolio of the employees in those jobs (at all levels). We need to work together to make sure that adequate resources are available to support the needed training in DOES and elsewhere in DC government.

—We suggest that bargaining unit employees and their union need to play a stronger role in the design of these skill profiling and assessment systems. It is too easy for managers or consultants to go off on a tangent and lose track of the skill sets actually needed for excellent performance. Again, it must be recognized that front-line workers have the most direct understanding of what is needed for successful customer service, including the skills of their coworkers and themselves. It is a mistake to exclude us from this critical process.

*Principle 8. Create excellence in customer service*

The focal point for all the changes we advocate is Service Excellence. Front-line workers have critical knowledge and insights that need to be mobilized in the process of redesign and reform of the Department of Employment Services. We believe

that our participation can produce superior reform proposals that will be supported by the workforce and therefore implemented more rapidly and more successfully.

—We look forward to working with DOES management to bring about those results.

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS AFGE LOCAL 2725

The Department of Consumer and Regulatory Affairs administers a wide range of programs that impact on the quality of life, public safety, and the regulatory environment for business in the District. Many of these functions have operated poorly in recent years. Since September DCRA has been studied by a KPMG consulting team, which published their assessment and initial reform recommendations earlier this autumn.

The KPMG team arrived on the scene shortly after the appointment of the new Director of DCRA, David Watts. KPMG originally pursued a methodology of very limited workforce and union participation in their process of assessment developing reforms. The consultants did not meet with AFGE leaders at all before publishing their assessment and proposed reforms. As the KPMG reform proposals were being published (October 23rd), Director Watts initiated a series of weekly meetings with the leadership of our local union. He has been taking a very active approach to promoting union involvement in the reform process. He is committed to discussing issues with the unions and to sharing information. He says that the unions need to be part of the reform process from the beginning.

Since these meetings with the new Director began, KPMG has been much more interested in involving the union in the further development of their reform proposals and strategies. Director Watts has evidently instructed the consultants to meet with our Local Union leadership and to discuss reform proposals with us.

The published KPMG proposals contain many positive building blocks for reform at the Department. Their analysis and recommendations give much needed attention to areas of human resources and training for front-line workers as well as managers. We believe that by working proactively with David Watts, we can put in place a reform initiative that will address the real needs of DCRA in ways that can generate active engagement of the front-line workforce and the Union.

—Because of the urgency of the reform timetable, we propose to work with Department management in creating a Joint Redesign Team for DCRA. We believe that the Department's employees have a store of knowledge and insights that can add important value to the reform process. By working together, we can develop the most effective reform plans and move them toward rapid implementation, thanks to the informed participation and support of front-line workers.

—To deal with the wider range of issues at DCRA, we further propose immediate creation of a Departmental Labor-Management Committee. Building on the city-wide Labor-Management Committee, this group can build up a practice of developing information and defining and solving problems throughout the Department.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

Our Local has carefully reviewed the KPMG assessment and reform proposals and evaluated them against the eight AFGE principles of Service Excellence:

*Principle 1. Strengthen collective bargaining to make the reform process effective*

The KPMG report makes no mention of the collective bargaining or the Union.

DCRA Director David Watts, on the other hand, has recently instituted a series of regular meetings with the Local Union leadership that have started the process of strengthening collective bargaining and creating a stronger foundation for the future reforms.

*Principle 2. Empower employees and treat them with respect*

—The participative process begun by the DCRA Director needs to become part of the process and procedure for the future work of KPMG. Participation of the local union and front-line workers is a necessary part of shaping the reformed agenda, developing an implementation strategy, and monitoring and fine-tuning the reform process as it moves forward.

The KPMG process to date has not treated front-line workers with respect. It has worked around the workers and their unions as a source of independent insight and input. Again however the new Director has sought to remedy this method.

The KPMG reform proposals do call for protecting DCRA workers from further layoffs and RIF's. While certain functions are noted as perhaps no longer necessary, the incumbent employees in those functions are slated in their report for reassign-

ment and retraining to carry out other responsibilities in the Department. We agree with this approach. It reflects an element of respect for DCRA workers—their need for job security and they move into the reform process. This is important for all employees who are being asked to contribute to improving the organization where they work.

*Principle 3. Improve management accountability*

KPMG recommends improved planning, reorganizing some functions processes for setting agency goals, defining objectives, and establishing metrics to track improvements. These are important and positive steps. However, we feel that the union can contribute important insights and perspectives in shaping these changes. Before implementation, the substance of these management system reforms should be reviewed and discussed by the agency's Joint Redesign Committee.

*Principle 4. Improve performance*

The KPMG report properly recognizes the importance of human resource issues in creating effective work system in a productive DCRA. It properly connects workflow, job design, skill requirements and training in an integrated whole.

—Redesigned work systems and new job requirements should be addressed by the union and management together to reach the best-informed decisions that will be most effectively implemented. These questions should be taken up by the Joint Redesign Committee and examined on a joint basis for each part of the Department.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

DCRA, like other city Departments, will benefit from the broader changes in the personnel systems, as outlined elsewhere in this report. We believe that there is room to explore the development of team-based and other collective performance metrics that can appropriately support high participation, high quality operations.

*Principle 6. Flatten and modernize the management hierarchy*

Simplifying and rationalizing the organizational hierarchy and bringing in new information and telecommunications technology systems, as recommended by KPMG, can be a good start toward flattening and modernizing the management hierarchy. What needs improvement in their recommendations, again, is to build in workforce and union participation.

KPMG even defines the goal, but their proposals don't quite fulfill it. A good example (among many) is found in their discussion of designing computer database software:

"All sections of DCRA must be involved in the integration process. It is imperative that all parties feel that they will benefit from the integration or there will be resistance and no commitment to ensure its success." (p 12)

We, the front-line workers and our union, are definitely parties to these system changes. Our participation will not only minimize the potential problem of resistance or apathy, but will help generate the best choices.

—Direct the Joint Redesign Team to review proposed changes in organizational structure and functions.

—Create a specialized joint design team for new information and telecommunications technologies, with the goal of mobilizing user participation in the evaluation, selection, customization, and implementation of these new technologies.

*Principle 7. Support the development and use of skill in the workplace*

KPMG's gives very positive attention to the needs for skill development in quality-oriented service delivery. Their proposed comprehensive training plan and program properly recognizes the need for training for new roles and responsibilities, for using new technologies, for maintaining professional skills, and for quality interactions with customers.

—Create a Joint Skill Development and Training Committee to develop the skills training program of DCRA.

*Principle 8. Create excellence in customer service*

We believe that our front-line workers and Local Union can work in harness with the new Director and, under the right direction, with the consultants in shaping and implementing a very successful reform program for the Department of Consumer and Regulatory Affairs. We welcome the opportunity to participate in making our agency more effective through excellence in customer service.

DEPARTMENT OF PUBLIC WORKS AFGE LOCALS 631 AND 1975

The Department of Public Works encompasses many functions that impact directly—and nowadays often negatively—on large numbers of DC residents, commuters, and visitors. DPW functions include road maintenance, snow removal, trash collection and street cleanup, maintenance of DC public buildings, parking enforcement, and drivers licenses and motor vehicle inspections, among others. Successful and prompt reform of DPW is, therefore, a priority in the broader effort to turn this city around.

As front-line workers represented by AFGE, we see the many problems at DPW at close range. We see first hand how organizational structures in DPW are fragmented and poorly coordinated and how, as a result, customer service and efficiency are often poor. An ongoing lack of investment in technology, training, and new vehicles and other equipment increases costs and impedes timely delivery of services in a host of areas—from building maintenance and repair to snow removal and waste management.

The work force in the Department of Public Works has been roughly cut in half during the 1990's. Key agencies such as Facilities Operations and Maintenance Administration (FOMA) and Fleet Maintenance have had even more than half their jobs eliminated since 1990, while work assignments have not decreased to the same degree.

FOMA did the maintenance work (e.g., roofs and boilers) for the DC public schools until the mid-1980's, and levels of maintenance were considered to be good at that time. The work has since been contracted out, with disastrous consequences for the school system.

In spite of the difficulties facing the agency and its employees, we have made it clear that we are willing to work with DPW management in seeking more effective ways to deliver quality services. The positive track record of the Labor-Management Committee for Fleet Management and other joint initiatives supported by DPW Director Cel Bernadino in 1997 represent an important set of building blocks for future joint union-agency problem solving and redesign efforts.

Since September DPW has been studied by a consultant group led by Managing Total Performance, Inc. (MTPI). While the consultants' recommendations for management reform in DPW contain some valuable insights and suggestions, their process has not adequately engaged the knowledge, insights and interests of the workforce stakeholders. DPW workers and their unions feel they have a great deal to contribute toward improving the department's operations, organization, and processes. What we need is an opportunity to bring that contribution to bear as recognized and valued participants in the process for redesigning the Department of Public Works.

—Because of the urgency of effectively implementing well conceived reforms, we propose to work with DPW management (and outside consultants, as needed) to establish a Joint Redesign Team. An intensive effort to mobilize all the knowledge and good ideas in the Department is needed on a priority basis. We feel such a joint initiative for reform will make the process much more successful.

—To provide ongoing problem-solving capability, we propose a broader DPW Labor-Management Committee. Building on the positive experience of the citywide Labor-Management Committee and the pilot LMC in DPW's Fleet Services Division, a Department-wide committee would provide an environment that would support the reform process.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

The consultants' recommendations for management reform and the process they used for determining these recommendations have been evaluated by AFGE union members at DPW against the union's eight principles for Service Excellence.[5]

*Principle 1. Strengthen collective bargaining to make the reform process effective.*

There was only a limited engagement of the unions in the assessment process. The Department of Public Works is one of the agencies in which the consulting contractors made an effort to reach out to the agency's union leadership. But that effort, however, did not go far enough.

[5] This report, prepared by AFGE members and leaders, does not directly address areas of DPW where other unions represent the workforce—e.g., the Solid Waste Management Administration (SWMA), the Division of Transportation (DOT), or the Division of Motor Vehicles.

The consultants met with the presidents of the unions representing DPW employees early in the assessment phase. They also met with the Fleet Maintenance Labor-Management Committee and met alone with the union members of the LMC to seek their candid opinions about problems in Fleet Maintenance.

Unfortunately MTPI used these encounters with union leaders only for narrow information-gathering purposes. The consultants posed structured questions, but they did not ask if the union leaders had additional topics that they thought were important to pursue. After those initial sets of meetings, there have been no follow-up discussions with the union leaders by the consultants. The recommendations that we put forward in those early meetings have not been included in the reform proposals developed by MTPI.

By and large, the MTPI recommendations do not contain a meaningful recognition of an ongoing role for the Department's unions and front-line employees in the reform process. In spite of the very positive activities of the city-wide Labor-Management Committee and the LMC for Fleet Maintenance, the consultants' recommendations do not identify any ongoing role for labor or the Labor-Management Committee in benchmarking best practices in other jurisdictions, assessing the strengths and weakness of existing DPW systems, or in participating in the redesign of DPW systems.

We particularly note the value of the recent benchmarking trip made by senior DPW managers and union leaders to Indianapolis—a city that has made major strides in rebuilding its services on the basis of a labor-management partnership. We need to build on this foundation of joint benchmarking and assessment, not ignore it.

—We renew our offer to form a Joint Redesign Committee with Department management on an emergency basis, and to support its work by building up a Labor-Management Committee for the entire department as a whole and for particular Administrations within DPW, as appropriate.

The only major reference to unions and collective bargaining in the Task 2 report is the recommendation that FOMA should "seek changes in labor agreements in areas affecting productivity," even though the specific practices they propose to change ironically originated with DPW management.

DPW management should work with the union leadership to develop agreement on collective bargaining provisions on all issues that fall under the bargaining mandate.

Unions must not be viewed in negative terms as obstacles to productivity improvements. Unions can play a positive role.

*Principle 2. Empower employees and treat them with respect*

Empowering front-line workers as a means toward more effective service delivery at DPW is suggested by a number of specific proposals, but it is never really identified as an important step in its own right.

The report refers to the need to remedy excessive layers of management, high supervisor/staff ratios, and costly (and ineffective) micro-management of workforce activities. Yet the other side of the equation—allowing empowered and properly trained workers the authority to direct their own work within a larger structure of high performance operations—remains unstated.

—Reforming procurement and management practices so that workers can successfully do their jobs (e.g., by having replacement parts readily accessible for vehicle repair) should be matched by high participation, high empowerment redesign of work processes and teams so that that the Department's work can be done most effectively.

The views of DPW employees were not solicited or meaningfully valued in the consultant's process of assessing current practices or developing their recommendations for reforms.

—DPW workers and their unions would like to see future reforms implemented in ways that do empower them to do the best jobs they can, based on the design of the new work organizations and the training and resources that are available for employees to provide quality services on a cost-effective basis.

We believe that the success of the reform process at DPW depends on the active participation of the front-line workforce in the assessment and redesign process. Top-down reforms coming from senior managers or consultants without worker and union participation is, as spelled out throughout this report, unlikely to succeed.

*Principle 3. Improve management accountability*

MTPI has made several proposals that have merit for improving management systems and planning. We would, however, suggest important improvements for those proposals.

MTPI proposes creating a "DPW Management Committee," including "business and civic leaders", to provide counsel to the process of determining areas of service improvement.

—Labor leaders representing the DPW workforce should participate as internal members of this committee, and city-wide labor officials should serve on it as external members.

Creating geographically based service districts for street repair; tree maintenance, garbage collection and street cleaning can create closer ties between the DPW workforce and the residents they serve. Many questions need to be addressed for such a reform to be fully effective.

—The city will need to assure that it works with workers and their unions from the outset to coordinate the collective bargaining implications of such a consolidation of service delivery, especially as workers from different jurisdictions would work together on a single project or under a single supervisor.

—The consultant's proposal to integrate DPW service delivery districts should mirror the seven police precincts appear to move in the wrong direction for increasing the effectiveness of DC government. It would be preferable if multipurpose geographic service districts followed the boundaries of the eight City Council wards. This would strengthen lines of accountability between DC citizens and their elected local representatives. It would ultimately make city government more responsive to citizen needs.

The proposed centralization/integration of facilities management functions now spread among several agencies as well as the proposed upgrading of motor vehicle fleet management and maintenance functions pose similar questions in terms of the nature of the new work systems.

—The City has an opportunity to work with its workers and their unions in FOMA, DECA, DES and in Fleet Management to design high participation, high learning, high performance work systems that will provide excellent customer service in highly efficient operations.

—Identification of "best practice" cities, counties and states for benchmarking analysis should be done on a joint basis. Selection of cases as "best practices" that are built around massive and uncritical contracting out do not qualify as best practices in the eyes of this city's workforce.

Finally, the huge resource shortfall in transportation services and other areas of DPW responsibility is recognized by MTPI, but recognition is not enough. The resource issue must be directly addressed. Suburban Maryland jurisdictions are spending $27,181 per lane mile of street on maintenance, while DC tries to struggle by with $5,289 per lane mile—less than one-fifth as much. DC's pothole repair crew has fallen from well over 100 staff to 22 workers, but DC's tens of thousands of lane-miles of streets have not been reduced. The city's more than 100,000 trees are now maintained by a staff of only 25—about one-fifth the number in 1990.

—Adequate resources must be appropriated to carry out these functions. Increased efficiencies alone can not close these huge resource shortfalls.

—Contracting out positions as employees retire or quit does not necessarily assure more cost-effective services. DC employees—in properly structured systems with professional management—can provide better quality at lower cost than outside contractors.

*Principle 4. Improve performance management*

As in other parts of DC government, the personnel system is in disarray. In most parts of DPW it is perceived by our members as unfair, arbitrary, and grossly inefficient. The dysfunctional hiring and promotion functions directly undermine morale and affect motivation and performance. AFGE has addressed these issues in our response to the city-wide personnel function report (below).

—For DPW, achieving a fair, objective and productivity-oriented set of personnel practices is critical.

We agree that setting goals for service improvement is important for groups within DPW (from Administrations to work teams) as well as for individuals. But we feel that we have important knowledge that needs to be part of the process for setting those goals.

—The determination of service improvement goals and the measurements that can best gauge our progress in meeting them should be taken up as joint redesign initiatives between the affected agencies and the unions representing their employees.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

The scope and direction of changes outlined in the consultants' management reform recommendations open the doors for collective bargaining to address issues of changing jobs and their responsibilities.

—DPW and the city should move early toward negotiating with AFGE and the other unions to facilitate the smoothest possible implementation of the agreed reforms. (Again, the reforms are only likely to succeed if they are approached through joint design programs between the departments and the unions representing their workforces.)

Creating positive incentives for effective service delivery may be a set of innovations that DPW and its unions can usefully address through bargained innovations in the reward system. Many work groups or teams in DPW have production and quality targets that could be effectively measured through performance metrics that are jointly evaluated, selected, and implemented.

—Groups that meet or exceed targets in cutting costs, improving quality, or cutting response times may be suitable candidates for increased bargained financial rewards, so that innovative workers can share the benefits enjoyed by their service customers and the city's taxpayers.

*Principle 6. Flatten and modernize the management hierarchy*

A flatter, more modern management hierarchy is a clearly stated objective in many of MTPI's proposed reform projects. The full potential value of these changes in modernizing how work is organized for managers is accompanied by matching changes in modernizing how work is organized for front-line workers, how their jobs are defined, and how their skills are developed for these new jobs.

The benchmarks of best practice indicate that effective reforms should lead not only to high quality, cost effective customer service, but also to front-line service jobs that are more secure, more autonomous, more challenging, more rewarding and ultimately more enjoyable.

—The jobs and work organizations that will work best for DC are those that combine high workforce participation, high skill, and continuous learning with opportunities for advancement and broader responsibilities with greater autonomy. AFGE is eager to work with DPW to create this parallel evolution of high performance service delivery and high performance jobs.

*Principle 7. Support the development and use of skill in the workplace*

Developing and implementing new skills for new systems with new job responsibilities will be a critical success factor for reforms at DPW.

Achieving the goals of a well structured, responsive training system that supports high performance work systems will require important investments and a top-to-bottom restructuring of existing training systems. Like other DC agencies, DPW starts with major training and related system deficits. Training has not been widely used over the years to promote training and skill development programs for front-line workers. Most training has gone to managers, and even the little bits of training available for service delivery workers have been early casualties of cost-cutting initiatives in the 1990's.

MTPI has concentrated their training recommendations on building up the skill of management personnel. We agree that upgraded and more consistent management capabilities are sorely needed in DPW. But the success of the organization does not depend on the skills of management personnel alone.

—As organizations and jobs are redesigned, skill gaps should be identified and addressed so that DPW front-line workers as well as managers can have the tools to excel in their job of providing excellent service to DC residents.

—Training should be available for all DPW employees on both technical skills and quality or "people" skills for the upgraded and reorganized systems.

—A joint labor-management skill development working group should be instituted to assist in designing training systems and continuous learning systems for the workplace.

*Principle 8. Create excellence in customer service*

The consultants' assessments and reform recommendations can be a step in the right direction toward service excellence, but the city will only reach its goals if additional steps are taken by management and labor together, and if the direction of those steps is worked out among the stakeholders.

Building joint labor-management design teams for DPW (as at other DC agencies) is the foundation upon which the elements of high quality, cost-effective customer service can be assembled and developed. We are ready, willing, and able to work

with management at DPW to achieve these goals that will benefit the city, its citizens, and its work force.

DEPARTMENT OF HEALTH AFGE LOCALS 383, 2725, 2978

The Department of Health is a part of DC government that has already begun to turn itself around in late 1997. The assessment and recommendations by the outside consulting firm, University Research Corporation (URC) appears relatively well balanced. What is missing from their recommendations is what was also lacking in their methodology: recognition (by management and by URC) of the positive role of a labor-management partnership in achieving high quality, cost effective health services for the District.

URC is one of the few consultants hired in the Management Reform process to declare participation to be an important part of their methodology. Their framework for design and implementation of reforms is a variety of Total Quality Management (TQM) that emphasizes continuous quality improvement. They present their approach as based on participation and customer orientation (including front-line workers), the use of objective data, a process or systems focus, and a team approach (p 7). Their concept of participation, however, seems to have been developed in non-union settings, since URC made no effort to establish a dialogue with the union leadership.

Unfortunately, our information indicates that actual "employee participation" in the URC processes for conducting the assessment and developing recommendations was heavily tilted toward managers and senior professional staff. The vast majority of front-line workers had little or no contact with the consultants. The local union leadership per se was not contacted by URC, and their report does not reflect any awareness of the legally required role of collective bargaining in making changes in the terms and conditions of employment.

—The members and leadership of AFGE at the Department of Health want to work with the Department's management in a Joint Redesign Team to create a set of mutually agreed reforms and then to implement them with employee ownership and enthusiasm for the reform process. We have a lot of work to do, but we think the Joint Design Team would be a very positive step toward creating a reform process that can fully succeed. The workforce at DOH has a lot to contribute and can help design and implement reforms that will work for city's residents and visitors as well as for the staff at the Department of Health.

—More generally, we propose setting up a general DOH Labor-Management Committee to address the wider range of ongoing planning and problem solving issues that exist now alongside the reform effort and will continue to exist in the years to come.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

The front-line workers and AFGE local unions at DOH have evaluated the URC assessment and reform proposals against AFGE's eight principles of Service Excellence. We have reached the following conclusions:

*Principle 1. Strengthen collective bargaining to make the reform process effective*

The participatory process that URC claims to follow needs to be extended, within a union-represented workforce, to include union and front-line worker participation and collective bargaining. The consultant's report hardly acknowledges the existence of the union and the contract at all. It discusses strategic planning, changes in organizational structure and job descriptions, training, personnel evaluation systems, and other fundamental issues without noting the benefits from union participation in shaping the proposed changes and the change process. The legal requirements for collective bargaining are not mentioned.

The new senior management team at DOH has begun to recognize the advantages of working with the union and the workforce, rather than ignoring us. Contacts and communications with the new Director and other senior managers have been improving in recent months, starting from a very low point. A training session for managers on the union contract was scheduled for October 1997, to increase manager awareness of contract provisions and procedures (although no union representatives were invited to speak or participate). In general we think the labor-management relationship with the new management team is beginning to move in the right direction.

—We extend our call for the creation of a labor-management Joint Redesign Team to assure full labor input into the reform process at DOH on an intensive, emergency basis.

—A broader DOH Labor-Management Committee, established to deal with the full range of ongoing organizational and operational issues, can provide important support to the proposed Joint Redesign Team in studying problems and developing innovative solutions that lead toward a more effective ways to fulfill the Department's mission. With the training and facilitation support advocated by AFGE for Labor-Management Committees throughout the city, we believe that these processes can be highly effective in strengthening the Department of Health and its divisions.

*Principle 2. Empower employees and treat them with respect*

The URC proposals recognize many positive qualities of the DOH workforce. Many of their proposals call for creation of cross-functional teams that can operate with considerable self-direction. These are positive steps.

Yet the URC methodology in practice heavily tilted its participative thrust heavily toward managers and senior personnel. To date they have virtually ignored the union. When front-line employees participated in a focus group or meeting, they were mixed in with supervisors and other managers, thus inhibiting candor and limiting full expression of concerns and suggestions.

—We believe that many of the URC reform proposals can be extended to generate work systems that genuinely empower workers, but that will happen realistically and properly only through a new element of labor participation.

—To be meaningfully empowered, employees will need the tools to do their jobs—training, computers and information system technologies, effective telephone systems, and fair personnel systems based on objective facts, not personal favoritism. The full access of front-line workers to these tools needs to be clarified and confirmed by URC and DOH management.

*Principle 3. Improve management accountability*

The URC recommendations strongly emphasize strategic planning as a way of clarifying agency goals and objectives and determining appropriate metrics and benchmarks to track the extent to which they are being achieved. They also suggest "staff participation" in the strategic planning process.

—Union involvement in the strategic planning process can help assure that the views and knowledge of front-line workers are fully represented in the strategic planning process.

*Principle 4. Improve performance management*

The broad, integrating perspective of the URC assessment and recommendations on this issue again needs to more fully include front-line workers. The starting point for improved performance management is developing realistic job descriptions with responsibilities and evaluation criteria objectively and accurately spelled out.

Revising the personnel system to eliminate personal favoritism, cronyism, and the predominance of subjective factors is one of the most fundamental changes needed at DOH (and elsewhere in DC government). Virtually all employees are demoralized by a system that seems to be systematically disconnected from both fairness and from advancing the service goals of the Department.

—Postings for new job openings need to be visible, and the criteria for selection clearly spelled out.

—The performance evaluation criteria for each job should be logically matched to requirements for achieving agency missions. They should be determined in consultation between managers and the union.

—The performance evaluation process should be carried out on a more comprehensive and objective basis than it is now, with co-workers and multiple supervisors offering their assessments, perhaps along with internal and external customers.

—These more comprehensive performance evaluations should be available for supervisory as well as nonsupervisory staff. Front-line employees, as internal customers of supervisors, can provide uniquely valuable in evaluating supervisors' skills.

The objective of continuous improvements in performance should provide opportunities for employees at all levels to contribute ideas and innovations for improved services and processes:

—Opportunities should be provided for employees to make suggestions for improving the implementation of their various assignments

*Principle 5. Improve the rewards system and allow the bargaining process to work*

The existing system of financial bonuses for outstanding performance is perceived as compromised by a lack of objectivity and fairness. As in other aspects of the personnel system, personal favoritism and personal relationships often appear to pre-

dominate over outstanding effort and performance that advances system efficiency and customer service.

—DOH employees are interested in exploring team-based and division based rewards for outstanding effort and performance as a supplement or alternative to individual awards. Performance changes that improve efficiency, cut costs, or improve quality are more often generated by work groups than by individuals.

—Individual employees who perform outstanding work should be fairly and consistently rewarded.

—Employees who do the work of positions above their pay grade should be fairly compensated according to the work they are doing.

—Simple recognition of outstanding employee efforts can do a lot to improve morale. A spectrum of positive recognition and rewards should be available to all employees.

*Principle 6. Flatten and modernize the management hierarchy*

The URC recommendations recognize the advantages of flatter management hierarchies to replace unresponsive command and control bureaucracies.

Beyond simply "flatter" management, the operational goal of management should be to support an empowered workforce, to lead in shaping mission goals, metrics and milestones and in mobilizing the participation and initiative of all employees. We perceive the URC assessment and recommendations as consistently falling short in these aspects of modernizing the flattened management hierarchy so that it supports, empowers, and energizes a fully engaged work force.

*Principle 7. Support the development and use of skill in the workplace*

The URC recommendations extensively address development of advanced organizational skills for managers. This is important to move DOH forward.

It is equally important that non-supervisory employees increase their skill levels to move the Department forward as far and as quickly as possible. This means more than just narrow technical skills for operating new computers, software and communications systems.

—High performance skills for non-supervisory employees require skills for team operations, problem solving, quality metrics and continuous improvement, among others. Training for DOH personnel should be provided for these high performance skill sets.

—As jobs are redesigned and roles and responsibilities clarified, all employees should be able to assess their current skills objectively against the new skill requirements of their jobs. Individual training plans should be developed for each employee to raise skills to the levels required in the redesigned organization.

*Principle 8. Create excellence in customer service*

The combination of all these changes should be focused on the goal of increasing excellence in customer service. It is only by mobilizing the knowledge, intelligence, insight and creativity of all employees that the Department of Health will be able to move all of its services toward service excellence.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AFGE LOCAL 2725

The Department of Housing and Community Development has been the single most battered program in DC government. Since 1990 employment has been cut by 65 percent, from 469 to 164,[6] while the agency's mission and responsibilities have remained basically unreduced. We, the agency's front-line employees have sadly witnessed a decline at DHCD, from being nationally recognized for innovative and productive programs during the 1980's to being generally described as dysfunctional in 1997. The workforce and local union see the principal causes of this decline in repeated changes in top management and ineffective management programs, practices, equipment and systems, and improperly trained management personnel.

In spite of the demoralizing impact of deep RIF's, outmoded technologies and systems, and ineffective management practices, the Department's front-line employees still stand ready to work proactively with top management in redesigning and upgrading DHCD toward the union's goal of Service Excellence. Ironically, we feel we also have had to overcome an outside consultant organization, Price Waterhouse. Price Waterhouse (PW) has developed its assessment and reform recommendations over the past three months as if the workforce and union were principal barriers—not essential enablers and partners—to restoring this agency to quality, efficient service.

[6] The Price Waterhouse Task 2 report inaccurately indicates a cut from 600 employees to 164.

Price Waterhouse has shown a unique disregard for the workforce, unique even within the range of the consultant organizations hired by the Authority to assess DC agencies and functions. Price Waterhouse is the only consultant to propose still deeper job cutbacks as part of their proposed solutions, in spite of the depth of job cuts already experienced at DHCD. (We estimate, probably conservatively, that their proposals would eliminate or replace 50 of the remaining 164 jobs, for a further 30.5 percent cut on top of the 65.3 percent cutbacks made earlier in the 1990's.) They further recommend firing still other additional agency staff and allowing them to "compete" with outside applicants for their existing jobs. This is also unique among the recommendations from the consultants in the Management Reform process.

The insensitivity to workforce issues evident in their extreme recommendations is also reflected in their PW's methodology: they met with the union leadership only once, and then only after the union had requested a meeting. Contrary to accepted practice in labor-management consulting and research, they mixed front-line employees and supervisors in their focus group meetings, hampering the candor of the nonsupervisory employees in their only opportunity to put forward their concerns and suggestions for improvement.

EVALUATION OF REFORM RECOMMENDATIONS AGAINST AFGE'S SERVICE EXCELLENCE PRINCIPLES

With this backdrop, it is not surprising to find that PW's recommendations generally fail to meet the standards of AFGE's eight Service Excellence principles.

*Principle 1. Strengthen collective bargaining to make the reform process effective*

The PW report fails to recognize the union and collective bargaining as resources that can make the reform process effective. In spite of the union's effort to reach out to the PW team, the consultants did not follow up on the union's offer to assist. There are no references to the union in the report as a potential partner in the process of redesign or implementation of reform strategies. Perhaps accurately in the context of this report, it principally mentions the union as an expected source of resistance to recommendations such as firing workers and making them compete with outside applicants for their own jobs (p 41).

The consultants' rejection of the union's offer of active engagement in the assessment process and in developing reform recommendations, noted above, seems to show that the PW team's aversion to unions is more than incidental. Their approach contrasts poorly with the best practice benchmarks in city government around the country that consistently show a strong role for working labor-management partnerships in designing and implementing reforms.

—AFGE strongly recommends creation of a Labor-Management Redesign Team for the Department of Housing and Community Development. Through this redesign team union leaders and members would work with managers to shape reforms that will move the Department toward excellence by building on the knowledge and insight of the DHCD workforce.

—This effort to lead reform via a Labor-Management Redesign Team at DHCD should be a principal effort of a department-wide Labor-Management Committee that should be set up as part of a city-wide initiative to develop a productive dialogue between managers and the workforce on a wider range of issues.

*Principle 2. Empower employees and treat them with respect*

Empowering employees and treating them with respect is essential both to a successful reform process and to future operations characterized by consistent quality and cost effectiveness. The PW process and recommendations fail decisively on both of these fronts.

We agree with the fundamental insight of W. Edwards Deming that quality problems are 90 percent due to management systems and practices rather than to shortcomings of the workers. The PW report may not have the candor to frankly blame the workers in so many words. Yet their recommendations for cutting jobs another 30 percent or more, transferring major functions to other departments of DC government, and potentially outsourcing additional basic program responsibilities hardly reflect a desire for empowerment or any sense of respect for employees.

A high performance DHCD based on high workforce participation and continuous learning is not a goal in the PW report. Their vision is rather one of a more efficient, somewhat modernized Tayloristic bureaucracy. Yes, they do want to see improved strategic planning (but at the top only) and more consistent personnel and program practices (but designed without workforce input), even positive financial incentives (again designed exclusively top-down by consultants and managers).

What is not mentioned is instructive: not continuous improvement in agency processes arising from insights and innovations of front-line workers; not continuous learning built into redesigned jobs, opening the way for quality improvements and for skill-based career ladders; nor team-based operations with cross-training and workforce-based problem solving. There seems to be little recognition that DHCD management now attempts to regulate the work of the staff with an outmoded authoritarian management style, which results in counterproductive bureaucratization and disharmony in the workplace. The basic idea that we, the workforce, are the backbone of a successful Department, or that workers are our most important resource, finds no place in this report.

—Reorganization with skill development is a superior strategy compared to firings and contracting out. In spite of ample budgets available for training as part of federal housing programs administered by DHCD, skill development training for front-line workers has been virtually nonexistent in recent years. Instead of further layoffs, contracting out, and forcing employees to reapply for their own jobs, DHCD should develop skill requirements profiles for the jobs in the jointly redesigned agency. Based on an objective assessment of existing skill levels of each employee compared to the skill requirements of their jobs, individual skill development plans should be developed for each employee and appropriate training started immediately to close identified skill gaps.

As in other DC agencies, policies and procedures for hiring and promotions seem to have been replaced by decisions reflecting personal relationships with managers rather than objective assessments of qualifications and skills. The prevalence of personal favoritism undermines agency morale and impedes efficiency.

—Personnel policies and procedures should be developed in consultation with the union to implement objective; job-related criteria that can are factually—not subjectively—determined in every case. This can be done for DHCD as part of the overhaul of the city-wide Personnel functions.

—Establishing a new direction in the department will depend on energizing and empowering staff to overcome technical, bureaucratic, and resource barriers to improve people's lives. That can best be accomplished if the organization develops and implements its strategy through cultivation of trusting relationship within the Department.

*Principle 3. Improve management accountability*

We generally agree with the PW recommendations for more systematic strategic planning for and within the department, but see this as being most effective only when the workforce has a recognized, validated role in the process of strategic planning.

—The staff and union should be involved in the strategic planning process of establishing organizational goals, selecting near-term objectives, and determining the performance metrics for tracking progress toward meeting those goals and objectives. Wherever feasible this planning process should draw on the knowledge of the workforce and the new capabilities of the proposed DHCD Labor-Management Committee.

It is also important that the Department have strong, stable management leadership, willing and able to make a commitment to the staff and city. The succession of directors in the 1990's has contributed to a lack of consistent strategic direction.

*Principle 4. Improve performance management*

The Department's existing negative performance management system, focused on identifying and attempting to punish individuals for non-performance, needs to be replaced by a system that positively identifies performance goals and comprehensively supports the staff in working to achieve them.

Upgrading technical systems—new telephone and computer systems hardware, software, and practices—is necessary, though PW's description of present systems has important inaccuracies. Redesigning agency, program and staff functions can also be positive, but it is much more likely to succeed if the knowledgeable and concerned staff are involved in the redesign process.

—Participation by front-line workers and the union in an redesign team and follow-on implementation teams throughout the Department is essential if workers are to feel ownership of new system goals and objectives and of the corresponding performance objectives and evaluation criteria for individual jobs. If an attempt is made to impose from the top, without recognizing the knowledge and concerns of the workforce, they are unlikely to succeed or be implemented quickly.

—Agency and program goals, objectives, and evaluation criteria should be closely aligned with the agreed goals, objectives and evaluation criteria for individual jobs and functions.
—Individual staff members should develop individual professional development plans to help identify areas where improvements are needed and to support them in achieving excellence in meeting those objectives.
—The Department's joint redesign team should consider the idea of evaluating job performance on a "360 degree" basis—where supervisors, peers, and customers (internal and external) contribute to developing an objective and complete picture of job performance for each employee. This process can be positive both for front-line workers and for supervisors and even senior managers in helping to develop a culture of continuous improvement.
—Where shortfalls are identified in skills or performance, employees should be given the tools for positive improvement through real access to meaningful training programs to upgrade their individual skills and abilities.
—Threats of firing and contracting out must end for employee morale to be restored and for reforms to move forward effectively.

*Principle 5. Improve the rewards system and allow the bargaining process to work*

Performance-related financial rewards and non-financial recognition can be important as part of a broader system of positive incentives for service excellence. As addressed as part of AFGE's response to the recommendations for the city-wide personnel system, the union is open to discussing and negotiating such a system. At DHCD the local union is ready to work with a proactive management to fine-tune the implementation of such a system.

Everyone should understand, however, that the city and agencies can not unilaterally design and impose a new compensation system—as apparently suggested by Price Waterhouse (p 61, section 6). Relying on legislation imposed on the District will not be any more effective. The city-wide collective bargaining agreement signed in 1997 puts some of these questions before a Labor-Management Committee.

*Principle 6. Flatten and modernize the management hierarchy*

High performance management is a natural component of high performance work systems and front-line jobs. Unfortunately the PW report does not identify the need to reduce layers of management or to modernize management functions into coaches and resources for empowered workplace teams.

Management functions within DHCD are in urgent need of reorganization and reorientation toward supporting front-line employees in doing the work of the agency and away from command-and-control and punishment.

—The culture, structures and functions of managers at DHCD needs to embody the principles of empowering and respecting workers and supporting them as they strive to carry out the agency's mission.

*Principle 7. Support the development and use of skill in the workplace*

Skill-based operations are an important source of increased productivity and quality in many kinds of organizations. Unfortunately skill development has not been a priority within DHCD in recent years. Training funds are available as part of the federal programs administered by the Department, but few training opportunities have been made available to front-line employees. The PW report focuses on a lack of computer skills without noting that many employees received their first computers only last year. Almost none of them have received training in computers or the software they should or could be using to help them do their jobs more effectively.

—The PW report prefers firing and outsourcing rather than skill development as an organizational strategy. We believe that continuing training and skill development is a necessary part of a high performing organization at DHCD. Employees want to develop their skills, and want to be able to apply those skills in their work.
—The skills and competencies needed at the Department encompass far more than the technical computer skills mentioned by Price Waterhouse. Quality systems, customer relations, financial analysis, and overviews of federal and state/local housing and economic development programs are all needed.

*Principle 8. Create excellence in customer service*

We, the workers of the Department of Housing and Community Development and our AFGE Local Union, are committed to creating a system that can consistently deliver service excellence for the city and for the low and moderate income residents we are charged to serve. We are ready to work with managers who are willing to work with us.

We believe that the anti-worker approach of Price Waterhouse, which falls outside the spectrum of all the other consultant reports, can not provide an adequate foundation for reform of DHCD. We restate our desire to work with management in shaping the reform process through a Joint Redesign Committee. We would welcome an opportunity to move forward on a path to meaningful reform, starting with basic principles of mutual respect.

CITY-WIDE FUNCTIONS

The Authority has hired outside consulting firms to examine four city-wide functions through assessments and developing recommendations for reform. Of these four areas—personnel management systems, procurement, budgeting, and information systems—we feel that the personnel management has the most direct impact on how work is done and services delivered in the city. We have focused our comments on this one city-wide function.

THE PERSONNEL MANAGEMENT FUNCTION

The Authority retained Coopers & Lybrand to conduct an examination of the present services and delivery methods of the Personnel Management Function of the DC Government. The consultants' assessed information from a wide variety of sources, and spoke with many people within the DCOP and city agencies. However, the consultants appear to have made no effort to involve the union in the study process or in the development of their recommendations in any formal or informal way.

As is often the case when organizational assessments are undertaken by external consultants facing time constraints, there are selected errors, overly broad statements and glaring omissions, interspersed with accurate analysis and supportable conclusions. The next section is an overview of AFGE's evaluation of the consultant's report against our Service Excellence principles. This section is followed by our response to key recommendations. Embedded in these comments are our suggested alternatives to recommendations we believe can not, or will not work given the legal, financial, political or cultural constrains facing the city.

AFGE SERVICE EXCELLENCE PRINCIPLES AND THE PERSONNEL CONSULTANT REPORT

*Principle 1. Strengthen Collective Bargaining to Make Reforms Effective*

Both the findings and recommendations are devoid of substantive knowledge of the legal and practical obligations of employer to employees and their elected union in a unionized work setting. In the hundreds of pages that make up both reports: the assessment and recommendations, the word "union" appears a total of three times. Each time the union is referred to as obstacle to change or good management rather than as the legitimate voice for workers interests and concerns within the organization.

The collective bargaining agreement, the superseding source of personnel rules and regulations in a unionized setting, appears on a list of documents that the consultant reviewed during the assessment process. The labor-management contract is not referred to at all within the recommendations or work plan. The contract is impacted by many of the consultant's recommendations, yet the consultants do not even mention the city's need to negotiate any of their proposed changes.

Although the city has a legal obligation to bargain many of these matters with the union, the city may also want to consider a negotiated approach to implementing the consultant's recommendations (as modified through stakeholder involvement), if only for the sake of expediency and effectiveness. Coopers and Lybrand in their recommendations note this need, if only indirectly:

"Beyond issues of coordination and cooperation with other functions and Agencies, a major concern regarding the ability of DCOP to implement many of these improvement projects is District culture: will the District employees be able to not only support, but embrace, the changes facing it? Change is not easy for most organizations, and the District is being asked to implement widespread and deep reaching changes. This will require concentrated effort and ongoing monitoring.[7]

Collective bargaining is a process whereby employers work with their employees and their representatives to provide for an equitable distribution of resources and create a safe and just work environment. Through bargaining the parties determine the rules of the game and devise problem-solving mechanisms to assist in resolving issues and disputes. Without collective bargaining, workers have no legitimate rights to a say in their workplace, and are less likely to trust that the rules govern-

[7] Coopers & Lybrand, November 1997, p. 12.

ing the workplace also take their best interest into consideration. Without an effective voice, workers have no reason to support or embrace change, for they will have no real impact in shaping the change, and no influence over how and whether the change is actually institutionalized.

The legal problems raised by ignoring the requirements of collective bargaining are equally fundamental. Substantive changes to the personnel issues—like the compensation system, the classification system, overtime formulas, environmental differentials, performance management measures and processes, recruitment and promotions—are all subjects of collective bargaining. The consultants may be unaware of the city's obligation to negotiate any change in these areas with the union, but AFGE is not, nor are city officials. As a simple legal matter, implementing the consultant's recommendations through the strategies suggested by the consultants will expose the city to very well grounded unfair labor practice charges. In practice and in the minds and lives of DC employees, ignoring these bargained provisions and moving to over-ride them without further collective bargaining with the employees and their unions is unlikely to have any positive result.

—Collective bargaining works if the parties abide by the rules of engagement set forth in labor relations laws. AFGE strongly advocates that the city do the right thing and engage the city unions in negotiations over many of the proposed changes recommended in this report.

—We recommend that the personnel function be addressed early in the proposed city-wide Joint Redesign Team. The city's Labor-Management Committee should monitor the progress of personnel function reforms over time and propose additional reforms or adjustments every six months. Success in this particular reform effort is critical to the overall effort for the city as a whole and for each of the departments.

*Principle 2. Empower Employees and Treat Them with Respect*

Our questions regarding the report's assessment against the Service Excellence principle of empowerment are twofold:

—Are employees empowered by change?

—Are employees empowered in the change process?

In assessing whether the recommendations empower employees, we will assess whether or not a proposed change will provide employees with the information, resources or tools they need to take responsibility for their development, careers and benefits within the city. We also look to see whether the recommendations provide managers with the tools they need to support employees in these objectives. A key priority for AFGE is to ensure that we minimize the amount of variation in the way rules, regulations, and benefits are interpreted and applied throughout the city. If we can create a situation where everyone has the same information, everyone plays by the same rules, and everyone is evaluated through the same system and on same types of measures, then we will have created a situation where employees all who wish to advance in skill and recognition will have support in achieving their goals.

Several recommendations, especially some related those related to providing employees with information they need to plan their careers will help to empower employees within key personnel processes. Other recommendations, to the contrary, may in fact serve to minimize the employees role in building a career within the city.

In order to assess whether employees are empowered in the change process we look at whether employees are provided a voice in designing and implementing changes to the personnel system. The report does not spell out a specific role for employees or for unions in the change process. Therefore we must conclude that the recommendations do little to empower employees in the change process.

—If front-line workers can not create an effective channel for participating in the redesign of the personnel function through the Joint Redesign Committee and the Labor-Management Committee, we seriously question the ability of a change process to succeed. There must be a meaningful, structured process for workers and their unions to contribute to the design of these changes.

*Principle 3. Improve Management Accountability*

The consultant recommendations could serve to increase management accountability throughout the city in several ways:

—A major problem the city is the ability of agency heads and mangers to work around the current rules and regulations in promoting, classifying, and disciplining employees. The proposed reorganization recommendations related to the centralization of the benefits, compensation, data base, policies and procedures could serve to limit these current abuses. Top leaders like the Mayor and Council would need to back this system by not supporting agency heads or man-

agers who might attempt to circumvent the new systems and procedures once they are in place.

—The recommended DCOP Steering Committee representing all agencies to help set DCOP priorities and monitor its performance will help to install a system to hold DOCP accountable to its mission and mandates. Regular labor-management discussion on these issues is essential.

—Mandatory supervisory training would improve supervisors' understanding of the rules and regulations and may help to instill a value for fairness and accountability within front-line management.

—Cleaning up the policies and making them easily accessible to all employees will help to ensure that everyone is held accountable to the same set of rules.

—Recommendation related to improving position control and limiting ad hoc work a-rounds to the classification system will limit management's ability to play favoritism in hiring, promotion and classification decisions.

—Supporting agencies in change management could help to instill a higher level of professionalism within management and a value for consistency and fairness. Strategies which involve workers and unions in the change process within agencies will help to build relationships between labor and management. Accountability can also improve within the context of a strong relationship based on mutual respect and support for common goals.

*Principle 4. Improve Performance Management*

The consultant's report is weak on its proposed approach to performance management. They advocate for a measurement-based approach to performance management. Yet organizational performance is based on many more factors. Performance is rooted in the nature and configuration of the work organization which includes: the way work is organized, the roles workers play and the skills they use in the work process, the available technology, the access to, use of, and influence over information and many more factors.

—Setting and measuring individual, team and department performance goals will help to improve the way performance is managed. By improving the measurement system, employees and managers will be clearer about their expectations of each other, and this will have positive effects relationships, the culture and work environment.

But in and of itself this increased clarity will not lead to change and improved performance.

—Structural changes in work processes, roles, technologies, methods and practices must also occur to support performance improvement.

*Principle 5. Improve the Rewards System*

The goals for consultant's recommendations regarding change to the pay and classification system seems to be focused on making them efficient and consistent. For example, the recommendations will serve to: increase position control; increase control over wages and benefits; align internal pay with the external labor market; and align internal pay plan with consistent values and measures.

Although these goals will help to improve the pay and classification system, they will not in and of themselves improve the reward system within the city. A greater respect for equity must be instilled in the culture of the city.

—A system that recognizes and compensates workers for the use of skill and good judgment must be negotiated before people will feel adequately rewarded for their contributions to the city.

*Principle 6. Flatten and Modernize the Management Hierarchy*

Changes to the classification system and job design should support a flatter management hierarchy within the city, but this is not recognized as a goal in the consultant report. Other than the proposals related to supervisory training and to the change management program, we see limited potential that the proposed changes as spelled out will lead to a more modern approach to management based in employee empowerment and improved labor-management partnerships.

*Principle 7. Support the Development and Use of Skill*

The proposed vision and role for the Center for Workforce Development is limited and lacks understanding of today's innovative workplace learning systems that empower employees to take charge of their own development, while they also supporting improvements to organizational performance.

First, the recommendations do not provide a role for employees and their unions in the design, delivery and assessment of training. There are hundreds of best practice examples of labor-management partnerships that have improved the impact of training on organizational and individual goals. These initiatives have developed

rich methodologies for involving workers directly in the training process. The consultants have failed to draw on these experiences in developing their recommendations. We believe the program will suffer as a result.

Second, the recommended training program is focused on narrow job related tasks and will have limited impact on goals related to job expansion, and will do little to support employees in developing potable skills they need to maintain employment security in an uncertain economy.

Third, the report does not address the demand side of the skill challenge within the city. Until and unless the city pro-actively addresses the obstacles to the use of skill in the workplace, workers will have little motivation to invest in the development of additional skills to improve their job performance. Workers must be empowered to use the skills they have now to make job related decisions, solve operational problems, and make improvements to the work processes they operate within. Once a work environment that encourages innovation and learning is established, and once workers are acknowledged for the skills they now have, then the demand for and usefulness of in-house training will increase.

Finally, several of the training recommendations, if implemented, will serve to compromise confidentiality, and therefore will limit employee's motivation to make use of the limited resources the program does provide.

*Principle 8. Create Excellence in Customer Service*

An effective human resources and personnel system is fundamental to creating an organization within which excellent customer service is the goal and the norm in practice. Some of the components are present in the C&L recommendations, but others are missing or incomplete, as outlined above. The objective of excellent customer service should be an important standard against which all of the proposals for the personnel function are evaluated.

The persistent undertone of the Coopers & Lybrand reports is that employees and their unions are a big part of the problem faced the city in its personnel management processes—not the inefficient and outdated management system within which we all operate. The consultants never once looked to employees and their unions as allies in their mission to make change. We encourage the Authority to take a different view. We advocate for the use of collective bargaining and the labor-management partnership to negotiate and problem solve the challenges laid out within the consultant's report. The following are several suggestions for how we might work together on these issues.

SPECIFIC AFGE RESPONSES TO KEY C&L PERSONNEL FUNCTION RECOMMENDATIONS

DOCP ORGANIZATION

*C&L Recommendation: Employee Relations Division*

"* * * a coordinated Employee Relations function, which includes Labor Relations as part of the DCOP * * *. The Deputy Director, Employee Relations would be responsible for the field delivery of personnel services, for both union and non-union employees.

The Employee Relations department would include personnel specialists who would be resident in Agencies—but these specialists would report to DCOP—to support individual Agency initiatives and priorities, yet assume central monitoring of policy compliance.

*The AFGE Alternative: The Office of Labor-Management Relations*

The City should expand the Labor Relations Division to include responsibly for collective bargaining, grievance administration and the expansion for the labor-management partnership.

The Division's mission should be expanded to include to support of Agencies in moving toward high performance work organizations which empower employees to develop and use of skill in the conduct of their work.

This mission will be accomplished through the formation of Joint Redesign Committees and Labor-Management Committees within each agency. Each committee will have at least one staff person selected by the union to assist in facilitating workplace transformation and will help the Agency access needed information, assistance and resources from the centralized personnel functions. The Committees will develop and oversee the implementation of an agency transformation program that respond to the consultant reports and provide workers with a greater voice in the services they deliver.

The city will also agree not to interfere in the unions' attempts to organize non-union employees and will provide the union with access to discuss membership with

non-union employees during work hours, provided such conversations do not interfere with agency operations.

In return the union agrees to enter into a partnership with the city to assist in the implementation of the consultant recommendations.

*C&L Recommendation: Center for Workforce Development*

"* * * we recommend * * * ongoing reviews with Agency management to assure the training and assessment services offered meet the priorities of the Agencies. We also recommend that DCOP completely outsource the employee testing function, and place the interface to testing vendors under the Center for Workforce Development, since it is closely tied to skill assessment.

*The AFGE Alternative: The Labor-Management Center for Workplace Learning*

We recommend the establishment of a city-wide labor-management committee to assure the training and assessment services offered meet line priorities.

The city-wide committee will develop central programs to meet the development needs of individual workers. The city-wide committee will also work with agency labor management committees to develop programs to meet agency needs and that support the transformation process within the agency.

The Center for Workplace Learning will not assume responsibility of testing until such time the city moves to implement a classification system based on nationally recognized skill standards. Testing for entry and promotion is different than skill assessment in a work system that has yet to moved to a skill based organizational structure. Testing is traditionally used as a screening mechanism where individuals are concerned about job security or income progression. Assessment is more developmental and used by individuals to set goals and guide their education. If these processes are confused, individuals will come to mistrust both. Utilization of training will be effected.

PROCESSES AND WORK STRUCTURE

*C&L Recommendation: Reengineer Personnel Processes*

"* * * begin to evaluate and reengineer core personnel processes * * * the initial process for reengineering the Recruiting Process. We recommend that in doing so, the Recruiting Process be defined to include sourcing, and not confined to the District's paper process."

*The AFGE Alternative: Stakeholder Participation in Reengineering Personnel Processes*

The initial process for reengineering the collective bargaining process. Most collective bargaining negotiations are at impasse, and those agreements that have been reached have not been implemented because no one knows who has the authority to do so. Two thirds of the District's workforce is organized. That means that the city now has no effective way to make decisions regarding the wages, benefits, and working conditions effecting two thirds of its workforce. The city needs a vehicle to negotiate the changes recommended by the consultants. The fixing the labor relations process must take the priority over other issues.

CLIENT SERVICE

*C&L Recommendation: DCOP Steering Committee*

"DCOP should establish an ongoing—Steering Committee * * * to help set DCOP priorities and monitor * * * performance."

*The AFGE Alternative: Labor-Management Steering Committee*

The labor-management steering committee, which will consist of agency and union representatives should establish a DCOP sub-committee to help DCOP establish priorities and monitor performance.

TRAINING

*C&L Recommendation: Center for Workforce Development Priorities*

"Based on feedback from the Agency Directors and their employees, the priorities of the Center include:

—Develop a skill assessment tool for departments that can be tied into process redesign, job descriptions, and training
—Make supervisory training a priority
—Make supervisory training mandatory for all newly promoted * * * supervisors
—Develop a process to provide supervisor training for—supervisors who never received training

THE AFGE ALTERNATIVE

The priorities for the Center should include:
—The development of a labor-management infrastructure to guide the development and delivery of training programs to front-line union members
—The development of skill assessment tools based on nationally recognized skill standards that provide workers with portable skills and recognized expertise
—The development of recommendations for how skill standards could be used to guide work re-organization and the development of a pay for skill compensation system
—Improvements to supervisory training

*C&L Recommendation: Additional Activities*

* * * Other training needs we identified include * * * intra- and inter-team building training.

*The AFGE Alternative*

Intra- and inter-team building training program will be designed and tailored to support agency steering committees in implementing their labor-management transformation plan.

COMPENSATION PHILOSOPHY

*C&L Issue/Problem: Authority to implement philosophy*

"It is not clear who at the DC Government has the authority to implement the Compensation Philosophy."

*The AFGE Alternative: Collective Bargaining*

If the DC compensation philosophy will be used to govern decisions regarding union employees, then the development of that philosophy is the subject of collective bargaining.

The Labor-Management Steering Committee should develop a recommended philosophy and present their recommendations to the negotiating committees for inclusion in the collective bargaining agreement. The C&L recommended philosophy should be reviewed and considered by the Steering Committee. The Steering Committee will determine whether the recommendations are included in the final statement.

JOB INFORMATION AND EVALUATION

*C&L Recommendation: Market Alignment*

"* * * establish what inherent characteristics within a job the City is willing to pay for and identify the appropriate markets for comparison pay * * * construct a flexible evaluation plan around which jobs can be classified within occupations based on jobs, qualifications, skills and responsibilities."

*The AFGE Alternative: Collective Bargaining*

The characteristics of jobs and the value of those characteristics are mandatory subjects of collective bargaining.

The job classification system around which jobs are classified is also a mandatory subject of collective bargaining.

*C&L Recommendation: Job Evaluation Team*

"* * * establish a job evaluation team consisting of * * * DCOP, payroll, financial agency personnel, and an Authority designee * * * responsible for:
—Facilitating—data gathering and exit processes
—Developing appropriate job evaluations for each classification
—Building an internal compensation database
—Gathering qualifications, skills and required responsibilities for each job"

*The AFGE Alternative: Collective Bargaining*

The evaluation team, consisting of union and management representatives will devise a new classification system that will become a part of the collective bargaining agreement once complete.

*C&L Recommendation: Computerized Job Evaluation System*

"* * * consider a computerized job evaluation system to analyze and monitor data collection, data analysis and recommendations processes."

*The AFGE Alternative: Collective Bargaining*

The union-management evaluation team will consider using a computerized evaluation system, provided that system can be designed to weight jobs according to negotiated criteria.

*C&L Recommendation: Evaluate Based on Current Job Descriptions*

"* * * recommends building the data—to evaluate and classify jobs from the current job descriptions for positions."

*The AFGE Alternative: Evaluate Based on the Work*

This recommendation makes no sense given the finding that the current job system does not reflect how work is or should be organized. The evaluation process should be based the work people will be required to do in transformed work systems, the skills the transformed work system will require workers use, and the value people contribute to the work process and product.

*C&L Recommendation: Consistent Approach*

"* * * all jobs regardless of their union, classification, or status be evaluated in a consistent manner which does not provide special treatment to any individual classes of jobs."

*The AFGE Alternative: Collective Bargaining*

The manner in which union jobs are evaluated is the subject of collective bargaining. If the city wishes to be consistent with the process they use to evaluate jobs, then they will need to use the same process negotiated with the unions to evaluate non-union jobs.

COMPENSATION PROCESS

*C&L Recommendation: Redefine pay structure*

"* * * the job evaluation team should—redefine the current grade, structure and determine whether the current pay structures make sense."

*The AFGE Alternative: Collective Bargaining*

The union-management evaluation team should negotiate a new grade structure to implement the results of the job evaluation.

*C&L Recommendation: Pay for Performance*

"Assuming the pay for performance initiative can be carried forth, we see little use for the mechanical pay steps within the current pay structure beyond the competitive market rate."

*The AFGE Alternative: Collective Bargaining*

The job evaluation team should negotiate how workers will progress through the new grade structure.

DCOP TECHNOLOGY

*C&L Recommendation: Information Technology Task Force*

As a management initiative for moving from mainframe to client-server computer technologies.

*AFGE Alternative: Information Technology Task Force*

As a structured opportunity for user participation in determining functional requirement, interfaces, and integrated training systems for the new computer systems.

CAPACITY FOR CHANGE

*C&L Recommendation: Change Management Capability*

"* * * develop an in-house change management capability to support Agencies in the implementation of recommendations.

*The AFGE Alternative*

The Labor-Management Steering Committee should help the city and the union develop internal capacity to support union-management transformation processes in the Agencies. Training and internal consulting in strategic planning, work place change, high performance work organizations, and labor-management partnerships should be offered to managers, union leadership and the selected labor-management facilitators. These leaders in turn should be supported in imparting this information and skill to line workers and managers.

# DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 1999

**WEDNESDAY, JUNE 10, 1998**

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
*Washington, DC.*

The subcommittee met at 2:05 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Lauch Faircloth (chairman) presiding.

Present: Senator Faircloth.

## DISTRICT OF COLUMBIA

### COUNCIL OF THE DISTRICT OF COLUMBIA

**STATEMENT OF LINDA W. CROPP, CHAIRMAN**

#### STATEMENT OF LAUCH FAIRCLOTH

Senator FAIRCLOTH. I thank you for being here. I am delighted to see we have a full house of people attending and the interest in the budget.

This afternoon marks the first hearing of the Subcommittee of the District of Columbia concerning the budget for fiscal year 1999. We are delighted to have with us to formally present the city's budget Ms. Linda Cropp, chair of the District of Columbia Council; Mayor Marion Barry; and Dr. Andrew Brimmer, chair of the District of Columbia Financial Responsibility and Management Assistance Authority.

#### HEARING ON FISCAL YEAR 1999 CONSENSUS BUDGET

I want to note and be very clear that this afternoon's hearing is not a hearing about the structure of the government of the District of Columbia—it is not about the structure of the government of the District of Columbia. That is a subject for another time, another place. Today, we are going to focus on the District's consensus budget and the impact of the management reform process currently underway.

#### BALANCED BUDGET

This year marks the second year in a row since the creation of the Control Board that the Congress has been presented with a balanced budget for the Nation's Capital. This is not a small accomplishment, and it is something we can all be proud of. This is a consensus budget, and I know that each of the officials here have put in a lot of work and long hours to produce it. This budget of

$5.2 billion will result in a $41 million surplus. However, the surplus would have been much higher were it not for the $62 million deficit in the budget of the public school system.

PROGRESS OF REPAIRS TO SCHOOL BUILDINGS

In addition to budget deficits, I am concerned about the progress of repairs within the school buildings. There have been some who have suggested that the schools will not open on time again this fall. I want to be very clear that we cannot tolerate this again. Now, the Congress will not tolerate this again. If something has to be done, if people have to be moved, so be it. There is no excuse for this failure of the schools to open year after year and no reason for passing the buck. I hope and expect to hear concrete proposals for opening the schools on time. While I am touching on that fiasco we went through last year, when you could not open a school because somebody was patching a little hole in the roof, I thought it was ridiculous then and I still do.

The budget for the District of Columbia for fiscal year 1999 will be the second enacted by Congress since the passage of the District of Columbia Revitalization Act, which started the management reform process now underway. I strongly believe the American people are willing to make the kind of investments needed to repair this city. I said, "the American people," if it need be, because it is the capital of the United States. All of us, all of us—the residents of the District, the people that are serving in government and are here as temporary residents—all of us want to see it be the crystal city on the hill, and we are willing to do what it takes to make it happen.

USE OF FUNDS FOR MANAGEMENT REFORM

What we all want is the kind of city that the entire Nation can be proud of, all 280 million of us, and especially the 500,000 or 600,000 or whatever we have as residents here within the city. We are all moving for a common goal. I find nothing in the Congress to indicate a lack of willingness to work with the city to bring about what we need to do to make it the kind of city we all want. Specifically, I would like to know how funds for the management reform in this year's budget will be used to reshape the thinking of the city's bureaucracy, reduce the regulatory burdens and red tape and make better service delivery a permanent part of city government. The citizens of the District of Columbia and the Nation, as I just said, deserve no less, and we in Congress intend to work with the city to bring it about.

Before we begin, I would like to remind all of our witnesses that your entire statement will be made part of the record, so we ask if you would please limit your opening statement to about 5 minutes. We will hear opening statements followed by questions of our witnesses. If somebody is running a little over, we want to be generous and easy, but try to limit them to 5 minutes.

Without objection, the record will remain open until 5 p.m. on Tuesday, June 16, if anybody wishes to submit additional testimony or responses to questions. With that, I will turn to our witnesses.

Our first witness this morning is Ms. Linda Cropp, the chair of the District of Columbia Council, who has devoted many hours to working with the District's leaders to produce a consensus budget. Ms. Cropp, we welcome you, and if you will, proceed with your testimony.

STATEMENT OF LINDA W. CROPP

Ms. CROPP. Thank you so very much, Senator Faircloth. Let me say good afternoon to you. As the Senate Appropriations Subcommittee of the District's Chair, I am here to testify——

Senator FAIRCLOTH. Ms. Cropp, if you do not mind, the sound system is bad. If you will, pull the mike as close as you can.

FISCAL YEAR 1999 BUDGET AND FINANCIAL PLAN

Ms. CROPP. I am here to testify—is that better—on the District's fiscal year 1999 operating budget and financial plan. This budget, balanced and unanimously approved by the Council, was the result of months of hard work, tough decisions and protracted negotiations. It is no small feat that this consensus budget, bargained by the Council with the Mayor and the Financial Authority, illustrates the story of how District stakeholders can get together to design a cow and not produce a camel. But, in fact, not only the cow, but a better Washington, DC.

This $5.2 billion spending plan with tax relief, increased funding for the schools, a $41 million accumulated deficit reduction, and pay adjustments for city employees proves that the District's fiscal condition is improving, and it can now focus more on the rehabilitation of service delivery. That is a very important function that needs to be addressed. I have a copy of the Council's committee report that deals with the Budget Request Act, and I would like for that to be made a part of the record, and we submit it as such.

Senator FAIRCLOTH. Without objection, it will be.

Ms. CROPP. Thank you.

[CLERK'S NOTE.—The copy of the Council's committee report that deals with the Budget Request Act is being held in the files of the subcommittee.]

Prior to receiving the fiscal year 1999 budget in early March, the Council had already developed its platform to achieve a budget that is balanced and premised upon four priorities espoused by the Council at their January retreat. The four priorities are: to improve service delivery, to eliminate the accumulated deficit, to invest in our work force with appropriate compensation, and to begin tax relief and restructuring.

FISCAL YEAR 1997 OPERATING SURPLUS

The financial audit showed that we ended 1997 with an operating surplus of $186 million. However, I cautioned us then and I continue to caution us, Mr. Chairman, that that is not a true surplus. We still have more work to do. We must succeed because it is the rehabilitation of our financial position which becomes the underpinning for our service delivery efforts, and then these efforts will provide the foundation for economic growth. We are adamant

about translating this surplus into improved services and not just letting it be something on paper for our citizens.

While you saw a $186 million plus surplus, it is not a true surplus as long as our schools need fixing, as long as we have potholes in our streets and as long as we have other services that need to be improved. It means that we need to direct those dollars into other areas. In addition, we anticipate $254 million available for deficit pay down for this fiscal year.

Although the numbers are not yet final, this new-found prosperity is not just because of our strong economy, but more importantly it demonstrates how the District can get back on its feet financially by adopting sound budgeting procedures, conducting stringent fiscal oversight and exerting prudent control over our spending. In fact, the Council has taken the initiative to finance some long-term capital projects, for example, the year 2000 compliance with operating funds, current revenue, not borrowed money.

Besides saving the District money in years to come, this action reflects our determination that no financial good fortune will be squandered unwisely. In this budget process, the Council and its standing committee devoted many hours of discussion and spent much time and effort in judiciously reviewing our agencies' performance in numerous budget and legislative hearings.

In fact, this year we held two sets of hearings. The first set of hearings was totally based on performance to see what the agencies were doing to make sure that there were performance measures that could be evaluated. After reviewing and scrutinizing the agencies past budget and spending pattern during the budget markup sessions, the committees were challenged to hold the line on expenditures, to make reductions or enhancements where possible and feasible, yet enhance the budget without shortchanging our citizens of basic services. The Council's committees rose to that.

Thereafter, the committee of the whole proceeded to make more revisions in order to bring the budget into balance. Be it program enhancements for schools or young people or net reductions—and let me reiterate the Council supported additional funding for the schools and directed $2.3 million for youth programs—we were able to discipline our spending by allocating some $41 million for deficit reduction.

As you stated in your opening statement, we had hoped that it would have been more. In fact, we had hoped we would have had the opportunity to totally eliminate the accumulated deficit. That, Mr. Faircloth, is no small task. I do not think any other city that had the types of financial problems that the District had would have been able to accomplish those goals. In most of the other cities, their debt was paid off from the very beginning. In the District it was not. Hopefully, by the year 2000 we will totally eliminate that.

I must also say that this was accomplished with the first surplus coming in. I need to remind people that it was prior to the Revitalization Act going into effect. That was only for this year's budget. Prompted by this first unqualified audit or clean bill of health for several years, the Council took steps to jumpstart the rehabilitation for our city.

PUBLIC WORKS PROJECTS

For example, we pushed for $7 million worth of public works projects to transform our neighborhoods and enrich our living environment because we care about houses lined up on smooth streets sans potholes. We do not care for unsightly garbage and recycled trash littering our curbs. We care about better community policing. We do not care about criminals and prostitutes lurking around our residences. We care about breathing spaces for our kids to play and frolic in. We do not care for violence and open air drug markets. In sum, we care about building an idyllic District of Columbia because—as one of the most overburdened taxpayers in America—we deserve a good city.

PAY ADJUSTMENTS FOR EMPLOYEES

For the city employees who have labored to produce the surplus and contributed directly with layoffs and benefit reductions, I am pleased to say that we are going to invest in our work force with pay adjustments, the first since 1994 for most of our workers.

TAX RELIEF

In this budget package, we have offered $11 million worth of tax relief to residents and businesses and hope to encourage people to move to the District by eliminating the motor vehicle excise tax for new residents. However, this tax relief is just one small step in a joint effort to resuscitate the Nation's Capital. To recharge the District, we need to install a new economic engine. In other words, we need to invest the $100 million, as promised by the President, in the new economic initiatives.

LOCAL CHARTERED CORPORATION

More specifically, we need a locally chartered corporation to lure more businesses into the District, to encourage economic development and economic growth not only in the downtown areas, but in all of our neighborhoods in the District of Columbia. We envision a new convention center, so that the District can compete with other cities and stop the exodus of businesses which, in turn, hurts our hospitality industry and ourselves. Second to government, the hospitality industry is our major economic thrust. Not to sound trite or facetious, it has been said that other mayors and city councils are happily gobbling up Washington's million dollar lunch because our convention center is much too small.

UPGRADE OF DETERIORATED BUILDINGS AND STREETS

We need to upgrade some of the city's most deteriorated buildings and streets. We need to improve the quality of life in the District period. All of these needs and the ability to accomplish them cost money. Given the present improved financial situation, this money should be given to us so that we can transform the District into a thriving metropolis with bright, gleaming buildings.

This goal cannot be achieved without these funds because, let's face it, economic development is going to be the antidote that propels this city toward fiscal veracity and physical wellness. No doubt, we are in better economic times. But we must be prudent

and strive to find other resources to establish an accumulated surplus to cushion us against the next economic slowdown. The times now may not continue.

What I have described in our process is akin to your budget in the Senate. While you strive to find fiscal priorities, the Council did likewise. While you agonize over budget reductions, the Council did the same. While we empathize with your considerations, we implore you to recognize the fact that we need more Federal funds to help change the city. Since this request is a small line item in the Federal budget, we beseech you to consider favorably the Federal fund portion of our budget request as you successfully approve a balanced budget for our Nation.

INFRASTRUCTURE NEEDS OVER $3 BILLION

Finally, we urge Congress to grant the $254 million infrastructure request. This fund is intended to support the city's existing infrastructure needs of over $3 billion. This fund can further alleviate our financial and structural burden so that the District can provide and perform efficiently all the State, county and local functions.

Mr. Chairman, this is the budget that will move the city forward. This is the budget to endorse because we want you, Mr. Chairman, to join the consensus between the Mayor and the Financial Authority for a better District of Columbia.

Senator Boxer had written me a note and said that she was unable to be here, but she wanted me to put on record an answer to a concern that she had raised. You certainly said this was not a hearing on this. But I do want you to be aware that governance structure is an issue that has been in the mind of many in the District of Columbia. In fact, Senator Faircloth, the Council has held a hearing on that very issue where we have had witnesses come in, citizens of the District of Columbia, to talk to us about the different forms for governance structure for the District.

While there has been a debate and different views regarding the structure of the District, there is no debate over the issue that the changed structure should start within the citizens of the District of Columbia and their elected officials. It is our intent to continue to hold hearings on this very issue. We would certainly share with you the results, the information and the dialog.

Mr. Faircloth, we would like to even submit to you for the record, if you would like, some of the comments that have been made by citizens of the District of Columbia at the Council's earlier hearing with regard to governance, governance structure. Many citizens have thought long and hard about that. While this is a budget hearing, it is an issue that is on the mind of many of our citizens, and we did want to add that.

Senator FAIRCLOTH. Thank you. Were you through?

Ms. CROPP. Thank you.

PREPARED STATEMENT

I am through. We just want you to be a part of our consensus budget process and support the budget as submitted by the Council, the Mayor and the Financial Authority.

[The statement follows:]

PREPARED STATEMENT OF LINDA W. CROPP

Good morning Chairman Faircloth and other members of the Senate Appropriations Subcommittee on the District of Columbia. I am here to testify on the District's fiscal year 1999 operating budget and financial plan.

This budget—balanced and unanimously approved by the Council—was a result of months of hard work, tough decisions, and protracted negotiations. It is no small feat that this consensus budget, arduously bargained by the Council with the Mayor and the Control Board, illustrates the story of how District stakeholders can get together to design a cow and not produce a camel. This $5.2 billion spending plan—with tax relief, increased funding for the schools, a $41 million accumulated deficit reduction, and pay adjustments for city employees—proves that the District's fiscal condition is improving and it can now focus more on the rehabilitation of service delivery.

[I've here a copy of the Council's committee report on the Budget Request Act and I would ask that it be made part of the record.]

Prior to receiving the fiscal year 1999 budget in early March, the Council had already developed its platform to achieve a budget that is balanced and premised upon four priorities espoused by the Council at their January retreat. The four priorities are:

—(i) Improve service delivery
—(ii) Eliminate the accumulated deficit
—(iii) Invest in our work force with appropriate compensation
—(iv) Begin tax relief and restructuring

The financial audit showed that we ended 1997 with an operating surplus of $186 million. However, this is not a true surplus, Mr. Chairman. We still have more work to do. We must succeed because it is the rehabilitation of our financial position which becomes the underpinning for our service delivery efforts and, then these efforts will provide the foundation for economic growth. We are adamant about translating this surplus into improved services and not just let it be something on paper to the citizens.

In addition, we anticipate a $254 million available for deficit pay down for this fiscal year, although the numbers are not yet final. This new found prosperity is not just because of our strong economy, but more important, it demonstrates how the District can get back on its own two feet financially by adopting sound budgeting procedures, conducting stringent fiscal oversight, and exerting prudent control over our spending. In fact, the Council has taken the initiative to finance some long-term capital projects, e.g., the Year 2000 Compliance with operating funds, i.e., current revenue, NOT borrowed money. Besides saving the District money in years to come, this action reflects our determination that no financial good fortune will be squandered unwisely.

In this budget process, the Council and its standing committees devoted many hours of discussion and spent much time and effort in judiciously reviewing the agencies' performances in numerous budget and legislative oversight hearings. After reviewing and scrutinizing the agencies' past budgets and spending patterns during the budget mark-up sessions, the committees were challenged to hold the line on expenditures, make reductions or enhancements where possible and feasible and, yet balance the budget without shortchanging our citizens of basic services.

Thereafter, the Committee of the Whole, under my leadership, proceeded to make more revisions in order to bring the budget into balance. Be it program enhancements for schools or young people or net reductions (and let me reiterate—the Council supported additional funding for the schools and directed $2.3 million for youth programs), we were able to discipline our spending by allocating some $41 million for deficit reduction.

Prompted by this first unqualified audit or clean bill of health in several years, the Council took steps to jump start the rehabilitation of the city. For example, we pushed for $7 million worth of public work projects to transform our neighborhoods and enrich our living environment BECAUSE we care about houses lined up on smooth streets sans potholes. We don't care for unsightly garbage and recycled trash littering our curbs. We care about better community policing. We don't care for criminals and prostitutes lurking around our residences. We care about the "breathing spaces" for our kids to play and frolic in. We don't care for violence and open air drug markets. In sum, we care about building an idyllic District because—as one of the most overburdened taxpayers in America—we deserve it!

And for the city employees who had labored to produce the surplus and contributed directly with lay-offs and benefit reductions, I am pleased to say that we are

going to invest in our work force with a pay raise, the first since 1994 for most workers.

In this budget package, we have offered $11 million worth of tax relief to residents and businesses and hope to encourage people to move to the District by eliminating the Motor Vehicle Excise tax for new residents. However, this tax relief is just one small step in our joint effort to resuscitate the Nation's Capital. To recharge the District, we need to install a new "economic" engine. In other words, we need to invest the $100 million, as promised by the President, in new economic initiatives. More specifically, we need a locally-chartered corporation to lure more businesses into the District. We envision a new convention center so that the District can compete with other cities and stop the exodus of business which, in turn, hurt our hospitality industry and ourselves. Not to sound trite or facetious, it has been said that other mayors and city councils are happily gobbling up Washington's million dollar lunch!

We need to upgrade some of the city's most deteriorated buildings and streets. We need to improve the quality of life in the District. PERIOD. All these needs cost money. Given the present improved financial situation, this money should be given to us so that we can transform the District into a throbbing metropolis with bright gleaming buildings. And this goal cannot be achieved without these funds because, let's face it, economic development is going to be the antidote that propels this city toward fiscal veracity and "physical" wellness. No doubt, we are in better economic times. But we must be prudent and strive to find other resources to establish an accumulated surplus to cushion us against the next economic slowdown.

What I have described in our process is akin to your budget process in the Senate. While you strive to fund your priorities, the Council did likewise. While you agonize over budget reductions, the Council endured the same. While we empathize with your considerations, we implore you to recognize the fact that we need more federal funds to help change this city. Since this request is a small line item in the federal budget, we beseech you to consider favorably the federal fund portion of our budget request as you successfully approve a balanced budget for our nation.

Finally, we urge the Congress to grant our $254 million infrastructure request. This fund is intended to support the city's existing infrastructure needs of over $3 billion. This fund can further alleviate our financial and structural burdens so that the District can provide and perform efficiently all the state, county, and city functions. Mr. Chairman, this is the budget that will move the city forward. This is the budget to endorse—because we want you, Mr. Chairman, to join the consensus for a better DC.

## OFFICE OF THE MAYOR

**STATEMENT OF HON. MARION H. BARRY, JR., MAYOR**

Senator FAIRCLOTH. Thank you, Ms. Cropp, and certainly I intend to be. You may remain seated, if you do not mind.

Our second witness is the Hon. Marion Barry. Mayor Barry has dedicated many, many years of service as Mayor of the District of Columbia. Mayor, if you do not run again, this may be your last statement before this committee in your capacity as Mayor. We welcome your comments and what you have to say, and certainly wish you well in whatever your career endeavor might move on from here. Mayor Barry, you may proceed.

Mayor BARRY. Thank you very much, Mr. Faircloth and members of the committee. I want to thank you for this opportunity to share my views on District finances and to place in the appropriate context the fiscal year 1999 financial plan and budget. I would like for my entire statement of about 21 pages to be entered into the record, and I will just highlight some of those myself.

Senator FAIRCLOTH. Without objection, it will be. Your entire statement will be submitted and included in the record.

### INTRODUCTION OF INTERIM CHIEF FINANCIAL OFFICER

Mayor BARRY. Before I proceed, I would like to introduce publicly and officially the newly appointed interim chief financial officer for the District. You met him a few minutes ago, but I wanted to introduce him formally, Mr. Earl C. Cabbell. Mr. Cabbell is a CPA, has served as Deputy Chief Financial Officer of Financial Operations and Systems since 1996. He was previously the deputy director of finance, the chief accounting officer for the city of Detroit. He also served as director of finance for the State of Maryland's Department of Transportation, a position he assumed in 1992.

We have some able people in the financial management cluster. I interviewed many of them and came to the conclusion that Mr. Cabbell would best serve us during this period. He has indicated a desire to only serve as interim and some of his staff wanted to urge him to consider it permanently. We are going to start a national search for a chief financial officer.

Mr. Cabbell.

Senator FAIRCLOTH. Thank you.

Mayor BARRY. Also, Mr. Chairman, the development of the budget provides an opportunity to reflect on the past, to measure progress and to plan for the future. As you indicated a little bit earlier, this 1999 financial plan and budget is the last that I will be submitting to the executive and legislative branches of the Federal Government in that I have made a decision after almost 40 years of public service to move on and do other things as opposed to seeking reelection as Mayor of our great city.

WASHINGTON, DC, NO. 1 CITY ON EAST COAST

Also, Mr. Chairman, some very good news came to the city today in the form of Money Magazine. This is a magazine that surveys cities all over America and came to the conclusion that on the East Coast that Washington, DC, is No. 1. We are ahead of Philadelphia, ahead of Boston, ahead of Buffalo, NY, ahead of Pittsburgh, and ahead of a host of other cities in the East. Our city is on the move, on the grow. Last year, we had a record number of visitors, over 23 million people. So another outside, independent——

Senator FAIRCLOTH. If I may interrupt a second, I saw it also and I believe we came from 132d to——

Mayor BARRY. 162d.

Ms. CROPP. 167th.

Mayor BARRY. Yes, 167th.

Senator FAIRCLOTH. I thought it was 162d——

Mayor BARRY. No. 1.

Senator FAIRCLOTH. Anyway, whatever. We came a long way baby. [Laughter.]

Mayor BARRY. We urge all the people of the Nation to come and visit us including your constituency from North Carolina. [Laughter.]

Senator FAIRCLOTH. They will be here.

FISCAL YEAR 1993 HOME RULE CHARTER

Mayor BARRY. Mr. Chairman, before I speak of the 1999 budget, let me put this in perspective. In 1973, as you know, we received our charter to govern ourselves. We were enthusiastic about it. But when you examine that, and you have done it and others have won it, you find that there was a fundamental flaw in the structure of that charter. We were charged with a mixed bag of State, county and municipal functions, and even Federal functions with no matching revenue streams. This is still true today as it was in 1973. In other words, the design saddled the District with a full range of nonmunicipal responsibilities.

Part of our charge here is not just to balance our budget and not just to deliver quality services—that is very, very important—but also we have to continue to examine the structure of this government, and it ought to be done by the people of Washington. We ought to have a charter commission and others that will look at this and make recommendations to the citizens. Let there be a referendum and then let the Congress adjust whatever it is they want to do based on those kinds of dialogs.

"THE ORPHANED CAPITAL"

Carol O'Cleiracain in her book, "The Orphaned Capital," stated that:

The District's tax base is severely constrained because it is the Nation's Capital. Forty-one percent of the property tax is exempt from property taxes. Sixty-five percent of the people who work in the District live elsewhere and do not contribute to the income tax base. Congress does not allow the District to impose a nonresident tax to help pay for public services provided to commuters during their workday. The District does not collect taxes on the purchase or income of the large numbers of military personnel and foreign diplomats living and doing business here. Finally,

the Federal Government does not pay sales tax on purchases or personal property taxes.

Which means as the District moves into the new millennium we have to also look at the best way to use this 43 percent of the land that is available to us, since we cannot gather taxes from the other. As you probably know, over 300,000 cars come into this city each day beating up our roads and streets.

15TH STREET RESURFACED AND POTHOLES FILLED

Incidentally, Mr. Chairman, I think since we talked last 15th Street—I mean, Constitution Avenue has been fully resurfaced, you had mentioned that at one point, the potholes, and we have filled about 65,000 potholes with another 10,000 to go. We are working on that.

RELATIONSHIP BETWEEN FEDERAL AND DISTRICT GOVERNMENT

We need to continue to look at the relationship with the Federal Government and the District Government. Also, Mr. Chairman, there is a view among some that the D.C. Government in general, and this Mayor in particular, was not committed to balanced budgets, and financial discipline, and management improvements, and service delivery. We were long before the Control Board.

In my statement, I go through a series of actions that I took in 1979 where our books had not been audited in over 100 years, and I ordered that these books be audited. The auditing firm could not do it the first year, but in 1980 we received our first balance sheet audit. Lo and behold, we found that the Federal Government had left us a deficit of $279 million, which has been absorbed by the people of Washington, added to our overall deficit. But we were committed.

On page 6 of my statement, you will see the number of years that we went through. Starting in 1981, a surplus of $68 million; in 1982, $13 million; in 1983, $13 million; on down to 1988, when we had a small deficit of $14 million; and in 1990, $118 million. I had sent over to the City Council a series of moves to reduce that to zero, but during that particular year there was not much receptivity to that, so we ran a large deficit. But as you probably know, Mrs. Kelly was able to borrow $331 million in 1991 to retire that deficit.

During that period, we did go downhill and ended up with a $335 million deficit at the end of 1994. In fact, that deficit lead us to the point of discussing with the Senate and the House and the Treasury how we could borrow money, and thus the Financial Management Assistance Authority was born in 1995.

SUMMER JOBS PROGRAM

Also, on page 7, there are a number of things that we have done to improve the city not just structurally, but in terms of the downtown area. We went from a sleepy southern town to a bustling metropolis and a cosmopolitan kind of city, 23 million square feet of space. I am most proud of the fact that during this period we were able to give and provide opportunities for over 100,000 young people for our summer job program. I am sure you would agree, Mr.

Chairman, that our young people need to work, need to learn how to come to work on time, how to dress properly for success, et cetera. But it has also been a booster for the city.

In 1995, when I came back into office, I inherited this deficit. We went to work on trying to do something about it. Obviously, we could not do it all by ourselves. But even before the Control Board, we went from a $335 million deficit in 1994 to only $54 million in 1995, which demonstrated our commitment and the Council's commitment to resolving that problem and to balancing budgets.

Also, let me commend our employees, Mr. Chairman, during this critical period. They really had their salaries cut by almost 12 percent, but they continued to work as hard as they could to provide quality services to our citizens. Despite these setbacks, we have been able to continue.

REDUCTION OF FULL-TIME EQUIVALENT POSITIONS

We have done something remarkable, and that is, in the last 3 years—and Ms. Cropp alluded to this—to reduce the size of government by over 7,500 full-time equivalents, for a savings of at least $165 million, which represents a 27-percent reduction in the size of this government. It took New York City 4 years to reduce it by 20 percent. When Philadelphia had its problem, it did not reduce its payroll or its number of employees by any number because they kept the same number. I think I would like to just go on the record saying that because of our commitment to trying to structurally reform the government, at the same time increase the quality of services and train our work force, we did that at the same time that over 7,500 people left the payroll.

Our citizens suffered in some instances from that, because you cannot reduce that number of people off a payroll and not see some reductions in services. Otherwise, they were not doing anything. They were working. The people who took it the hardest, quite frankly, are the last, the least and the lost—those who need social services, those who need the help of government to be a safety net for them. They are the ones who suffered the most during this period. That is why during our budget deliberations we tried to begin to build that safety net again for all of our citizens who through no fault of their own needed the help of government.

DEPARTMENT OF HEALTH

Also, we did something that I think is very important in creating the Department of Health which sort of gave us a focus on health in this city, and the Public Benefit Corp. which saved, in my view, D.C. General and our clinics as our safety net situation and also we established a ward-based sanitation. I tell you all this so that we can see this in the context of facts that the District has done and not just rely on the newspapers or television, because you know how they are in terms of what they——

Senator FAIRCLOTH. I have an idea. [Laughter.]

Mayor BARRY. Yes; I think you have experienced that a little bit, too, about what is happening in our city. So we now come to the present in the sense that we are the Nation's Capital, the international capital of the world, as well as the home for over 550,000 of us who are here.

NATIONS' SUPPORT FOR CAPITAL CITIES

I just returned not long ago from a conference a couple of weeks ago in Taipei, Taiwan, where mayors from capital cities all over the world came—the mayor of Warsaw, Poland, and others—where we were talking about capital cities. In most of those instances, the nations support their capital cities a lot more than the Nation supports the District of Columbia.

So I am glad to hear you say that it is the responsibility of all Americans, it seems to me, to assist us in assisting ourselves. We are not looking for a handout, but a hand up. We are not looking for—we would rather learn how to fish than to give people fish. Because when the fish training session is over, you can fish for yourselves. That is my philosophy about self-help for our city.

Also, Mr. Chairman, let me say that even though there are some growing pains associated with our new restructuring and our new responsibilities, I think it is fair to say that both the Mayor, the City Council and members of the Financial Management Assistance Board have learned to work together in terms of looking out for the best we can get for our city.

It has not always been easy because when you are elected you may come to the table with a different point of view, trying to represent the values and views of your constituency, whereas when you are appointed you might not necessarily have the same kind of interaction and the same kind of points of view. But we have come together around a common goal of trying to do better.

On page 16, we talk about some of those things we talked about doing together, paying our vendors and some of our tax refunds. The most important part of it was our city bond rate increased to just less than junk bond. All of us are proud of our MCI arena. Incidentally, Mr. Chairman, I am rooting for the Capitals over the Detroit Reds, the Detroit team. I hope you join us in making sure we bring home the bacon. I am sure you have got influence in Detroit as you do in Washington and North Carolina.

NEW CONVENTION CENTER

Also, we have a new convention center planned, which is going to be a great attraction. As Ms. Cropp pointed out, tourism is our No. 1 industry behind government. Over 100,000 people work in the hospitality industry, we have over 24,000 hotel rooms, and so our new convention center will enable us to expand our tax base and begin to attract more visitors to Washington. I hope that at the proper time when it comes over to the Senate from the House, if there are any amendments to make it work, that you will be very supportive of our convention center.

Mr. Chairman, you will hear from others—Ms. Cropp you have heard from—and also Dr. Brimmer, about how we worked together on trying to come to a consensus. On page 18 of my statement, you will see the 9 or 10 areas that we focused on, which was a good process, rather than me sending the budget over to the City Council and then it goes back and forth to the Control Board. In 1997, I think 18 different budgets were put together. It was a mess, I mean. It confused the citizens, it was very inefficient.

There was a flaw in the law that required it to be done. This year because of the Revitalization Act, which gave us flexibility, we decided that we would not send a budget over, the Mayor would not, but we would all sit and look at a base budget for 1999. For six different sessions over 4 or 5 hours at a session, the members of the Council, the Control Board members, myself, and the staff sat and hammered out these policy positions.

POLICY POSITIONS IN DEVELOPING BUDGET

No. 1 was eliminating the accumulated deficit through budget surpluses and reduction in programs; established a positive fund balance; maintained a balance between revenue and expenditures, which was a structural balance; moderated the debt burden; achieve investment rate bond ratings; fund management reform areas that you wanted us to look at; developed a labor strategy.

PERFORMANCE MEASURES

As Ms. Cropp has said, our employees have not had a raise since 1994. You know and I know that you cannot get the best out of employees if they are mumbling and grumbling about the fact that inflation has overtaken their pay. We also tied pay to performance for the first time, that is: you cannot just automatically get a pay increase because you are working for the government. You now have to have some performance measures, which helps to measure your efficiency, your effectiveness in your job before the group of people will get a pay increase.

RESTRUCTURING TAX POLICY

We also looked at restructuring tax policy. We are the highest taxed in this region, as you probably know. One of the reasons we are the highest taxed is we cannot tax income at its source, so we are losing several hundred million dollars, and so the D.C. residents and businesses have to make up that difference.

RECEIVERSHIPS

We also looked at Federal-District relationships and returned receiverships to District control. As you know, we are under a number of receiverships. Frank Raines was down at the judicial conference last Thursday, where he talked about whoever said that lawyers and judges could write programs for cities to carry out. We have to find a way to get these receiverships back in the hands of the people, at the same time ensuring quality services for the category of people that they would desire to protect.

REFORM OF SCHOOL SYSTEM

Mr. Chairman, this budget reflects a resolution of the financial emergency that the city has faced in recent years. We still face many difficult choices, many challenges. Nevertheless, the basic elements are here, and we urge you to support our consensus budget process, to support the efforts of Ms. Ackerman in terms of trying to reform our school system. I think the last 18 months have not been good for us. I think the board did not make the best judg-

ment, and somehow we proceeded. But we now think we are on the road to the possibility of true reform in our school system.

Incidentally, during this month I am a proud parent. I have a son who is graduating next Tuesday from one of our public schools at 10 a.m., June 16, at Constitution Hall. He will be going to Hampton University. I am a proud parent.

But we have got to continue, though, to reform our school system to insist that they improve these test scores, that our long-term construction program be outlined.

Finally, Mr. Chairman, I would hope that no one would be tempted, including yourself, to take any further local self-government from us, from local elected officials. I know how you feel about these things. We think we have done enough. Let us continue with the local officials, with the appointed officials. We see that it can work.

A good example of that is the Metropolitan Police Department, which did not come under the management control. We had a memorandum of understanding partnership, about 9 of us, and we now have the lowest crime reduction in Washington in 20 years. That process does work.

PREPARED STATEMENT

I urge you and urge your colleagues not to load up our budget with what I call Christmas tree ornaments about everybody's interests as was attempted in the House last year. Again, we urge you to examine this budget carefully, ask all of the questions that you need to ask and get good, solid answers, but in the final analysis to support this consensus budget process.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF MARION BARRY, JR.

Good afternoon, Mr. Chairman and members of the committee. I thank you for this opportunity to share my views on District finances and to place in the appropriate context the fiscal year 1999 financial plan and budget.

First I would like to introduce the newly appointed interim Chief Financial Officer, Mr. Earl C. Cabbell. Mr. Cabbell, a CPA, has served as Deputy Chief Financial Officer for Financial Operations and Systems since 1996. He was previously the Deputy Director of Finance/Chief Accounting Officer for the city of Detroit. He has also served as Director of Finance for the State of Maryland's Department of Transportation, a position he assumed in 1992 after serving as the Accounting Systems Director for the city of Baltimore. In the past two years, he has successfully handled the challenge of helping to bring financial stability to the District.

The development of a budget provides an opportunity to reflect on the past, to measure progress, and to plan for the future. The fiscal year 1999 financial plan and budget is the last budget I will present to the executive and legislative branches of the Federal Government.

Before I comment on the fiscal year 1999 budget request, I would like to present a contextual framework relative to the inherent problems confronting the District and to clarify for the record my administration's commitment to management efficiency, quality services and balanced budgets.

In our enthusiasm to govern ourselves, District residents accepted a home rule charter twenty-five years ago that was structurally and fundamentally flawed. It never drew a clear line between the Federal Government's responsibility and that of the new government. We were charged with a mixed bag of municipal, county, State, and even Federal functions, but no matching revenue streams. This is still as true today as it was in 1973.

In other words, the government design saddled the District with a full range of non-municipal responsibilities, especially those typically assigned to States, such as

Medicaid, pension, and corrections. These state functions have produced some of the most volatile cost pressures in the public sector, and they have been assumed without identification of adequate resources. Carol O'Cleiracain clearly states in her book, "The Orphaned Capital," that:

"The District's tax base is severely constrained because it is the Nation's Capital. Forty-one percent of the property tax is exempt from property taxes. Sixty-five percent of the people who work in the District live elsewhere and do not contribute to the income tax base. Congress does not allow the District to impose a nonresident tax to help pay for public services provided to commuters during their workday. The District does not collect taxes on the purchases or income of the large number of military personnel and foreign diplomats living and doing business here. Finally, the Federal Government does not pay sales tax on purchases or personal property taxes on its equipment."

Thus, the structure of the Federal relationship inherently provides for unfunded mandates in terms of the services the District is required to provide.

There were, and continue to be, some in Congress who question my commitment to sound fiscal and programmatic management practices. My record demonstrates the exact opposite. In 1979, I was the District's second elected Mayor in modern times. I inherited a stagnant bureaucracy, staggering inefficiency and waste. My platform was predicated on my commitment to improve city services, improve management at all levels, and institute sound financial management practices. My administration was able to attract some of the most qualified professional managers in the country.

The Barry administration has always demonstrated its commitment to balanced budgets. In 1979, when I first took office, the finances of the District of Columbia were in total disarray. They had not been audited in 100 years. In 1976, Arthur Anderson had called the District's financial management system unauditable. In fiscal year 1979, for the first time since the enactment of the Home Rule Act, I ordered an independent audit of the District's books. The audit revealed that the District had an accumulated deficit of $248 million.

During my tenure, we produced the first audit in 100 years and achieved 8 years (out of 11 years) of reducing the accumulated deficit. We also achieved a balanced budget by 1981, and continued to balance the budget for every year but two between fiscal year 1981 through fiscal year 1990, as the following chart demonstrates:

SUMMARY OF GENERAL FUND RESULTS

[In millions of dollars]

| Fiscal year | Revenues | Expend | Bond sales and transfers net | Surplus (deficit) |
|---|---|---|---|---|
| 9/30/79 | N/A | N/A | N/A | N/A |
| 1980 | 1,732 | (1,735) | (102) | (105) |
| 1981 | 1,908 | (1,733) | (107) | 68 |
| 1982 | 2,000 | (1,875) | (112) | 13 |
| 1983 | 2,208 | (2,078) | (117) | 13 |
| 1984 | 2,402 | (2,289) | (96) | 17 |
| 1985 | 2,635 | (2,775) | 165 | 25 |
| 1986 | 2,815 | (2,706) | (89) | 20 |
| 1987 | 3,055 | (2,941) | (94) | 20 |
| 1988 | 3,364 | (3,302) | (76) | (14) |
| 1989 | 3,489 | (3,703) | (64) | 5 |
| 1990 | 3,680 | (3,703) | (95) | (118) |

It is important to note that the audit in 1980 revealed that the Federal Government owed the District approximately $279 million. District taxpayers had to assume this debt.

Nevertheless, during this time, financial discipline was maintained and the District received a series of clean audits. The District realigned itself structurally, improved its management capacity, continued to attract professional managers, and reaped the benefits of an economic boom. The Barry administration oversaw an acceleration in new construction that led to a radically altered downtown skyline, the addition of 23 million square feet of office space in 10 years, and the tripling of property tax revenue to $700 million annually.

When all is said and done, during this ten year period, the Barry administration:

—Helped rebuild the District's downtown
—Transformed Washington into a thriving metropolis and a cosmopolitan city
—Gave more than 100,000 young people summer jobs
—Increased support for senior citizen programs
—Provided a catalyst for thousands of jobs for African-Americans and others who had been left out
—Fought constantly and tirelessly for home rule and democracy for the District
—Was a booster for the city, traveled widely spreading the word about what the city has to offer, and worked closely with business leaders to bring increased commerce and recognition to this, America's first city
—Encouraged community empowerment and community participation in the operation of government.

The prosperity of the 1970's and 1980's hid many of the fundamental flaws. The lean times of the 1990's not only exposed the cracks in our foundation, but have led to dire consequences in service, profitability, safety, and other factors that influence families, businesses, and tourists.

Furthermore, during this period, court orders and mandatory expenditures were growing at a rate that far out-stripped revenues. Expenditures such as the pension liability, debt service, Medicaid and AFDC could not be cut. Tax revenues declined as the District lost population to the suburbs. Meanwhile, the Federal payment routinely fell short of compensating the District for the net impact of the Federal presence. Yet, the District's discretionary spending was under control and financial discipline was strictly enforced recognizing the need for reassessing the operation of government to ensure the continued delivery of quality services, and fiscal stability, I established the Commission on Budget and Finance Priorities of the District of Columbia, chaired by Alice M. Rivlin. The commission's report highlighted impending fiscal crisis and recommended management reform. Unfortunately, the Kelly administration failed to implement the commission's recommendations.

During the Kelly administration, from fiscal year 1991 through fiscal year 1994, mandatory spending remained out of control, with the imposition of additional court orders, a failing economy leading to higher welfare spending and an ever-increasing pension liability. As a result, the deficit ballooned to $335 million by the end of fiscal year 1994, despite the Kelly administration receiving congressional approval to borrow $331 million from the U.S. Treasury to retire the accumulated deficit from fiscal year 1990.

When I returned to office in January 1995, I discovered and announced to the citizens the desperate and sorry state of the District's finances: The previous administration had overspent by $335 million, an amount that if left unchecked, would have spiraled into a $722 million shortfall. Getting our finances in order was one of the highest priorities of my administration. To avoid this deficit that would amount to 26 percent of the general fund, several drastic measures and strategies were employed. These included:

1. Reducing agency spending by $229 million which included the reduction of personal services expenditures by $79 million by rolling back employee wages by 12 percent, and implementing furloughs, voluntary separation programs and massive reductions in force.
2. Restructuring the debt for a $70 million savings.
3. Most important, a call to the President and the Congress to assume some of the non-municipal services that were inherited by the District by home rule.

The fiscal year 1995 expenditure reduction plan was largely successful in that the fiscal year ended with a $54 million deficit, instead of the potential $722 million shortfall. The annual independent audit confirmed a net reduction in expenditures of $151 million from the previous fiscal year.

This represented the largest turn around of any local government in the same situation, and for the District, this turnaround represented the first time in the history of home rule, that expenditures in one fiscal year were lower than those of the previous fiscal year. Mind you, this was all before the creation of the District of Columbia's Financial Responsibility and Management Assistance Authority and Independent Chief Financial Officer.

After containing the hemorrhaging, my administration embarked on a systematic quest to craft a transformation plan. In 1996, approximately one year after my return as Chief Executive of the District of Columbia, and one year after I exposed the extent of the District's fiscal crisis that the District was in, I presented a bold new direction for the government of the District of Columbia and the people of the District.

The underlying basis of this transformation was the implementation of performance-based principles and programs—both in the budget development and execution processes, and in the service delivery systems.

Despite setbacks in the implementation of the transformation plan, we made considerable progress. We contributed to balancing the budget, and set the stage for management reform. We accomplished much and were on the path of reform. we:

—Reduced the size of government by more than 7,500 FTE's for a savings of $165 million, which also represents a 27-percent reduction in the size of the workforce over a period of two and a half years.

—Outsourced city services, the most notable being the correctional treatment facility.

—Reduced AFDC benefits, unemployment benefits and workers compensation costs in an effort to bring them more in line with those of neighboring jurisdictions.

—Created a Department of Health and a Public Benefits Corporation that dramatically improved health care in the District at a lower cost.

—Improved public protection by adopting a community policing model, even before the initiation of the MOU process.

—Established a "ward-based" sanitation system and increased the number of solid waste inspectors.

—Created an Independent, Regional Water and Sewer Authority with the ability to raise the necessary revenues through a much needed rate increase and more importantly, enhanced borrowing authority, resulting in much needed repairs to our drinking water system.

—Focused on the District's finances, going from "junk" bond status to the ability to sell more than $230 million in general obligation bonds at a very competitive rate.

The District's financial condition has presented dynamics that had never been encountered before—i.e. economic downturn experienced by most cities, the financial mismanagement of the previous administration, and inherently flawed fiscal structure. The Congress of the United States responded by enacting the Financial Responsibility and Management Assistance Authority Act, and created an Implementing Authority. The act also created an Independent Chief Financial Officer and empowered the inspector general. It is important to note that several actions taken by the Financial Authority were not consistent with their original mission as Financial Assistance Advisors or with accountability to the citizens of the District—i.e., relegating the elected school board to an advisory status.

Although there have been some "growing pains" associated with our respective roles and responsibilities, I think that it is fair to say that we all share a common commitment and vision of a higher quality of life for the residents, businesses, and visitors of the Nation's Capital.

The District's recovery involves much more than a Financial Authority and a Chief Financial Officer with independent and broad powers. We demonstrated the strong will and ability to reduce personnel costs but the cost drivers for the District continue to be mostly those functions that are typically performed by a State. Unfortunately, the District inherited many of these functions at the inception of home rule in 1973. The situation was compounded by the restrictions on the District's taxing capabilities mentioned earlier.

In 1995, I first suggested many of the reforms which eventually resulted in the National Capital Revitalization and Improvement Act. Many people ridiculed my plan for the District. Yet, two years later, much of the plan was adopted by President Clinton.

However, the citizens of the District did not expect, that as part of the Revitalization Act, the loss of home rule. As I have said many times since July 1997, it is clear to me that these anti-democratic reforms went way beyond what I believe was originally envisioned by the various stakeholders. The Financial Authority's actions in most cases were in that they failed to work cooperatively with the local elected officials. Thus, the Financial Authority has created a fractured governance structure of unequal, unelected, independent parts.

Notwithstanding the governance issues, the assumption of the costs for these State functions, coupled with a strong economy, resulted in additional funds being available for programmatic and infrastructure initiatives.

Recent accomplishments include:

—The payment of vendors doing business with the District are within six weeks, not the eight months many complained about previously.

—The timely remittance of tax refunds within 15 days, rather than four months.

—The upgrade of the city's bond rating.

—A skyline dominated by building cranes related to commercial construction.

—A new convention center is planned.

—The MCI arena.

—The return of tourists in rising numbers—22.4 million in 1997, an 8-percent increase from 1996.
—The rise of home sales by 33 percent in 1997, fueled partly by a $5,000 tax credit for first-time buyers.
—Increased effort in improving municipal services, as evidenced by the management reform program of 1998.

It is important to note that the act creating the Financial Authority mandated a tedious and protracted budget development process that resulted in the Mayor and City Council, and Financial Authority submitting separate budgets for fiscal year 1998. The Revitalization Act sought to remedy the inherent roadblocks in the budget development process and stipulated that a consensus budget was to be submitted to the President and Congress.

Thus, the development of the fiscal year 1999 financial plan and budget demonstrates that a constructive and future-oriented budget results from a collaborative process that supports the mutual goals of improved service and financial prudence. Each stakeholder brought their own priorities to the negotiations which produced this consensus budget. While no one got everything they wanted, the resulting consensus budget is acceptable to everyone.

In February 1998, the Mayor, Financial Authority, and the City Council met and agreed upon 10 key budget decisions, the resolution of which largely shaped the budget for fiscal year 1999 and beyond. These key budget decision are as follows:

—Meeting financial management targets.
  —Eliminate the accumulated deficit through budget surpluses
  —Establish a positive fund balance
  —Maintain a balance between revenue and expenditure rates (structural balance)
  —Moderate the debt burden
  —Achieve investment grade bond ratings from all three rating agencies
—Fund management reform
—Develop labor strategy
—Restructure tax policy
—Define District/Federal relations
—Define capital financing priorities
—Return receiverships to District control
—Fund D.C. public schools
—Define health and human services
—Adoption of program enhancements and service improvements

The budget for the District of Columbia reflects a resolution of the financial emergency that the city has faced in recent years. The District still faces many difficult choices. Nevertheless, the basic elements of the budget clearly tell a story of improvement and revitalization. The Fiscal Year 1999 Financial Plan and Budget estimated revenues of $5.231 billion and total expenditures of $5.189 billion to achieve a $41 million budget surplus. The surplus is projected to be $254 million in fiscal year 1998. Moreover, the District is making significant inroads in reducing the accumulated deficit that has drained funds and hindered access to capital markets. The financial plan and budget projects that, by September 30, 1999, the District's accumulated deficit will amount to $37.5 million down from an accumulated deficit of more than $500 million on October 1, 1996.

The stakeholders established certain principles regarding the nature of expenditures for fiscal year 1999. Most important was the instruction given to agencies that no across-the-board spending increases would be approved. Rather, all requests for budgetary increases—except those in instances in which such program increases were mandated—would have to compete for available funds. Spending increases, where justified, were to be granted based on their expected contribution to the improvement of public services and municipal productivity. The fiscal year 1999 budget also includes a 2-percent reduction in agencies' budgets other than for fixed costs and transfers. This reduction did not apply to the MPD or DCPS. Agencies are expected to continue their current level of service with less funds by increasing productivity.

In accordance with section 202 of the District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, I will submit to the President of the United States, the District of Columbia's official fiscal year 1999 financial plan and budget.

In conclusion, we urge the Congress of the United States to support and adopt the consensus budget of the District of Columbia. This budget reflects the understanding of the locally elected and appointed officials of the District's real needs. It reflects the true appreciation of the needs and concerns of the residents of the Dis-

trict. Most importantly, it is a sober allocation of the limited resources available to the District.

Thank you for the opportunity to testify before the committee.

**STATEMENT OF DR. ANDREW F. BRIMMER, CHAIRMAN**

Senator FAIRCLOTH. Thank you, Mr. Mayor. I do plan to study it carefully, and I will not be jumping to any conclusions, I can assure you.

Next, we have Dr. Brimmer, Dr. Andrew F. Brimmer. Dr. Brimmer, this may be your last appearance also before this committee in your capacity as chairman of the Control Board. Through your efforts, the District's financial management future is much brighter. Dr. Brimmer, I thank you for your service to the Nation and to the city for all you have done, and we would like to hear your testimony.

Mr. BRIMMER. Thank you very much. Mr. Chairman, good afternoon.

My associates have already described the principal dimensions of the budget, so I will not go through those in any detail. Instead, I would like to talk about several problems that still remain with respect to the budget. But before doing so, I would stress again that this is not only a balanced budget we are projecting, but it is one that contains and expects a surplus. That surplus would be used and would enable us to reduce the accumulated deficit as well. In a year or two, we expect to eliminate it entirely.

PROJECTED SURPLUSES VERY SMALL

However, I would also stress that the surpluses we are projecting over the next few years are precarious; they are very small. So we must be careful to assure that expenditures will not rise at a rate that exceeds the slow growth in revenues that we are projecting. For example, if the projections hold, we would end up with an annual budget surplus of $24 million, $16 million and $9 million in fiscal years 2000, 2001 through 2002, respectively. But I stress those are precarious.

Now, the surplus we are experiencing, we did experience last year and we expect to experience this year, probably reflects the Revitalization Act. But we also had some growth in revenues, reflecting the strength of the local economy.

As we look ahead to 1999, we should expect to see a major shift in the sources and uses of local funds. For example, we anticipate that we will be shifting the way we finance capital improvements. In my testimony, I describe that in some detail, but this will represent a major effort. We believe that the time has come for the city to devote more of its expenditures to its improvement of infrastructure while maintaining services, of course, but we believe that infrastructure is a serious problem, and we have some suggestions for the amounts and how to use that requirement. My colleagues

described the budgetary process, and I will not go into that in any detail. In fact, I will not need to mention that at all.

REGROUP APPROPRIATION TITLES

What I would like to do next is turn to the broad categories of expenditures. We are requesting that more simplified appropriation titles be adopted this year. In my testimony, on page 11 there is a Table 2 entitled, ''Expenditures by function.'' You will see that we are proposing that we group the appropriation titles so that we would have the first category of: government direction, finance, safety and justice; we would combine economic development, regulation and public works; we would have a separate appropriation title for the public education system; we would have a more general title for human resource services and——

Senator FAIRCLOTH. Excuse me, Dr. Brimmer. What page are you? I am trying to follow you and I got lost.

Mr. BRIMMER. It is Table 2. Oh, I apologize. I am reading from a reading copy which might be different from the printed copy.

Senator FAIRCLOTH. I have it now. It is page 9.

Mr. BRIMMER. Oh. In your version, it is page 9?

Senator FAIRCLOTH. Yes.

Mr. BRIMMER. All right. But the table number is two.

Senator FAIRCLOTH. Yes.

Mr. BRIMMER. Table 2. Well, I will just repeat briefly. What we are trying to do is to simplify the appropriation title distribution. In the old one that we are now using, we have many detailed line item appropriation titles. We believe that is not the best way to do it.

We will propose and are proposing that the Congress adopt a budget with a smaller, broader range of appropriation titles and that the Congress give the Control Board the authority to reallocate funds across appropriation titles. Congress did that in 1998. It gave us the authority to reprogram and to use the $200 million surplus in order to facilitate the most efficient use of expenditures, and we are suggesting that that be done this time. I would be delighted to amplify that further, Mr. Chairman.

REDUCTIONS IN FULL-TIME EQUIVALENT POSITIONS

I also want to call the committee's attention to what has happened to personnel costs. Now, in the testimony there is a chart called Figure 3, which shows that from September 1995 to March of this year we have had over 10,000 reductions in the number of full-time equivalents on the payroll.

Frankly, Mr. Chairman, we feel that over the last 3 years, this is one of the major accomplishments of the Control Board working with the city. When we came into office in the summer of 1995, we were given a budget projected for fiscal year 1996 which called for 45,000 FTE's. For the year just ending, 1995, there were 43,000, and the plan was to go to 45,000. We said that was unacceptable.

The first recommendation we made, which was taken not simply as a recommendation but as instruction, was to reduce the number of FTE's by 5,600. We did that very early in our stay. Actually, during that year we achieved a reduction of 5,200, and today twice that number of FTE's have been eliminated. Specifically, it is down

10,000 or 25 percent, and thus 25 percent is essentially the same figure that the Mayor had mentioned. We think it is vital that efforts be made to hold down personnel expenditures.

As you look ahead to 1999, there are a couple of other areas of the budget to which I would like to call the committee's attention, and the first one is the public schools. Now, we have made a lot of progress in improving the quality of education and safety of the schools. However, much remains to be done.

PUBLIC SCHOOLS BUDGET

For fiscal year 1999, we are recommending $648 million in gross funds for the schools. That is an increase of $81 million, over 14 percent, from the $567 million appropriated in 1998. Now, this is the largest dollar increase for an agency in the 1999 budget.

The principal increases in this budget are the result of a renewed emphasis on special education programs. Improved transportation initiatives and the funding of certain health-related measures that heretofore were the function and responsibilities of the receiver overseeing the foster care program. I mention this explicitly because this is a major challenge facing the schools and the city. In 1998, special education spending was $105 million. The projection for 1999 is $156 million.

Mr. Chairman, that is mandated spending. Court orders, receivers, monitors control a substantial portion of the program and of the budget of the school system. Ms. Ackerman, the recently appointed CEO and superintendent of the schools has worked hard to hold down these expenditures, but there is no way to avoid it. This is the biggest change in the budget, and there is more ahead of us. Sometime I am hopeful that we will be able to provide to the Congress a fuller assessment of the impact of receivers on the budget. The Mayor mentioned them, and I have mentioned them. It is a major problem.

DEPARTMENT OF CORRECTIONS

Now I would also like to mention at this time another area, Corrections. The Department of Corrections is undergoing vital transformation as a result of the Revitalization Act. The committee might recall that the Congress—that the administration took over the responsibility for sentenced felons for funding in the short run. Now, by December 31, 2001, the Federal Government will assume total control over most of our sentenced felons, and the prison system at Lorton, VA, will be closed.

The temporary management of the D.C. prison system is being carried out in part by a Federal Government corrections trustee. The trustee has recommended a budget of $185 million for 1999. However, we have determined that this amount seriously underfunds the projected costs of running the system. Consultants to the District's Budget Office have indicated that the true cost of running the system for 1999 is approximately $204 million, leaving a funding gap of $18.5 million.

In addition, other direct and indirect costs to the District associated with the sentenced-felon population totals $25.4 million for a total of $44 million of underfunding. As part of the fiscal year 1999 financial planning budget, we are asking the Federal Government,

which is now responsible for this system transfer, to assume the proper costs of appropriating an additional $44 million.

INFRASTRUCTURE AND PUBLIC WORKS IMPROVEMENTS

Mr. Chairman, I will also note, as my colleagues have done earlier, that the infrastructure and public works improvements are vital. We also believe that there is a vital need to promote economic development in the District. We have supported the restoration and enhancement of basic services such as bulk trash and so on. But we believe that in the long run we need additional funding for infrastructure.

AUDIT CONTRACT

Mr. Chairman, I would also like to mention that the District is faced with a serious problem with respect to our ability to get an audit. This is a narrow question. It is probably a technical question, but we do need some relief. Currently, there is a statutory prohibition on the ability of the inspector general to enter into an audit contract for more than 3 years. That limitation is proving to be a handicap in the effort to recruit competent auditors.

We are proposing, and, in fact, the inspector general has already recommended, to the chair of the Authorization Committee in the House that this be changed to 5 years. We support that. It has serious, serious implications for the budget. We would hope this committee would support the matter if it were to come forward.

Thank you very much, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF ANDREW F. BRIMMER

Mr. Chairman and Members of the Subcommittee: Thank you for inviting me to testify on the fiscal year 1999 District of Columbia Financial Plan and Budget (FPB). This morning I will briefly summarize the overall projected results of this budget, discuss the process used to formulate the budget, outline some key factors in the revenue projections, and present the critical expenditure components of the budget.

I am pleased to report that this budget reflects a resolution of the financial emergency that the District has faced in recent years. To be sure, the District still faces many difficult choices, and its return to fiscal solvency remains precarious. Nevertheless, the basic elements of the budget clearly tell a story of improvement and revitalization. First, the fiscal year 1999 FPB estimates total revenues of $5.231 billion and total expenditures of $5.189 billion to achieve a $41 million budget surplus.[1] This comes on top of a fiscal year 1998 surplus projected to be $254 million[2] in fiscal year 1998. Moreover, the District is making significant inroads in reducing the accumulated deficit that has drained productive funds and hindered access to the capital markets. The budget projects an accumulated deficit of $37.5 million—down from a gap in excess of $500 million in 1996.

The development of this budget demonstrates that a constructive and future-oriented budget can result from extensive cooperation among all principals, and it continues efforts from fiscal year 1998 to improve service delivery and maintain fiscal stability. I would note that the budget represents the combined views of all parties, a change from previous years when the Authority has disapproved the budget submitted by the Mayor or the Council. Such a step was mandated if the Authority concluded that the budget did not meet the requirements of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 ("Act") (Public

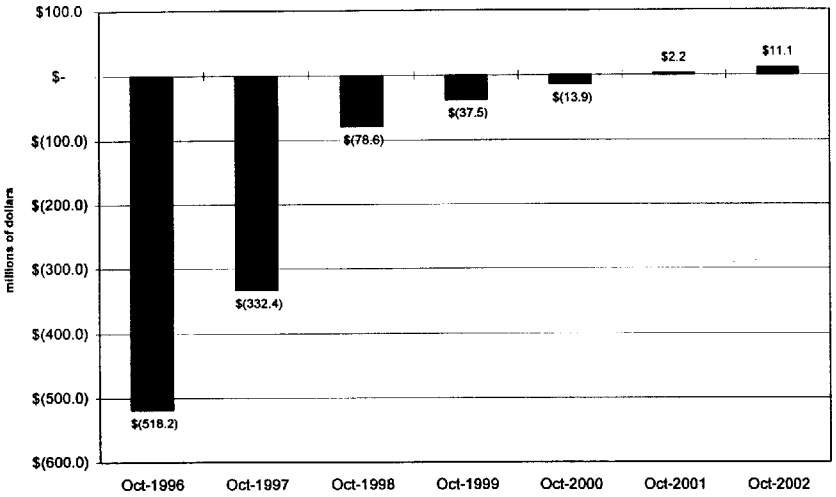
[1] The revenue and expenditure projections incorporate $728.6 million in Enterprise Funds, including the Water and Sewer Authority, the Lottery and Charity Games Board, and D.C. General Hospital.

[2] The large surplus projected in fiscal year 1998 is partially due to the one-time Federal payment of $198 million that was approved as part of the D.C. Revitalization Act.

Law 104–8). This year, based on the agreements reached on all fundamental issues and changes to the budget process contained in the Revitalization Act, the Authority has concluded that the fiscal year 1999 budget is in conformance with the Act. The budget will promote the financial stability of the District government and further the interests of the people of the Nation's Capital.

The outyear projections, included in the Financial Plan for fiscal years 2000 to 2002, show a modest growth in total revenues and expenditures. If achieved, this would result in annual budget surpluses of $24 million, $16 million, and $9 million in fiscal years 2000, 2001, and 2002, respectively. These surpluses would eliminate the accumulated deficit by the end of fiscal year 2001 and produce an $11 million accumulated surplus by the end of fiscal year 2002. The progress in reducing the accumulated deficit is shown in Figure 1.

**Figure 1**
**Elimination of the Accumulated Deficit**




Part of the budget improvement is the result of a more vigorous economy, which has provided significant increases in tax revenues to the District. The better budgetary climate also comes from structural changes in spending that occurred as a result of the National Capital Revitalization and Self-Government Improvement Act ("Revitalization Act"), enacted in August, 1997. Although that law effectively eliminated the annual federal payment of $660 million to the District, it did provide a one-time Federal contribution of $190 million plus $8 million to help pay for Management Reform projects.

The fiscal year 1999 FPB also represents a major shift in the funding of the District's capital improvement plan. Historically, the District has primarily funded its capital improvement with long-term general obligation bonds and loans provided from the U.S. Treasury. The recommended fiscal year 1999 Capital Improvement Budget and Six-Year Capital Plan (fiscal year 1999-fiscal year 2000) identifies a variety of financing sources to address the huge capital infrastructure deficit that exists within the District. The capital budget for fiscal year 1999 represents $324 million in new funding sources. This includes $172 million in long-term financing, $65 million in alternative medium- and short-term financings, $28 million in equipment leases, $42 million in revenues generated from the sale and lease of school buildings, $5.3 million in federal grants, and $12 million in current operating funds ("PAYGO"). The agencies receiving the largest amounts of local capital funds are the District of Columbia Public Schools ("DCPS") with $97 million and the Metropolitan Police Department ("MPD") with $47 million.

## THE BUDGET PROCESS

The Revitalization Act also changed the process by which the District formulates and approves an annual budget during control years. In previous years, a cumbersome process of approvals and rejections within set time periods reduced the flexibility of District officials to reach consensus in the budget process. The Revital-

ization Act streamlined that process, which now provides for a more effective set of procedures to encourage greater cooperation among parties. Under this process, the District produced a consensus budget that was approved by the Council on May 20, 1998, signed by the Mayor, and forwarded to the Authority. On May 28, 1998, the Authority approved the fiscal year 1999 FPB and submitted it to the Congress, well in advance of the June 15th statutory deadline.

The Authority, in conjunction with the Mayor and the Council, established certain principles regarding the nature of expenditures for fiscal year 1999. Most important was the instruction given to agencies that no across-the-board spending increases would be approved. Rather, all requests for budgetary increases—except in those instances in which such program increases were mandated—would have to compete for available funds. Spending increases, where justified, were to be granted based on their expected contribution to the improvement of public services and increased productivity of the City's workforce. The fiscal year 1999 budget also includes a 2-percent reduction in agencies' budgets other than for fixed costs and transfers. This reduction did not apply to the MPD or DCPS. Agencies are expected to continue their current level of service with less funds by increasing productivity.

REVENUES

The fiscal year 1999 FPB projects total revenues of $5.231 billion. For comparison purposes, figures for fiscal year 1997 and fiscal year 1998 are also shown in Table 1. For fiscal year 1999, the estimates include:

—Local fund revenues of $2.907 billion,
—Federal grants of $1,203 billion,
—Private and other revenues of $304 million,
—Intradistrict revenues of $88 million, and
—Enterprise revenues of $729 million.

TABLE 1.—REVENUES BY TYPE

[In millions of dollars]

| Revenue | Fiscal year | | |
|---|---|---|---|
| | 1997 Actual | 1998 Revised budget | 1999 Requested budget |
| Taxes: | | | |
| Property Taxes | 688 | 670 | 675 |
| Sales and Use Taxes | 541 | 558 | 565 |
| Individual Income Taxes | 753 | 812 | 835 |
| Other Taxes | 508 | 535 | 547 |
| Total Taxes | 2,490 | 2,575 | 2,622 |
| Non-Tax Revenue | 212 | 194 | 217 |
| Other Local Sources | 123 | 69 | 69 |
| Federal Payment | 666 | 198 | ..... |
| Federal Grants | 888 | 1,072 | 1,203 |
| Private and Other Grants | 196 | 140 | 304 |
| Intra-District Revenue | 99 | 102 | 88 |
| Enterprise Funds Revenue | 661 | 690 | 729 |
| Total Gross Revenue | 5,333 | 5,040 | 5,231 |

Note: Totals may not agree due to rounding

The Chief Financial Officer ("CFO") certified the District's fiscal year 1999 local source general fund revenues to be $2.907 billion. This is a 2.4-percent increase over the $2.838 billion expected to be collected in fiscal year 1998. Both of these amounts should be compared to $2.773 billion actually collected in fiscal year 1997, which was a 4.6-percent increase over fiscal year 1996. These projections are reasonable-given that most economic forecasts anticipate continued growth in the nation's and the District's economy. Moreover, there is still room for continued improvements in tax administration. Figure 2 shows the source of these local revenues.

FIGURE 3.—*Source of Local Revenue for Fiscal Year 1999*

| | *Percent* |
|---|---|
| Income taxes | 36 |
| Other taxes | 11 |
| Non-tax revenues | 7 |
| Other | 3 |
| Property taxes | 24 |
| Sales and use taxes | 19 |

The financial plan does not address the impact of possible tax or regulatory reform on the District's revenue structure. A number of studies have argued for comprehensive and extensive tax reform, while a comprehensive report to the Authority by the District of Columbia Regulatory Reform Project laid out a full menu of regulatory reform. The financial plan does not address the potential impact of tax increment financing, linked to economic development districts, on future revenue growth. Both tax and regulatory reform have long-term revenue implications for the District, including a number of justifications for federal payment-in-lieu of taxes, which the present budget and financial plan do not address. Restructuring the District's tax system, improving tax administration, and rationalizing the structure and collection of fees, fines, and charges would significantly affect the District's ability to remain fiscally sound. The Authority will examine seriously all such plans in the context of fiscal stability and growth. These tasks remain open for the outyears of the current Financial Plan.

EXPENDITURES

The fiscal year 1999 gross budget requests $5.189 billion in expenditures, which includes $728.6 million in enterprise funds. Table 2 below shows requested expenditures by function for fiscal year 1999, as compared with the two previous years.

TABLE 2.—EXPENDITURES BY FUNCTION

[In millions of dollars]

| Function | Fiscal year | | |
|---|---|---|---|
| | 1997 Actual | 1998 Revised budget | 1999 Requested budget |
| Government Direction, Financing, Safety, and Justice | 1,661 | 1,324 | 1,418 |
| Economic Development, Regulation, and Public Works | 332 | 366 | 402 |
| Public Education System | 754 | 683 | 745 |
| Human Support Services | 1,788 | 1,781 | 1,579 |
| Receiverships | ..... | ..... | 319 |
| Productivity Savings | ..... | ..... | (10) |
| Financial Authority [1] | 3 | 3 | 8 |
| Enterprise Funds | 620 | 653 | 729 |
| Total | 5,158 | 4,812 | 5,189 |

[1] The Authority's budget has been increased from $3.220 million in fiscal year 1998 to $7,840 million in fiscal year 1999. The line item covers the core activities of the Authority and its component Office of the Chief Management Officer. Specifically, the Authority's core budget is decreased $500,000 to $2.720 million, and its component Office of the Chief Management Officer's core allocation is $5.120 million.

Note: Totals may not agree due to rounding.

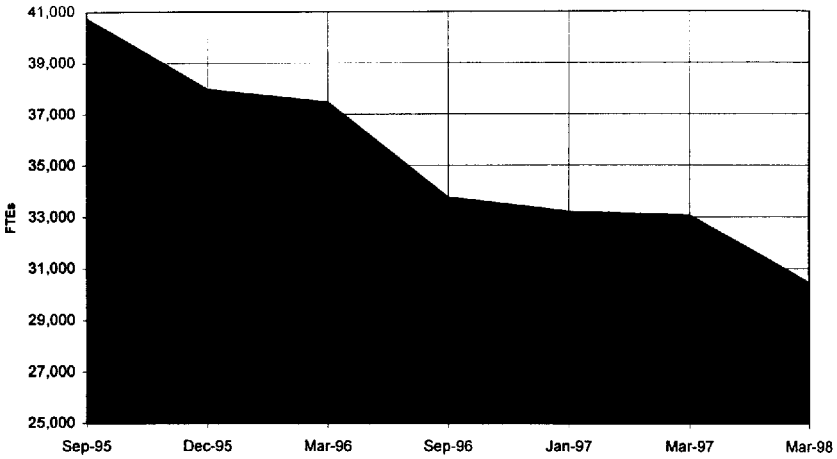
Next I will outline some critical components of the expenditures in the fiscal year 1999 FPB. The most significant budget driver is the cost of personnel. As of March, 1998, the District government had about 30,449 full-time-equivalent employees. Personnel costs are a significant portion of total District expenditures, and they account for the overwhelming majority of total expenditures for many key agencies, including police, fire, and the schools. Total personnel and benefit compensation in the fiscal year 1999 budget is projected at $1.8 billion or 44 percent of the District's total General Fund expenditures. Effective management of these resources is an extremely important component of the District's fiscal and management recovery.

The fiscal year 1999 budget builds on past progress in reducing the workforce as well as on new legislation to improve human resource management that was enacted last year. The fiscal year 1999 budget begins to address the District's salary

disparities and increased funding is provided for upgrading the skills of the workforce through training and other initiatives. However, the District still must develop a comprehensive labor strategy that addresses problems resulting from the District's large number of unions and bargaining units. In addition, it is critical that the District implement a modern automated human resource management system.

The District has made substantial progress in reducing the number of personnel. When we began our service, we were presented with a draft budget for fiscal year 1996 that would have raised the District's Full-Time Equivalents (FTE's) from 43,000 to 45,000. This provision was unacceptable. Therefore, one of the first recommendations of the Authority in August, 1995, was to reduce the number of FTE's by 5,600. During fiscal year 1996, an actual reduction of 5,239 was achieved. To date, nearly twice this number of FTE's have been eliminated. Specifically, since September, 1995, the District has reduced the FTE level 10,285, or by more than 25 percent. Of this reduction, 6,053 have been through shifts of programs to independent enterprises or to the federal government. More than 4,200 FTE's have been eliminated through reductions in on-going District agencies. Figure 3 highlights the reductions in the District's workforce.

**Figure 3**
**District of Columbia FTEs**
**September, 1995 - March, 1998**




A critical area in which the Authority will continue to focus funds and attention is the DCPS. Although much progress has been made in improving the quality of education and safety of our schools, much remains to be done. For fiscal year 1999, the Authority recommends $648.2 million in gross funds, an increase of $81.1 million (14.3 percent) over the $567 million appropriated in fiscal year 1998. This is the largest dollar increase for an agency in the fiscal year 1999 budget. Principal increases in this budget are the result of a renewed emphasis on Special Education programs, improved transportation initiatives, and the funding of certain health related measures that heretofore were functions and responsibilities of the LaShawn Receiver overseeing the foster care program. Other major initiatives include increasing staff accountability and continued support of students who do not demonstrate basic skills through such programs as expanded summer school.

One of the most essential services a jurisdiction provides is for the public safety of its residents and visitors. Recognizing that public safety is a prerequisite for a stable, vibrant community, it has always been one of the Authority's foremost priorities. For fiscal year 1999, the Authority recommends $300.3 million in gross funds for the MPD, an increase of $30 million (10.2 percent) over the $272.4 million appropriated in fiscal year 1998. The Authority, in conjunction with the Criminal Justice Coordinating Council ("CJCC"), recently hired a new Police Chief for the District. Chief Charles Ramsey will continue to focus the MPD's resources on reducing crime and the fear of crime in the District. The initiatives range from increased police activity to eliminate open-air drug markets to placing more than 400 additional officers on the street. Police efforts have led to a dramatic decrease in major crime in the District, with homicides at the lowest level in a decade. This budget leverages

improvements already made in fighting crime, and it funds certain initiatives (including an additional pay raise) that will expand MPD's capacity to fight crime, and which—in turn—will improve the City's quality of life.

The Department of Corrections ("DOC") is undergoing vital transformation as a result of the Revitalization Act. By December 31, 2001, the federal government will assume total control over most sentenced felons, and the prison system at Lorton, Virginia, will be closed. The temporary management of the District's prison system is being carried out, in part, by a Federal Corrections Trustee. The Trustee has recommended a budget of $185 million for fiscal year 1999. However, the Authority has determined that this amount seriously underfunds the projected costs of running the system. Consultants to the District's Budget Office have indicated that the true cost of running the system for fiscal year 1999 is approximately $204 million, leaving a funding gap of $18.5 million. In addition, other direct and indirect costs to the District associated with the sentenced felon population totals $25.4 million, for a total underfunding of $44 million. As part of the fiscal year 1999 FPB, the Authority is asking the Federal Government, which is now responsible for the system transfer, to assume the proper costs by appropriating an additional $44 million.

We would also note that the Authority considers infrastructure/public works improvements to be crucial to the quality of life and economic development opportunities in the District. The Authority has supported the restoration and enhancement of basic services such as bulk trash collection, tree trimming, and pothole repairs that are contained in the budgets of the Mayor and Council. The operating budget for Public Works for fiscal year 1999 is $153 million, an improvement of $4 million.[4] It includes initiatives such as: implementing the District's recycling program, replacing street signs, and continuing to fix local and Federal streets.

In connection with public works improvements, the District's capital budget is critically important to the overall upgrading of the infrastructure. The District's financial crisis in recent years has frequently prevented the District from adequately funding and maintaining capital improvements. Thus, infrastructure improvements have been routinely neglected or underfunded. The Authority was most concerned about the infrastructure deficit that has been amassed over the years because of neglect and the lack of appropriate spending on capital projects. Immediate improvements are necessary not only in vital areas such as streets and bridges, but also in government facilities, in major technology-driven systems, and in the public schools. To this end, the Authority is requesting that the federal government appropriate $254 million to the District for desperately needed infrastructure improvements. If this amount is appropriated to the Authority, it would be used to finance a range of projects, including repairs and modernization of schools, resurfacing and reconstruction of local streets, and rehabilitation of police and fire department facilities.

As previously reported in the Authority's report on the fiscal year 1999 FPB, the Authority has adjusted the amounts to be allocated from the District's one-time surplus to support and fund the management reform initiatives. The previous reported amount of $130 million allocated during fiscal year 1998 has been changed accordingly:

—$88,902,343 of new fiscal year 1998 Operating Budget authorization;

—$66,262,311 of additional fiscal year 1998 Capital Budget authorization;

—$1,340,000 of additional debt service;

—For an aggregate total allocation of $156,504,654 from the $201,090,000 one-time surplus. The balance of $44,585,346 should be available to reduce the accumulated deficit during fiscal year 1998. The management reform program is being coordinated by the Chief Management Officer on behalf of the Authority.

Finally, it is important to consider the impact that court orders, receivers, and special masters have on the structure and effectiveness of the District's budget. Through inadequate funding and program mismanagement, the neglect of effective public services has forced increasingly larger portions of the District's programs to be placed under court orders. This situation was exacerbated by the financial crisis, which further eroded the level of service provision given to populations such as sentenced felons, mental health care recipients, special education students, and others. The presence of court-ordered receivers and others directing sections of the District's budget presents numerous problems for the District in its efforts to plan and execute a budget effectively. Today, there are 41 court orders and mandates affecting District programs, 22 of which have current budgetary impacts. The fiscal year 1999 FPB allocates $319 million to the various receivers and other administrators.

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[4] For fiscal year 1999, the Department of Motor Vehicles has been separated from Public Works. In fiscal year 1999, the Public Works budget is $140 million and the Department of Motor Vehicles budget is $13 million.

To implement the fiscal year 1999 budget more efficiently, the Authority is requesting additional flexibility in the reprogramming of funds among District programs. Current law requires most reprogrammings of funds between District functions to be approved by the Congress. Last year, the Congress allowed the Authority flexibility in reprogramming funds from the budget surplus. The Authority used some of these funds for debt reduction, collective bargaining agreements, and improvements in the schools. Having this flexibility is of vital importance to the District, and we strongly urge Congress to provide it for fiscal year 1999.

In summary, the fiscal year 1999 FPB submitted by the Authority marks a turning point in the reform effort of the District by programming a budget surplus. The fiscal year 1999 FPB also reduces the accumulated deficit, meets the objectives of the Act, and adheres to the major programmatic objectives of the Authority, the Mayor, and the Council. This budget will accelerate the return of the Nation's Capital to financial stability and lead to further improvements in the delivery of public services.

Before concluding, Mr. Chairman, I would like to note one other issue. The Authority is concerned that statutory limitations on the time limit allowed any independent auditor selected to undertake the annual audit of the District significantly reduces the interest of qualified firms to bid on this contract. Essentially, we have found that the legal limitation, which is three years, is having the unanticipated effect of limiting competition for this important work. Therefore, the Authority respectfully recommends to the Congress that the law be changed, and that firms be allowed to conduct the annual audit for up to five years instead of the current three-year limit. We believe that the additional time period would provide firms with greater incentive to bid on the contract, and would increase competition.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or Members of the Subcommittee may have.

*Total General Fund Expenditure by Function*

[Fiscal year 1999 (by Old Appropriation Title)]

| | *Percent* |
|---|---|
| Public Education System | 18 |
| Public Safety and Justice | 17 |
| Financing and Other | 10 |
| Public Works | 6 |
| Economic Development and Regulation | 4 |
| Government Direction and Support | 4 |
| Human Support Services | 41 |

Senator FAIRCLOTH. Thank you, Dr. Brimmer. Thank you for your statement and what you do for the city.

I had a number of questions, but I must say the presentation has been very thorough. Mr. Mayor, yours was and, Ms. Cropp, you have answered a lot of the questions I had.

CONTROL BOARD'S BUDGET

I noticed, Dr. Brimmer, the Control Board's budget is being increased for next year by a substantial amount.

Mr. BRIMMER. Yes, sir.

Senator FAIRCLOTH. Could you tell us what is bringing the increase about? Is it management reform, or what is bringing it about?

Mr. BRIMMER. It is management reform, Mr. Chairman. You might recall that when the Congress proposed transferring oversight of the nine departments and four citywide functions to the Authority, I said that while we did not seek the responsibility, we would certainly accept it. In order to do so and carry it out, we would need to engage some assistance, professional assistance, because the five board members being part-time people could not do that on a day-to-day basis.

I said we would need to go out and recruit what was being called at that time a chief management officer, and that is what we did. I also said that we would need to meet the market. I warned that the market was very strong. We did recruit such a person, and we had to meet the market. We have had to add some staff to help carry out that function. It is that increased function which is carried out as a part of the Control Board that has lead to an increase in the budget. I believe we have an amount in the budget in the neighborhood of about—there is a table in my testimony which shows that figure.

You will see, Mr. Chairman, in Table 2 of my testimony the Authority has about $8 million. That is composed of the following: About $2.7 million is for the other functions of the board and about $5 million is to support the efforts of the chief management officer. That is the reason, Mr. Chairman, that we see the increase. It is to implement that mandate.

Senator FAIRCLOTH. Thank you.

Mr. BRIMMER. Mr. Chairman, as just a digression, I believe that the description which I just repeated and which I gave earlier was what the committee intended that we would do.

Senator FAIRCLOTH. I am sorry?

RECRUITMENT OF CHIEF MANAGEMENT OFFICER

Mr. BRIMMER. I believe that the action we took, the recruitment of a chief management officer and the payment of compensation to attract such a person, were actions consistent with the new mandate we got. I worked under the assumption that that is precisely what the committee—and in particular you, Mr. Chairman—anticipated we would have to do.

Senator FAIRCLOTH. Well, since we are on that subject, it would certainly appear that Ms. Barnett has broad support, bipartisan support. You, as soon to be ex-chairman of the Control Board, would you have any recommendations to the Congress as to what we might do or have not done or need to do to support Dr. Barnett to make the system work better?

Mr. BRIMMER. Yes; Mr. Chairman, I do. As I have said, the steps we took and the way we arranged it are appropriate, and it is working very well. Since we have gotten some expression of doubt from some sources as to whether we had the power to do what we did, I would suggest that we have an amendment to the statute incorporated saying we, in fact, just as we have the authority to appoint an executive director and to pay her compensation, have the authority to appoint a chief management officer to carry out the functions we have described and to pay compensation required by the marketplace. Such an amendment would be very helpful and remove any doubt.

Senator FAIRCLOTH. Thank you, Dr. Brimmer.

Mr. BRIMMER. Yes, sir.

SCHOOL SYSTEM'S BUDGET REQUEST

Senator FAIRCLOTH. Mr. Mayor or Ms. Cropp, the District's budget, recommended budget, for the District's public school system and fiscal year 1999 is $60 million less than the $606 million that Dr. Ackerman had requested. Would you care to comment on the areas

of disagreement by the board, the Council, the Control Board or the Mayor with respect to Ms. Ackerman's request?

EDUCATIONAL EMERGENCY BOARD OF TRUSTEES

Mayor BARRY. Mr. Chairman, I think we are at sort of a—I do not know how you would describe it. You had the emergency board of trustees where the courts had indicated that they did not have the authority to do what they were doing. And the budget that we received——

Senator FAIRCLOTH. I am sorry?

Mayor BARRY. That the courts had ruled that the Control Board had overstepped its authority in appointing the emergency board of trustees to run the school system. It was during that period there was no clarity about it. The budget we received, quite frankly, came from General Becton via the Control Board. In my analysis, I am sure that Ms. Cropp would agree, it really was not a good budget.

SCHOOL-BY-SCHOOL BUDGET

We have been insisting for a long time on a school-by-school budget so that we can see exactly how much money is going into the local schools. This budget did not do that. It added money all over the place. When Ms. Ackerman came in and presented her desires and her priorities, we found that there were some reforms that could be funded. But because of the lack of money, because this $81 million is a big growth, 14 percent in anybody's budget, we focused on special education.

The $60 million reduction that they requested was not a program budget in the first place the way I look at it. So, therefore, I think the Council and certainly myself was very scrutinizing of that and came to a conclusion that it is the special education portion of it, and some of the reforms that Ms. Ackerman wanted to do would be sufficient. I did not have much faith in the past administration's budgets, quite frankly, and you saw that when all of a sudden $62 million popped up out of seemingly nowhere. So it was a matter of credibility, a matter of no program but attachments to it. It was not a good budget as far as I am concerned.

INCREASE OF $81 MILLION IN SCHOOLS BUDGET

The $81 million is a lot of money to add to a budget in 1 year. I am confident that Ms. Ackerman will make sure that it is spent properly and that Mr. Rickford, who is the CFO over there, will have better accounting of this money than has been in the past.

Ms. CROPP. Mr. Chairman, the Council wanted to make sure that the school system was funded.

Senator FAIRCLOTH. Ms. Cropp, if you would, pull the mike up.

INCREASE FOR SPECIAL EDUCATION

Ms. CROPP. The Council wanted to ensure that the school system was funded appropriately. At the same time, we were very concerned that we did not want to just spend money that was not needed. Most of the dollars that was going to the school system, the additional dollars, were going in the area of special education. It

has been an area of great concern, and I cannot stress to you the level of concern that we have with special education. Quite frankly, we have been talking about a great need for us to form a task force of the Council, the Mayor, the Financial Authority, the school system and some parents, just to look at this one issue.

SPECIAL EDUCATION

Special education, if we do not take a hard look at it, will totally control the school system, and we can see the havoc that it played with regard to the city's budget. This year that is what happened with a lot of the excess dollars that we thought we were going to have to eliminate the deficit totally. It is not an issue of whether or not we should provide special education. We certainly do believe that, but we want to make sure that the dollars are spent wisely.

We increased the budget, first of all, we increased the budget by tens of millions of dollars. We took issue with—I believe it was $80 million. I believe that was the figure. We looked at it, and it was felt that there was not the justification to increase it by the amount asked. Let me give you an example.

HIRING OF ADDITIONAL STAFF

A lot of the request was based on hiring additional staff by September of this year to perform certain needs. There was no way that that staff would be able to be hired and functioning in the school system by September; however, the cost was there. What we suggested that should be done with the school system is, yes, we agreed that you needed to have some of those individuals, but to look at how many people can you hire by September. If you cannot hire them all by September, only fund the budget on how many you can hire in September, how many you can hire in October and by January.

ASSESSMENT OF 300 STUDENTS A MONTH

Additionally, what we have been experiencing in the school system is for special education we have been assessing, I believe the figure is about 300 students a month. Let me say that was needed, and the school system ought to be applauded for dealing with a backlog in assessments, things that needed to be done. I certainly would think and definitely would hope that we would not continue with that rate of 300-students-per-month need for assessment. We are going to run out of students at some point and——

Senator FAIRCLOTH. I am sorry. Are you saying 300 students per month in special education?

Ms. CROPP. That is right, the assessment for them, yes.

Senator FAIRCLOTH. This is not an increase? This is——

Ms. CROPP. This is to assess their educational needs. In other words, these are students who are enrolled in the D.C. Public School system, but for whatever reason a request has been made for them to have an assessment to see what their educational need may be, whether or not they needed to have some type of special placement.

Senator FAIRCLOTH. 300 a month?

Ms. CROPP. 300 a month. Now part of this was due to a great backlog. Again, I have to say the school system needs to be applauded in being able to accomplish that. But I would say to you, Mr. Faircloth, we certainly would not continue at that level, and we do not need to fund a continuation at that level. We raised concerns along those lines.

STUDENT ENROLLMENT

I have to also say that the Council continues to have great concern with regard to the student enrollment. The student enrollment is at 77,000 students or thereabout. That is the exact same enrollment that has been given probably for the past 6 or 8 years. We have lost a large number of our citizens from the District of Columbia. In the areas where we have lost the citizens, that was also the area where we had the largest enrollment for our public schools. What did they do, move and leave their children behind?

Something has to happen. Something has to change. We have lost population in the city, but our schools have not lost any students. I suspect there is a problem with regard to the number for the enrollment for our schools. We also would like, in fact, the Council has asked for us to have, an audit of the census and the population for our school system.

Mr. BRIMMER. Mr. Chairman.

Senator FAIRCLOTH. You mean these areas of town that have lost population are maintaining the school enrollment or increasing?

Ms. CROPP. The school enrollment for the city has not decreased while the population of the city has decreased. In the areas of the city where we have seen the largest decrease in our citizen population happens to also be the area where we traditionally have the higher number of student enrollment in our public schools. But there has not been the—we do not see that nexus between the decrease in population and a decrease in schools. We feel strongly that we need to get a handle on that.

Mr. BRIMMER. Mr. Chairman.

Senator FAIRCLOTH. Yes; Dr. Brimmer?

AUDIT OF ENROLLMENT FIGURES

Mr. BRIMMER. Sir, I would hope that you would permit me to ask Ms. Ackerman to join me at the table to respond to some of the questions you have gotten. This is a vital area as I mentioned. Special education is the driver, but there is a great deal of divergence of views. For example, the question of the enrollment in the schools. We have just had an audit of the enrollment figures as Congress mandated us to do. We are responsible for that now. We did it, and the number came out to be in the neighborhood of 77,000.

ROLE OF SPECIAL EDUCATION

But the role of special education is vital. Our recommendation is the figure in the budget for the schools, and that is an amount of $545 million in local funds compared with $460 million a year ago, an increase of $85 million.

Ms. Ackerman can share with the committee a complete account. She can do it briefly. But I would like very much for the committee to hear that testimony from the person responsible rather than simply from those of us who have oversight. May I call Ms. Ackerman to the table briefly?

Senator FAIRCLOTH. You certainly may.

Mr. BRIMMER. Thank you.

Senator FAIRCLOTH. We would be delighted to hear what Ms. Ackerman has to say.

Mr. BRIMMER. Thank you.

Mayor BARRY. Mr. Chairman, I hope you understand Ms. Cropp's and my position, the $60 million reduction. What they asked for was just not a good budget. So I hope you understand our position.

Senator FAIRCLOTH. Yes; I do understand it.

Ms. CROPP. It was an increase, Mr. Faircloth. We support the figure that is in the budget, but we do not support more.

Senator FAIRCLOTH. OK.

Mr. BRIMMER. Ms. Arlene Ackerman, the CEO and superintendent.

Senator FAIRCLOTH. Ms. Ackerman, if you would be as succinct as you can and brief, we would appreciate it, but we want to hear what you have to say.

Ms. ACKERMAN. OK. There were a couple of issues that did come up in the last few minutes.

Senator FAIRCLOTH. Again, if you would, pull the mike forward, real close.

Ms. ACKERMAN. Can you hear me now?

Senator FAIRCLOTH. Yes.

AUDIT OF ENROLLMENT

Ms. ACKERMAN. OK. There were a couple of issues that came up. I would like to start with the enrollment. We did get an independent audit, and it did confirm that we have approximately 77,100 students. The year before our enrollment figures were 78,648, so we are showing a decrease from the previous year. I mean, we are not at the same, you know, we are not at the same number. We are showing a decrease. So I want to say that the audit did confirm that we do know how to count our students, and that our count was relatively accurate within 1 or 2 percent.

ASSESSING 300 STUDENTS A MONTH FOR SPECIAL EDUCATION

The other issue is related to special education, and the numbers that we put forward in terms of the cost of special education for next year. The special education issue, everybody on this panel has already said is the major driver of our budget. We spent $105 million. We are assessing approximately 300 students and placing approximately 300 students a month. We anticipate for at least the next year or so we will continue at that rate.

AVERAGE COST OF STUDENT OUTSIDE OF DISTRICT

We have a current backlog of about 2,500 students, and so we are anticipating if we continue with the same kind of assessment rate that we will still maintain the need to hire new teachers and

new staff as we place students in the system. Our goal is to develop programs within the system so that we do not have to place students out of the District. The average cost of a student placed outside of the District is $48,000, so it is very important. The average cost per child to be placed out of the system, out of the District, is $48,000. So as we——

Senator FAIRCLOTH. May I ask about how many you have in that category?

Ms. ACKERMAN. About 1,400. We anticipate 1,400 next year, about 1,200 now.

Senator FAIRCLOTH. 1,400?

Ms. ACKERMAN. Yes; students.

Senator FAIRCLOTH. You are paying $48,000 per year?

Ms. ACKERMAN. That is the average cost.

Mayor BARRY. Also, Mr. Chairman, a number of these students are placed there, by judges or hearing officers way outside the city, some as far away as Minnesota and other places, which we really want to try to figure out how we get programs locally to do that.

Senator FAIRCLOTH. I will have a question on that as soon as Ms. Ackerman finishes.

Mayor BARRY. All right.

$600 MILLION BUDGET REQUEST

Ms. ACKERMAN. OK. The other thing that I wanted to say, in the original $600 million budget, we did prorate the staffing for our special education program knowing that at the beginning of the school year we would not place all of those students, so it was adjusted for in the budget. I guess I wanted to make that clear, that we did not put all of the—while it was counted that we would need 1,000 teachers, more teachers, by the end of the year—I mean 1,000 more staff to address our special education needs. We did prorate that knowing that we would need so many per month.

Mr. BRIMMER. Well, Mr. Chairman, thank you for allowing Ms. Ackerman to come forward. Again, I would want to stress one thing for the committee. Special education is driving the District's school budget. Second, special education enrollment, all of the procedures Ms. Ackerman described are court mandated for the most part. Being required to adhere to standards set by the Federal Government, and judges and monitors who are interpreting those, is a serious matter. She has no option. If she fails to do the testing, and so on, she is brought back into court. I want to stress that.

Senator FAIRCLOTH. Well, let me ask. This is something that I have heard around the country, particularly as I move around North Carolina, that this edict from the Federal Government on special education—I believe we call it handicapped or what is the term the Federal Government uses? What is the term we use here?

AMERICANS WITH DISABILITIES ACT

Ms. CROPP. The American with Disabilities.

Ms. ACKERMAN. Oh, the Disability?

Senator FAIRCLOTH. Yes; this is part of that?

Ms. ACKERMAN. Yes.

Senator FAIRCLOTH. This is where that is coming from?

Ms. ACKERMAN. [Nodding head.]

Ms. CROPP. I think it grew out of Public Law 94–192, that legislation. Initially, that was probably passed around 1982, and it is Public Law 94–182. I believe that is the legislation that it initially grew out of, how the placements started.

Senator FAIRCLOTH. Well, Ms. Ackerman, so the problem Washington is having might be more accelerated, but you were in Seattle I believe?

Ms. ACKERMAN. Right.

Senator FAIRCLOTH. Was the problem as severe there as here?

Ms. ACKERMAN. Well, it is complicated for sure here because of the court mandates, and special education is certainly a problem across this country because it is an unfunded mandate for many of the school districts. Here, it is complicated because of the court mandates that come with it.

We are under a lot of scrutiny. Dr. Brimmer said that we are in sort of a catch-22. We have to assess more students. As we assess more students and place them, the goal is to place them inside of the school district in programs there, because if we do not, the parents and the lawyers can decide to place them outside of the school district because there are not programs inside. We are caught between a rock and a hard place here. We must continue to assess students, and we have to have programs inside of the school district to bring down the cost of out-of-district placement.

Ms. CROPP. Mr. Faircloth. Senator.

Senator FAIRCLOTH. Yes?

HURT HOME

Ms. CROPP. One of the things that needs to happen, I suspect here and other places and what we are attempting to do, is to also provide the appropriate facility or learning environment for our students here. Our goal is to be able to bring as many back to the District of Columbia as possible, which means that we have to get that type of educational environment for them. The Hurt Home is one example of something that was done in the District of Columbia probably about 2 or 3 years ago where we were able to bring several students, about 20 students, from outside placement back to the District of Columbia. We hope to be able to expand our capacity to do that.

COST OF SPECIAL EDUCATION

Senator FAIRCLOTH. I just ran some figures here and I cannot believe, I must have counted wrong, but I am looking at about $65 million plus, $68 million for special education.

Ms. ACKERMAN. Yes; it is $105 million. We anticipate $105 million spent this year. For next year, we see that it will grow approximately $156 million, and that is within what we can see as coming. We will spend approximately $24 million on transportation for about 2,400 students. That is 10,000 per child on transportation. We actually have some students who are on a bus with one child, an attendant and a bus driver. We have——

Senator FAIRCLOTH. One driver?

Ms. ACKERMAN. One driver.

Senator FAIRCLOTH. An attendant?

Ms. ACKERMAN. One attendant.

Senator FAIRCLOTH. And a student?
Ms. ACKERMAN. And one child.
Ms. CROPP. We are mandated for that.
Ms. ACKERMAN. We are mandated.
Ms. CROPP. We do not want to do that.
Ms. ACKERMAN. That is right.
Ms. CROPP. We are mandated to do that.
Senator FAIRCLOTH. I understand.
Well, let me ask. This is not a problem, Mr. Mayor, that is peculiar to the District. It is something that we would have to address on a national level; is that not right?

NUMBER OF DAYS TO ASSESS STUDENTS

Mayor BARRY. I think it is peculiar, Senator, in the sense that we are under this court order, and also we have 50 days in which to assess these students, which is really one-half the time that you have around the country. In most school districts, you have between 125 days from the time a parent asks that their youngster be assessed through these various psychological tests and other kinds of tests.
As a result of that, a lot of these lawyers on the 51st day or the 52d day represent these parents and get them into these very expensive private school settings, where in other places in the country within 125 days you have a chance to assess and in most instances try to place them in the school district itself. So that is what is unique about it. Also, something else is strange here.
Senator FAIRCLOTH. Those number of days to assess?
Mayor BARRY. I beg your pardon?
Ms. CROPP. That was recently changed.
Mayor BARRY. Yes; the Council passed that.
Ms. CROPP. Yes; we have recently passed legislation to change that.
Mayor BARRY. It is not effective yet.
Ms. CROPP. I am not certain where it is now. I believe the Mayor has signed it.
Senator FAIRCLOTH. It is in this budget, isn't it?
Ms. CROPP. Yes.
Mayor BARRY. In this budget, yes.
Ms. CROPP. But we have passed it. We have put it in this budget to try to expedite the process.
Ms. ACKERMAN. Senator, I wanted to say one other thing as it relates to special education. We are in a reactionary mode for sure with special education. But one of the things——
Senator FAIRCLOTH. What do you mean "We are in a reactionary mode"?
Ms. ACKERMAN. Well, I mean we are reacting to the courts. We are reacting to the unfunded——

INSTRUCTIONAL PROCESS

Senator FAIRCLOTH. We are trying to follow the mandate?
Ms. ACKERMAN. That is right. But one of the things I want to emphasize is that the original budget did address was improvement of the instructional process. Because until you improve the instructional process, you will continue to have students who fall

behind. And when they fall behind, we get into again this vicious circle of trying to address their individual needs. So the goal was to put more reading teachers into our classrooms, more instructional programs that would address needs early on.

Mr. BRIMMER. Mr. Chairman, on that point we did insist on putting money into this budget so that Ms. Ackerman could get started on some of the reforms she has just described. In the first version of the proposed cuts that we were discussing when we were looking for a consensus budget, the number was cut even further. We resisted that, so she does have some money. She will be able to get started on some of these more fundamental improvements. But I wanted to stress that special education is a problem. Hopefully, we can focus on this at a later date.

Senator FAIRCLOTH. Well, I think we will have to. I think it has become a lawyer's heyday. I suspect that a lot of parents are using it as a way of getting their children in different schools, in different situations and what they might consider a better school situation. There is not any way that any governmental entity can run a bus up and down the road with a driver, an attendant and one student. We will look at that again.

METRO STATION AT NEW CONVENTION CENTER

Ms. Cropp, the President's budget proposal for the District includes $25 million for improvements to the Metro station near the planned new convention center. I understand that the Council and the Control Board have approved the new convention center, provided the cost is capped at $650 million. Is there any way that we can be sure that the $25 million for the Metro station is not used to get around the $650 million cap, or do you have any objection to language which would make it clear that the $25 million and other Federal funds may not be used until the convention center contract is let?

Ms. CROPP. I certainly believe that we have opportunities to ensure that the $25 million will be used for the Metro funding, and we do not have any objection to that. I would suspect, however, that we would not want to create language that would delay the building of that Metro stop if, in fact, it needs to be done in conjunction. So if the committee's intention is to make sure that the dollars are used only for Metro, I would encourage that. But I would not say delay it until after other expenditures have been made. Just develop language that would limit that $25 million for Metro only. We have no problems in doing that.

Mayor BARRY. Mr. Chairman, there has been some accountability and guarantees. First of all, it was difficult to get this kind of contract. I mean, this is a——

Senator FAIRCLOTH. On the——

Mayor BARRY. On the fixed price. That is difficult and it is unusual to happen in this kind of industry because of overruns, but they have come to a decision on the amount of money. The convention center board has sent to the Council its financing based on that. My suggestion would be, if the committee is concerned, you put a strong paragraph in the committee report as opposed to language—there is no way that the city would spend this money except on the Metro stop. It may be that the money may have to be

spent as part of the construction phase of this and long before the convention center itself. I would suggest language in the committee report expressing concern. But the Council and the Mayor——

Senator FAIRCLOTH. No problem with that.

Mayor BARRY. Thank you.

SCHOOLS OPENING ON TIME

Senator FAIRCLOTH. I am beginning to wind up my thoughts here. But as I mentioned earlier, and anybody can take this on that will—you, Dr. Brimmer, Ms. Cropp or Mayor Barry—I keep hearing the rumblings, now I cannot attest to them and maybe Dr. Ackerman has more—that the schools are not quite ready. The boilers have not been fixed, some of the roofs, the bids for repairs, the type of things that could delay. In a flat word, are the schools going to open on time, all of them?

Mr. BRIMMER. I would rather Ms. Ackerman speak from the academic side.

Senator FAIRCLOTH. I would like for Ms. Ackerman to answer that question.

Mr. BRIMMER. I would like to speak on the question of the repairs, because we have a different setup this year. We at the Control Board have responsibility for the overall schools, and we have asked the chief procurement officer, Mr. Fike, to take on the responsibilities for monitoring those contracts. We have asked Dr. Barnett to oversee the functions and activities of the procurement officer. She shared with us——

STATUS OF SCHOOL CONSTRUCTION

Senator FAIRCLOTH. You asked who to do that?

Mr. BRIMMER. Dr. Barnett. She shared with us today at the Control Board an interesting report on the status of the planning and the contracts for school construction. She assured us that they were highly confident that it would be done. Again, if you want a few minutes' description from her, I would be delighted to ask her to do it.

Senator FAIRCLOTH. All right. I would because this is the big question I think we are facing.

Mr. BRIMMER. All right.

Dr. Barnett.

Senator FAIRCLOTH. Dr. Barnett, if you would not mind, we have an extra chair down here. My question is very simple. [Laughter.]

Are the schools going to open on school opening day?

Ms. ACKERMAN. And my answer is very short. Yes.

Senator FAIRCLOTH. Dr. Barnett, would you like to elaborate?

Ms. BARNETT. Do you want me to add to that?

Senator FAIRCLOTH. Well, I do not know that it really needs adding to. But if there is any insight you might give us as to assure us that Dr. Ackerman is right, why, I would like to hear that—maybe what we would call cold clocked.

Mr. BRIMMER. Mr. Chairman, Dr. Barnett may not—you may not want her to do it, but I would want her to do it. I will ask her to summarize for the benefit of the committee the report she gave us. Because you are absolutely right, there are a great deal of rumors

around, speculation, and it is doing harm. I think we ought to have a clear statement on the record as to what the status is.

Dr. Barnett.

Senator FAIRCLOTH. You will have to pay attention to the rumors.

Ms. BARNETT. There are a couple of things that are significantly different about the contracts this year with——

Senator FAIRCLOTH. Again, if you do not mind.

Ms. BARNETT [continuing]. Repairing the schools than we had last year. One of the most significant things is that we are starting earlier. We are about 2 months ahead of where we were last year so that we are starting the contracts earlier. We expect them to be signed tomorrow or Friday. This will include all of the work on all of the schools. Last summer, some contracts were started and then some were started later. So all through the summer there were contracts being initiated. All of the contracts are ready to go, and all are ready and will start early.

Senator FAIRCLOTH. You say all work. This means boilers, roofs?

Ms. BARNETT. Yes; boilers and roofs.

Senator FAIRCLOTH. Whatever is necessary to open the schools?

Ms. BARNETT. Boilers and roofs primarily. There are about, I think, 42 schools, and about one-third of the schools are involved. About 25 of the schools have roof repairs. We have also got the Corps of Engineers working on these repairs this year, so our design and construction and our specifications are better than they were last year. We also have a group that is pretty used to construction helping us with these projects.

CONTINGENCY PLANNING

For those reasons, I think we have changed the process significantly so that we will be able to assure people that we will be able to open the schools on time. The other thing that we are doing is more contingency planning so that we will be awarding additional contracts so that if there are problems with performance with any of the contractors, we will have substitutes to come in and will not lose any time. For those reasons, I concur on Dr. Ackerman's suggestions that we will open the schools on time.

Mr. BRIMMER. Mr. Chairman, just further assurance. Under our rules and regulations I signed those contracts.

Senator FAIRCLOTH. Yes.

Mr. BRIMMER. I asked Dr. Barnett whether they could be delivered so that I could sign them by the close of business tomorrow. She assured me they would be, so I will be waiting to sign the contracts tomorrow.

OPENING OF SCHOOLS LATE

Senator FAIRCLOTH. Well, this is good news for the city. Because the school system—there are many, many problems with the city, but the most embarrassing thing ever was the fact that we went for weeks and literally months last year and could not open the schools. You mentioned one thing, and this is just a housekeeping matter, but have you prepared legislative language to change the time line of the District's audit from three to five?

Mr. BRIMMER. Yes; we have it and we will share it.

Senator FAIRCLOTH. All right. If you will provide it to us, we will go with it.

Mr. BRIMMER. Thank you.

[The information follows:]

LETTER FROM E. BARRETT PRETTYMAN, JR.

GOVERNMENT OF THE DISTRICT OF COLUMBIA,
*Washington, DC, April 23, 1998.*

Rep. THOMAS M. DAVIS III,
*Chairman, Subcommittee on the District of Columbia Committee on Government Reform and Oversight,*
*Washington, DC.*

DEAR CHAIRMAN DAVIS: Three years ago, the 104th Congress enacted Public Law 104–8, the D.C. Financial Responsibility and Management Assistance Act of 1995. That important piece of legislation contained, among other things, provisions substantially revising the powers and duties of the Inspector General of the District of Columbia. As the current holder of that Office, I am writing to request a modification to one of those provisions.

Under Section 303(b) of Public Law 104–8, the Inspector General is responsible for contracting with an independent outside auditor to perform an annual audit of the District's financial statement and report for each fiscal year. That same section also provides, however, that the Inspector General may not award the audit contract to the same auditor for more than three consecutive years. Section 303(b) reads In relevant part as follows:

"The Inspector General shall enter into a contract with an auditor who is not an officer or employee of the Office to audit the financial statement and report [of the D.C. Government] for a fiscal year, except that the financial statement and report may not be audited by the same auditor (or an auditor employed by or affiliated with the same auditor) for more than 3 consecutive fiscal years."

Public Law No. 104–8, § 303(b)(2), codified at D.C. Code § 1–1182.8(a)(4).

After careful consideration I have come to the conclusion that Section 303(b) should be amended to bar the award of the annual audit contract to the same auditor for more than five consecutive years rather than three. I am convinced that this change will increase competition among firms bidding for the audit contract, reduce the cost of performing the audit, and result in substantial savings to the District.

Auditing a large and complex public entity like the Government of the District of Columbia is a massive and difficult undertaking. For an auditor doing so for the first time, the learning curve—the time and effort it takes to "learn the ropes"—is steep indeed. After the first year, however, the audit can be performed more efficiently, and at less cost. Thus, the annual cost of an audit decreases with each year that the same auditor performs it.

This point was made in 1988 by the National Intergovernment Audit Forum (NIAF), an association of federal, state, and local government auditors headed at that time by then-U.S. Comptroller General Charles Bowsher. In a widely-consulted handbook designed to help public entities procure high quality external audits, NIAF explained that multiyear contracts reduce the cost of audit services and therefore lower the price of such services:

"The first year of an audit engagement usually involves significant start-up costs as auditors devote considerable time to learning about the entity and its internal control systems. Having completed this groundwork, the auditor usually is able to work at less cost in the succeeding years. If authorized by law, a multiyear agreement—perhaps a 1-year agreement with the option to extend the agreement for up to five years—has a dual advantage: It enables an auditor to propose a price that takes into account the savings to be realized in subsequent years and saves the entity the costs associated with repeating the selection process."

NIAF, "How to Avoid a Substandard Audit: Suggestions for Procuring an Audit" 6 (May 1988). See also "Government Finance Officers Association," Audit Management Handbook 25 (1989) (making a similar observation and noting that, "[a]s a general rule, multiyear contracts provide governments with substantial audit savings").

Significantly, my proposal for five-year audit contracts finds support in a 1987 report issued by Congress' own General Accounting Offing (GAO). In the 1980's, the GAO conducted a survey of the procedures used by state and local governments to obtain the services of public accounting firms. The GAO concluded that public entities should use five-year audit agreements. The GAO report states:

"In discussions with us, many of our experts stated that multiyear contracts not only provided an incentive for an audit firm to devote time submitting a well developed proposal and to establish its learning curve in the early years of the engagement but also minimized staff resources the entity spent on procuring audit services. In addition, according to experts, the audit firm recovers some of its costs and realizes a profit in the second, third, or fourth year of the engagement. Further, two CPA's on our panel stated that their firms could minimize the risk of producing a poor quality audit and make the greatest contribution to improving program and financial operations in the final years of their multiyear agreements. This is due, in their opinion, to the knowledge a firm can acquire over a period of time while performing an audit.

"During our study, we found that some entities engaged in multiyear agreements. These multiyear agreements normally provided for annual contract renewal at the entity's option—usually contingent upon the audit firm performing acceptable quality work. Although there was some disagreement as to the ideal length of a multiyear agreement, most of the experts we spoke with indicated a range of from 3 to 5 years. We agree that entities should consider using multiyear agreements, preferably of a 5-year duration due to the potential cost savings and continuity benefits over the long-term."

U.S. General Accounting Office, Report to the Chairman, Legislation and National Security Subcomm., House Comm. on Government Operations, House of Representatives: CPA Audit Quality: A Framework for Procuring Audit Services, GAO/AFMD–87–34, at 28 (Aug. 1987).

A recent study of the auditor rotation practices of public entities found that a large majority of those entities responding to a survey—68 percent—had no law or policy requiring the rotation of auditors. Of those public entities with such a law or policy, 20 percent rotated auditors after three years, 25 percent after four years, 43 percent after five years, and 12 percent after six or more years. See J. Wendell, T. Pearson & T. Oregon, "Auditor Rotation Policies of Governmental Entities," Government Finance Review 61–62 (April 1998). Thus, a majority of the surveyed entities (55 percent) rotated auditors after five years or more. A distinct minority (20 percent) required the rotation of auditors as frequently as Public Law 104–8 mandates with respect to the District's annual audit.

Three examples illustrate the auditor rotation requirements of other governmental entities:

The City of New York hires a firm of certified public accountants to do an annual audit of the City's consolidated operating accounts and year-end assets (unless the audit is performed by the state comptroller). Chapter 5, Section 95 of the New York City Charter provides that "[n]o firm of certified public accountants shall perform any such audit or a part of such audit for more than eight consecutive years provided, however, that no audit engagement contract shall exceed four years."

The County of Milwaukee, Wisconsin, engages outside auditors to perform annual financial and compliance audits of the County. Under County policy,"an outside firm may provide services regarding a particular audit engagement for no more than six conserve years" and "at the discretion of the Director of Audits, one-year extension beyond the six consecutive years is permitted." Milwaukee County Administrative Manual, Policy No. R–373 (Feb. 17, 1983).

The Council of the City and County of Honolulu, Hawaii, contracts for independent annual financial audits of the City's operations. A resolution adopted by the Council provides that "[t]he auditor or auditing firm selected shall be retained for [a] four-year period" although "[a]n incumbent auditor or auditing firm shall not be eligible for the subsequent four-year period." Council Resolution No. 86–239 (July 9, 1986).

Prior to the adoption of Public Law 104–8, D.C. law provided that the auditor selected to perform the District's annual audit would perform the audit for a four year period, but could not succeed himself. See D.C. Code § 47–119. My proposal thus represents a partial return to the practice that prevailed in the District before 1995. Unlike now, however, prior to 1995 the auditor was selected, not by the Inspector General, but by the Mayor with the advice and consent of the D.C. Council.

I am concerned that at present too few auditors are bidding on the annual audit contract and that too much is being paid by the District for the audit. This year only one firm—Mitchell & Titus—submitted a proposal in response to our solicitation. During the bidding period, I had to inform another firm interested in submitting a bid—Thompson, Cobb, Bazilio & Associates—that it was disqualified because for the past three years it had assisted the firm that performed the annual audit and, under Public Law 104–8, the contract may not be awarded to "the same auditor (or an auditor employed by or affiliated with the same auditor, for more than 3 consecutive fiscal years." (emphasis added).

In a letter dated April 10, 1998, Arthur Andersen, one of the largest public accounting firms in the country, explained that one of the reasons it did not submit a proposal was the three-year mandatory rotation requirement. (The other reason concerned the indemnification clause of the audit contract.) In its letter, Arthur Andersen stated that "[t]he frequent rotation of auditors reduces the ability of an auditing firm to gain the in-depth understanding of the D.C. Government's operations that we believe is required." Arthur Andersen expressed precisely the same concern when it declined to submit a bid last year. We have also been told informally that the three-year rotation requirement is one important reason why none of the other national public accounting firms submitted a bid this year.

While few firms have shown interest in the annual audit in recent years, the cost of the audit to the District has become considerable. KPMG Peat Marwick, which performed the audits for fiscal years 1995 through 1997, received $2.2 million for each of fiscal year 1995 and fiscal year 1996, and $2.8 million for fiscal year 1997—a total of $7.2 million over the three-year period. Mitchell & Titus' proposal—which, again, is the only proposal we received this year—is for $1.8 million for fiscal year 1998, $1.86 million for fiscal year 1999, and $1.9 million for fiscal year 2000.

It is noteworthy that the District paid much less for the annual audit in the years prior to the adoption of Public Law 104–8, when the audit contract could be awarded for four years. Coopers & Lybrand, which performed the audits for fiscal years 1992 through 1994, was paid $931,400 for fiscal year 1992, $946,550 for fiscal year 1993, and $1,032,050 for fiscal year 1994. (Although Coopers was initially awarded the contract for fiscal year 1995, it did not actually perform it.) KPMG was paid approximately $835,000 to $855,000 per audit for fiscal years 1988 through 1991. Although several factors are responsible for the rise in the cost of the annual audit over the last decade, I believe that one important cause of the increase is the inability of this Office to award the audit contract for longer than three years.

The rising cost of the annual audit over the last decade is reflected in the following chart:

| | |
|---|---|
| Fiscal year 1988–91 (KPMG) (approx.) | $845,000 |
| Fiscal year 1992 (Coopers) | 931,400 |
| Fiscal year 1993 (Coopers) | 946,550 |
| Fiscal year 1994 (Coopers) | 1,032,050 |
| Fiscal year 1995 (KPMG) | 2,200,000 |
| Fiscal year 1996 (KPMG) | 2,200,000 |
| Fiscal year 1997 (KPMG) | 2,800,000 |

I understand that the 104th Congress had sound policy reasons for insisting that the contract to audit the D.C. Government change hands periodically. Rotating auditors every few years can bring a fresh perspective and new ideas to the task. Nevertheless, because of the efficiencies and cost savings to be gained by longer contracts, I now believe that the line should be drawn at five years rather than three.

Thank you for considering this proposal. I am prepared to provide any assistance that you or your stay should require.

Sincerely,

E. BARRETT PRETTYMAN, Jr.,
*D.C. Inspector General.*

Senator FAIRCLOTH. I want to thank you for, all of you for, being here today and for what you have done. Now, certainly we are going to study the budget. We will be looking at it and we will probably be back talking to you all. But does anyone have anything else that we might have failed to give you time to say?

Mayor Barry, any comments you would like to make before we close the hearing?

Mayor BARRY. Well, I look forward to coming back up here observing next year. [Laughter.]

Senator FAIRCLOTH. We will keep your chair.

Ms. Cropp.

CONSENSUS BUDGET

Ms. CROPP. Only that we look forward to your supporting this consensus budget. I think it says an awful lot for all three of us and our prospective members to come together on a consensus

budget that will help make the District of Columbia a much stronger and better functioning city. At this point, we need for Congress to join us in partnership to make our city work. We have put aside all of our own personal ideas sometimes to look at what was best for the city. This budget represents in our belief, our collective belief, and believe me that was not an easy task when you bring the Mayor, the Council and the Financial Authority all together.

We worked extremely hard. We worked on Saturdays, we worked on Sundays and we put in an awful lot of time to put together a budget that we believe—feel strongly that it is a good budget on behalf of the citizens of the District of Columbia that will move this city forward. We ask for your support in this budget and in our efforts.

Mayor BARRY. Mr. Chairman, let me underscore the significance of the three of us coming together. As an elected official, you know that your constituency expects you to advocate and push certain points of view. It may seem to be very easy on the surface dealing with personalities and dealing with institutions. But we were able to overcome whatever philosophical differences or program differences and compromise. Also, I would hope that the Congress would appreciate the tremendous amount of flexibility that we came to this table with. That was not the case last year, quite frankly. We came up with two budgets.

Senator FAIRCLOTH. I am quite aware that it was not.

Mayor BARRY. Well, I wanted to underscore that.

Ms. CROPP. I would also just like to recognize that I am joined here today by two members of the Council, David Catania, at-large member, and Hilda Mason, at-large member.

Senator FAIRCLOTH. Would they stand up please so we can all——

Well, let me say there are 535 members of the Congress, and I certainly do not intend to speak for but one of them. But the role of the Congress and the desire of the Congress, and for this point I can speak for the other 534, they want to see the best possible Capital of this country that we can have.

As I said earlier, I do not find a stinginess on the part of the Congress when it comes to working with the District of Columbia on the financial aspects of what we need to do to bring the capital city to what we all want it to be, the residents and the country as a whole and certainly the Congress. So bear in mind the Congress is not the enemy. The Congress is your partner to try to bring the city to the type of city we would all be proud of. That is the goal of the Congress, too.

Dr. Brimmer, would you?

CITY AUDIT

Mr. BRIMMER. Two quick points, Mr. Chairman. I mentioned that we are reviewing the question of the audit. We have in the budget now an amount of money that is in the neighborhood of $1.5 million. We may end up having to spend more than that. As we make further progress of reviewing this, I might have to come to you and say that we need an additional amount as a part of the appropriation. I hope you will give me the opportunity to do that.

INFRASTRUCTURE FUND

Second, in my testimony I spell out a request that the Congress appropriate some money in the neighborhood of $200 million plus for infrastructure. I explain in my testimony why we would like to have those funds appropriated by the Congress and charged to and given to the Control Board and how we would seek to spend it. I spell out in here an attempt to respond to some of the things you have raised. You have visited some of these police stations. You know what conditions many of these facilities are in. We feel we need to get on with trying to improve those, and we are asking for some funds to do that. I did not mention it in my first go around, but it is in my statement.

Thank you very much.

Senator FAIRCLOTH. Thank you very much, Dr. Brimmer.

PREPARED STATEMENT

I would like to note that Senator Boxer had planned to be with us today, but was unable to be here because of conflicting committee responsibilities. Without objection, Senator Boxer's opening statement and questions will be incorporated in the record, along with the answers prepared by the witnesses to her questions. So you will get a copy of this.

[The statement follows:}

PREPARED STATEMENT OF SENATOR BOXER

I would like to thank Senator Faircloth for his tireless efforts as Chairman of the District of Columbia Appropriations Subcommittee. He has spent countless hours on the largely thankless task of addressing the District's financial ills, and I am happy that we have been able to work together to begin to make some progress for the District. Today, the District budget is actually in surplus, which pleases me very much.

I welcome our witnesses at today's hearing—Mayor Marion Barry, D.C. Council Chairwoman Linda Cropp, and Dr. Andrew Brimmer, Chairman of the Control Board.

The Subcommittee is meeting today to hear from our witnesses on the proposed fiscal year 1999 budget. The budget proposal submitted by the President calls for an appropriation of $486 million, while the budget proposal submitted by the District calls for an additional $254 million for infrastructure development. I hope that our witnesses today can address and explain this discrepancy.

The budget reflects the changes in government operations which have resulted from the federal government's assumption of city functions that parallel the responsibilities of a state government. The budget also reflects significant investment in implementing management reforms and promoting infrastructure development. I look forward to hearing from our witnesses about the impact of these changes and priorities on the quality of life of the citizens in our nation's capital.

Unfortunately, I have conflicting commitments today and will not be able to personally attend the hearing. However, I have a number of items that I would like to have included in the record. With the Chairman's approval, I would ask unanimous consent that my questions and inserts be placed into the record of this hearing, along with responses from the witnesses to my questions.

I thank the Chairman for his accommodation.

ADDITIONAL COMMITTEE QUESTIONS

Senator FAIRCLOTH. I want to thank all of you for the testimony and for the government service you have rendered and are rendering. It is a pretty thankless occupation. I think all of us that have been in it can attest to that.

Your testimony today, I want to ask that anybody that would like to submit answers or ask further questions, that the subcommittee will keep the record open until 5 p.m., Tuesday, June 16. If anybody would like to submit additional questions, then we would forward them to you all for answers.

[The following questions were not asked at the hearing, but were submitted to the Departments for response subsequent to the hearing:]

COUNCIL OF THE DISTRICT OF COLUMBIA

QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

*Question.* Several reputable non-profit organizations (Salvation Army, YMCA) have reported to the Committee that they have asked the Council for funds to assist them in providing services to children and those suffering from alcohol and drug abuse, and that they have not had much success.

What is the Council's process for reviewing requests for financial support by non-profit groups in the DC community?

Answer. Non-profit groups in the DC community often make numerous requests for financial support to the Chairperson of the Committee on Human Services in the DC Council. The Committee's standard procedure is to forward the request to the Director of the appropriate agency, i.e., the Department of Health, the Department of Human Services, etc., for review and consideration. In the event that a particular program is believed to deserve assistance, the Chairman meets with the non-profit group, visits the program site, and then arranges for them to meet the appropriate Department Director who can provide grant funding.

Regarding the Salvation Army, the Committee Chairperson, Sandy Allen did meet with their officials about their Harbor Lights Program. She also toured their facility and arranged for them to meet with the Directors in the Departments of Human Services and Health. She believes that the Department of Health is attempting to collaborate with the Salvation Army in this program. As for the YMCA, the Committee has not received such a request.

*Question.* Is the Council willing to provide some matching funds for programs that it considers worthwhile?

Answer. As the legislative branch of the District Government, the decision to make financial awards to individual organizations is not a responsibility of the Council. While the Council knows of many non-profit groups and their laudable and worthwhile programs in substance abuse[1] it is not able to provide any matching funds. Such program decisions are handled by the Executive Branch, the Financial Authority, and the various departments involved.

*Question.* The District's proposed budget transfers 16 employees and $667,000 from the Office of Personnel to the Human Resource Development to account for "performance management initiative." Please explain for the Committee what is meant by "performance management initiative" and why they cost $667,000 and take 16 full-time employees to implement?

Answer. The performance management initiative is an effort to improve the evaluation of District employees by their supervisors. This is consistent with DC Act 12–326, the "Omnibus Personnel Reform Act of 1998" which was enacted by the Council in March 1998 and completed the 30-day Congressional review period on June 10, 1998.

The legislation links pay to performance for the first time. Managers and employees will have to develop individual performance plans and employees will be rated at least once a year according to four different levels listed below.

—(i) "exceeds expectations"
—(ii) "achieves expectations"
—(iii) "below expectations"
—(iv) "unacceptable"

In order to receive a periodic step increase, employees must receive a rating of "exceeds expectations" or "achieves expectations." The performance management initiative is designed to fund training for managers in the development and monitoring of employee performance plans and in the evaluation of employee performance. This

[1] In fact, the Council led an effort to increase funding for programs in the Addiction Prevention and Recovery Administration in fiscal year 1999.

initiative is a critical part of the District's effort to upgrade services throughout the government.

The fiscal year 1999 budget does not transfer 16 employees from the Office of Personnel to the Human Resources Development fund simply for a performance management initiative. The 16 employees cover a range of issue areas, including several training programs (one for high-level managers, one for mid-level managers, and one for entry-level employees); benefit programs (including studies of potential changes to the District's disability, health insurance, and retirement programs); an executive recruitment program; job classification; and, the performance management initiative.

*Question.* The District plans to almost double the staff of the Department of Consumer and Regulatory Affairs from 187 to 346 FTE's. What new responsibility does the Department plan to assume to warrant this increase in personnel?

Answer. The agency does not plan to double the staff of the Department of Consumer and Regulatory Affairs (DCRA) nor assume any new responsibilities in fiscal year 1999. This figure was attributed to a computer error in the fiscal year 1998 budget document. The 187 FTE's referenced in the fiscal year 1998 budget refer to employees that comprised the health regulation and inspection functions of DCRA. When those employees were transferred to the Department of Health in fiscal year 1998, they remained in DCRA agency code, "CR." All of DCRA's remaining employees converted over to the ("EB") agency code, thus the discrepancy in the FTE number. For fiscal year 1999, 346 FTE's is the correct figure of employees allocated to DCRA.

*Question.* Last week the Council passed legislation approving construction of the new Convention Center at the Mt. Vernon location. As part of this legislation, the Council voted to cap expenditures at $650 million.

If midway through construction of the Convention Center, the contractors tell District leaders they will need a few more million dollars to put the roof on to complete the project, what will be the Council's options?

Answer. The Washington Convention Center Authority (WCCA) reached agreement with its Construction Manager (CM) on a Guaranteed Maximum Price (GMP) of $550.6 million for construction of the new convention center. The CM, a joint-venture of Clark Construction Company and the Sherman R. Smoot Construction Company, will construct the new facility at the Mount Vernon Square site for an amount not to exceed this GMP. The attached schedule of construction risks and liabilities (see Chart 1) indicates responsibilities for completion of the project.

Since mid-February 1998, the CM, the WCCA, and its architect/engineering team have engaged in an intensive design review process. As part of the process, the parties have done the following:

—(i) engaged in value engineering to minimize the cost of construction;

—(ii) validated the design;

—(iii) clarified ambiguities and inconsistencies in the design;

—(iv) agreed upon the CM's scope of work; and,

—(v) reviewed the design for "constructibility" and coordinating issues.

The drawings and specifications for the project incorporate the results of this design review.

As WCCA moves forward, the CM will be required to participate in the periodic design and budget reviews in order to continue the value engineering process and to insure that the final design is consistent with the GMP and the project's scope of work. He has developed a construction schedule that calls for completing the building in March 2003. If there are any delays in meeting this schedule, i.e., if the building is not occupiable by this date, Clark/Smoot will incur liquidated damages in the amount of $50,000 per day for every day beyond the agreed upon completion date.

The GMP does not include the costs of two activities that will occur off-site. As you know, President Clinton's fiscal year 1999 Budget allocates $25 million to the Washington Metropolitan Area Transit Authority (WMATA) for the reconfiguration of portions of the Mount Vernon Square metrorail station. Because the federal funds will be transmitted under separate contract, this task has been removed from the CM's scope of work. Also, costs for off-site utility relocation will be offset by $10 million in federal funds provided to the District through the Community Development Block Grant program of the U.S. Department of Housing and Urban Development.

*Question.* Realistically, what protection does the cap give the District from cost overruns?

Answer. The process of reaching the GMP for construction of the new convention center has been thorough and rigorous. The WCCA has now achieved guaranteed construction costs that allow the WCCA to stay within its $650 million total projected budget. The Council voted with confidence in the WCCA's negotiated guaran-

teed maximum price, yet maintains several avenues of resolve should unanticipated costs arise. These include requiring the contractor to maintain an adequate amount of insurance, periodic project oversight review, and approval of annual operating and capital budgets.

*Question.* The consensus budget recommends $18 million for the Information Technology Initiative within the Metropolitan Police Department.

Please describe these proposed initiatives and explain the goals to be achieved if these initiatives are funded?

Answer. This Information Technology Initiative (ITI) is a $17,900,000 capital recommendation made as a result of the Booze-Allen management reform study mandated by Congress. This initiative is to provide officers with timely, accurate, and comprehensive information to identify and apprehend suspects. This system should reduce the time officers spend processing paperwork, which will translate into more police on the street. Systems included in the ITI are the infrastructure, mobile data computer, SWISS intelligence system, Public Works mobile reporting, automated dispatch, and a records management system. The overall goal is to improve the information technology capability of the police department and thereby, increasing the efficiency of the citywide policing.

*Question.* The Department of Corrections (DOC) budget restores funding for 53 teaching positions for an in-house education program.

Please explain this program and function.

Answer. The in-house education program provides courses taught by DOC employees as well as University of the District of Columbia staff. These programs include adult basic education, general high school equivalency, and vocational education courses. Educational activities include the testing and recommendation for the placement of inmates in various academic and vocational programs according to their interests, aptitude, and sentence structure. Additionally, inmates are encouraged to enroll in correspondence and other self-study courses.

*Question.* What is the cost of this program?

Answer. The projected fiscal year 1999 cost for education is $2.5 million. In fiscal year 1998, the agency planned to privatize education and contract with a vendor for the services. The fiscal year 1998 budget included $2.1 million in severance costs for planned staff reduction in force (RIF) and $3.5 million for the education contract, for a total education budget of $3.6 million. After the passage of the President's Privatization Act, this agency—in conjunction with the Corrections Trustee—decided not to privatize education and RIF educational employees as facilities closed. This resulted in a net decrease in the fiscal year 1999 education budget of $1.1 million.

*Question.* The newly-established Corrections Trustee Office is budgeted to reimburse the District $185 million for costs related to the care and custody of the sentenced adult felon population. The District's budget projects the actual costs to be $203.5 million, which is a difference of $18.5 million. Does the DOC proposed budget include the additional $18.5 million?

Answer. The DOC local budget does not include this funding. However, the fiscal year 1999 federal reimbursement amount (Trustee's budget) proposed by the District for DOC does include funding for $18.5 million.

**CHART 1**
**Summary of Construction Risks and Liabilities**

| RISK | NON-EXCUSABLE[1] | EXCUSABLE[2] | COMPENSABLE[3] | COMMENTS |
|---|---|---|---|---|
| **CHANGE EVENTS AND DELAYS** | | | | |
| Design deviates from agreed upon scope. | | | | Change Event[4]. CM is entitled to an equitable adjustment to GMP and schedule as appropriate. |
| Delay by A/E[5] in completing design. | | XX | | |
| Significant delay of unreasonable duration by A/E in completing design. | | | XX | |
| Delay by WCCA or Program Manager. | | XX | | |
| Significant delay of unreasonable duration by WCCA or Program Manager. | | | XX | |
| Soil or site condition differs than expected. | | | XX | |
| Hazardous materials, e.g., petro-chemicals, USTs, and LUSTs | | XX | | CM will be paid a unit rate for removal of hazardous materials. |
| Unusual weather delays (weather that exceeds the 10-year average). | | XX | | |
| Average weather delays. | XX | | | |
| Acts of the CM, its subcontractors, or suppliers. | XX | | | |
| Delays due to acts of God, war, unavoidable casualties, civil unrest, or other acts beyond control of the CM. | | XX | | |
| Delays due to labor disputes. | | XX | | |
| Any act other than that specified above. | XX | | | |
| **ALLOWANCES** | | | | |
| Structural steel tonnage (~$97 million). | | | | Change Event. CM is entitled to an adjustment of GMP if final design requires more than 45,000 tons of structural steel. |
| Unit price allowances. | | | | Change Event. As part of value engineering, the parties have agreed to certain unit prices for items such as carpet and handrails. To the extent the material specified by A/E team costs more than the unit allowance, CM is entitled to an adjustment of the GMP. |
| Lump sum allowance (~$30 million). | | | | Change Event. The parties have agreed to lump sum allowances for certain building systems. The GMP will be adjusted upward or downward depending upon the actual cost. |

[1] CM is not entitled to any adjustment to the contract.

[2] CM is entitled to an adjustment to the schedule, but not the GMP.

[3] CM is entitled to an adjustment to the schedule and the GMP.

[4] CM is entitled to an equitable adjustment to either the schedule and/or the GMP.

[5] Architect/engineering.

## OFFICE OF THE MAYOR

### QUESTION SUBMITTED BY SENATOR FAIRCLOTH

*Question.* During the June 10, 1998 hearing, you testified that the District could develop methods of ensuring that the $25 million proposed for transportation improvements for the Washington Convention Center project, if appropriated, would only be used for those improvements and not be used for the construction of the convention center.

Please identify the methods the District could adopt to ensure that any appropriated funds would be used for their intended purpose.

Answer. The President's proposed budget which provides $25 million for improvements to the new convention center Metro station states that those funds will go directly to WMATA for the design and work for the station improvements. Apart from the Metro station work, WMATA has no role in the construction of the new convention center. Consequently, there is no possibility that any of those funds could be used for the construction of the new convention center.

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## DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY

### QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

*Question.*The District's proposed budget contains a request for $254,000,000 for infrastructure repairs to be used to improve the District's schools, roads and police and fire stations.

Please provide an explanation of this proposal and a spending schedule for the requested funds.

Answer. The National Capital Revitalization Act of 1997 ("Revitalization Act") gave the District of Columbia the opportunity to achieve a balanced operating budget. By enabling the District to align revenues with expenditures, the Revitalization Act created the potential for balanced operating budgets over the long-term. However, because of years of inadequate funding, the District still faces a massive infrastructure deficit.

While the exact size of the District's infrastructure deficit has not yet been determined, it will be measured in the billions of dollars. While the deficit in transportation and public schools infrastructure are well documented, there are other deficits. For example, police and fire facilities range in age from 20 to 50 years. They suffer from the same deferred maintenance that was identified in schools. Libraries and parks are in poor condition.

In April, 1997 the Authority issued a report, "Toward a More Equitable Relationship: Structuring the District of Columbia's State Functions", that addressed the relationship between the District of Columbia and the national government. A part of that report dealt with roads and bridges. It concluded that, while the District receives a proportional amount of federal funding to maintain its federal-aid highway routes, these routes comprise only 40 percent of the District's roadways. The remaining 60 percent of the roadways are locally designated roads and do not have a viable source of funding. The District's motor fuel tax revenues are currently used to meet the required local matching share of federal funds. In fiscal year 1997 those revenues were only approximately $28 million. This situation is not likely to improve. Between 1977 and 1990 the number of gas stations in the District decreased from 270 to 136, a 50 percent decrease. Another mitigating factor is the proximity of the Maryland and Virginia suburbs. In most cities when customers purchase gasoline in suburban locations they are still paying the state gas tax, and the state may distribute those funds as needed. That option is not available to the District when purchases are made in Maryland and Virginia. Finally, the District does not possess such options as tolls or other direct user charges for the use and maintenance of its roadways and bridges.

The following table illustrates how the $254 million would be spent.

*Proposed National Capital Infrastructure Fund*

[In thousands of dollars]

| | |
|---|---|
| District of Columbia Public Schools | 132,000 |
| Local Streets | 87,000 |
| Metropolitan Police Department | 25,000 |

| | |
|---|---|
| Fire and Emergency Medical Services Department | 10,000 |
| Total | 254,000 |

*Question.* Funds for this proposal were not included in the President's proposed budget, and the Subcommittee's allocation does not include sufficient funds to pay for this request. Do you recommend that other components of the President's request not be funded in order to provide funds for infrastructure repairs?

Answer. The District of Columbia Financial Responsibility and Management Assistance Authority does not recommend that any of the items contained in the President's budget request be reduced or eliminated in order to accommodate this request. The request for support of an appropriation for the National Capital Infrastructure Fund is based upon the inability of the District to generate sufficient capital funds to maintain the infrastructure, without the support that other cities receive from their state governments. We hope that the Congress will consider the above discussion, the April, 1997 report and the arguments contained in the fiscal year 1999 operating budget justification material (page VII–1) and provide the District with the needed assistance.

*Question.* In 1997, Congress amended the Federal Payment Reauthorization Act to require the Control Board to develop a Performance Accountability Plan for all District departments, agencies and programs. The plans were to be submitted to Congress by March 1, 1998. The Committee received a report this spring on Performance Accountability, but it was more a road-map for performance management—not the detailed plans required by law.

When can Congress expect to receive performance plans for each of the District's departments and agencies?

Answer. As part of the District's Performance Management System that was outlined in the report submitted to Congress on March 2, 1998, the District of Columbia is in the process of developing the annual Performance Accountability Plan. It is expected that a draft of the Performance Accountability Plan will be submitted to the relevant committees no later than, July 31, 1998. The final Performance Accountability Plan will be submitted no later than, September 30, 1998.

Members of the staff of the Chief Management Officer and the Authority have met with Committee staff, and with representatives from the General Accounting Office to discuss the status of the District's Performance Management System. A timeline was developed. It is our intent to develop a Performance Accountability Plan that not only complies with the requirements of the law but that also allows us to implement a management system through which District government managers, residents, and the Congress, can assess the effectiveness of the services provided by the government. The Performance Accountability Plan will contain specific outcome and customer satisfaction performance measures. Additionally, the Performance Accountability Plan will incorporate measures of the improvements in service delivery resulting from the Management Reform Initiative that was part of the National Capital Revitalization and Self Governance Improvement Act of 1997.

Our work to implement the Performance Management System is proceeding on this schedule.

*Question.*The District's proposed budget recommends a reduction of 12 full-time equivalent positions from the Office of City Administrator.

Given the transfer of responsibility of 9 major agencies to the Chief Management Officer, how does the Control Board justify funding 17 positions in this office for fiscal year 1999?

Answer. The consensus budget developed by the Authority, the Mayor, and members of the Council provides for a reduction from 29 full-time equivalent positions (FTE's) and $4 million to 17 FTE's and $1.16 million. The number of personnel remaining are provided to assist the Mayor in evaluating overall policy questions.

*Question.* Could the District better use the $1.16 million for infrastructure repairs of the District's schools and roads or for management reforms?

Answer. The District needs to take advantage of every opportunity to address its multi-billion dollar deferred maintenance and infrastructure needs, however, it is also important that policy questions are thoroughly considered and alternatives are explored. To that end these resources will be valuable to the management reform efforts of the District government.

*Question.* Did the District of Columbia receive any funds in the recently passed highway bill passed by Congress?

If so, how much did the District receive, and what was it ear-marked for?

Answer. Under the federal-aid highway program, the District of Columbia receives apportionments as if it were a state. Under the new Transportation Equity Act for the 21st Century (TEA 21), Public Law 105–178 signed by the President on June 9, 1998, the District's apportionment for fiscal year 1998 totals $87,933,000.

The District's Department of Public Works estimates that the required matching funds required under the TEA 21 legislation will exceed the total revenues available to the District's Transportation Trust Fund. Primarily, these are comprised of amounts collected from motor vehicle fuel taxes. This amounts to $5 million to $7 million annually. The Trust Fund currently realizes approximately $30 million annually.

Section 1225 of the TEA 21 Restoration Act provides that the Secretary of Transportation may approve substitute highway and transit projects in lieu of the construction of the Barney Circle Freeway project. The effect of this provision is to extend, for up to four years, the amount of time that the District has to match and make use of the $173 million in funds withdrawn from the interstate system project.

*Question.* In reviewing the District's budget, it appears that as of December 20, 1997, the District employed 34,681 full-time equivalent positions.

The budget tables show a projected work force in fiscal year 1999 of 34,169 full-time employees. This is a reduction of only about 500 employees.

Can you confirm for the Committee how many full-time equivalent positions were employed by the District in fiscal year 1998?

Answer. While the fiscal year 1998 budget does not contain a limitation on the number of FTE's, the current estimate is that the District government will employ 32,885 FTE's, on a gross budget basis, excluding FTE's funded by intra-District transfers. Of this number 25,819 are funded from local funds.

*Question.* How many full-time equivalent positions are you proposing to employs for fiscal year 1999?

Answer. The consensus budget does not include a limitation on FTE positions, the Authority believes that it is more important to control expenditures and monitor service delivery levels rather than to regulate the number of personnel. However, the District Office of Budget and Planning estimates that the fiscal year 1999 budget will support 32,891 FTE's, of which 24,683 are funded from local funds.

*Question.* In which departments are you reducing staff, and in which departments are you increasing staff?

Answer. Attached is a copy of "Government of the District of Columbia Fiscal Year 1999 Proposed Full-Time Equivalent Employment Authority—Local Funds". This was included in the District's operating budget document listing the estimated changes in FTE employment from the current fiscal year.

*Question.* This year's budget appropriates $319 million for 3 agencies under court-ordered receivers.

Why did the budget drafters separate the receivers into a separate budget function?

Answer. For fiscal year 1999 the proposed budget includes a separate appropriation account for three of the receiverships that are operating District of Columbia government agencies. Returning those receiverships to District control is of vital importance because of the loss of coordination over key governmental management and budget functions. This results in the District government not achieving various policy and program objectives. The lack of budgetary independence is a liability for the District because the receivers have historically claimed that they are under-funded and demand additional resources as a requirement for improved service delivery. This is often to the detriment of services not under the courts' control.

To address this risk, the District must develop a comprehensive strategy for ensuring the timely return of these agencies back to the control of the District. Court orders mandate minimum service levels or timely action to remedy inadequately managed programs. These orders contribute to the District's high fixed expenses and they limit budget flexibility. Providing acceptable service levels and the resulting return of these receiverships to the control of the District is essential to the long-term fiscal recovery of the District.

The fiscal year 1999 budget funds the receiverships at levels that are necessary to meet the requirements set by the courts. This required larger increases in local funding, for agencies under court-ordered receivers.

*Question.* Why did the District's budget not include the housing receiver budget in this category?

Answer. The Superior Court of the District of Columbia appointed a receiver to operate the Department of Public and Assisted Housing ("DPAH") in May, 1995. DPAH and the receiver operate primarily with federal grant funds. These funds are used to manage and maintain the public housing operations. The only District funds included in the fiscal year 1999 budget total $2.1 million for the Tenant Assistance Program, which is being phased out by the District. A decision has not been made to include the housing receiver in the new appropriation account. There is a need to develop an exit strategy for the housing receiver.

*Question.* Since the receivers can demand additional resources at any time, are these budget figures for the receivers merely estimates?

Answer. All amounts in the proposed budget should be considered estimates. However, the amounts requested for the various receiverships were developed in cooperation with the receivers. The total represents significant increases over fiscal year 1998. Therefore these amounts are expected to adequately address the needs of the receiverships during fiscal year 1999.

*Question.* Last year, 11 schools in the District were closed in an effort to put limited resources into fewer facilities. The goal was to improve only those schools that are needed to educate the District's school children.

Given the continued crisis in the District's public schools and the lack of adequate funds to solve the crisis, does the Control Board expect that more schools will be closed during the next school year?

Answer. Currently, no plans exist to close additional schools during the next school year. However, given the declining student population and the competing demands for scarce resources, the number of schools should be reduced. The Superintendent/CEO, with the assistance of the Emergency Board of Trustees, is revising the Long Range Facilities Plan, which will establish criteria for determining the utilization of the facilities and the space requirements of D.C. Public Schools. The Authority expects to receive, as part of the long range facilities planning process, recommendations regarding school closures.

The Authority is mindful of the difficulty of these decisions. The Superintendent and the Emergency Board of Trustees understand the importance of involving the community in developing closure recommendations.

*Question.* Does the District's proposed budget include any funding for the recycling program?

If so, what is the amount of funding?

Answer. The proposed budget for fiscal year 1999 provides $4.2 million for recycling. In addition, $165,000 will be available from fees collected from private haulers at the District's waste handling facilities.

*Question.* Please describe the proposed recycling program for fiscal year 1999.

Answer. The Department of Public Works anticipates that residential recycling will resume by September, 1998, after a contract is executed to provide recycling collection services for all residential buildings in its service population (approximately 102,000 buildings). The recycling program will provide for the collection of materials including glass and metal; food and beverage containers; plastic containers with recycling codes #1 and #2; aluminum foil; newspapers (including inserts); magazines and catalogs; corrugated cardboard; brown paper bags; office paper; and telephone books.

The new residential recycling program will provide several noticeable service enhancements over previous efforts. It is designed to make recycling customer friendly. The enhancements include:

*Increased frequency.*—The proposed program calls for weekly recyclable collection service. The previous program offered bi-weekly collections.

*Same point of collection for recyclables and trash.*—The proposed program will collect recyclables from the same point of collection as that used for trash—a mix of curbside and alley collections throughout the city. Previous programs offered curbside service only.

*Equitable treatment.*—Same day collection of recyclables and trash at one point of collection across the city's eight wards to provide more equitable treatment.

*New recycling bins.*—All houses in DPW's service population will receive a new, larger 18 gallon recycling bin. The bins will be imprinted with the recycling logo, the sanitation information center phone number, and instructions on how to prepare recyclables for collection.

These service enhancements will be partnered with an aggressive public information campaign to encourage program participation. It is DPW's goal to reach a 30 percent participation rate by March, 1999. Strategies to increase participation include securing pro bono advertising services from public relations firms and beverage industry groups, as well as launching an education campaign in the public schools and community organizations.

*Question.* The District's budget states that District leaders have planned an additional $25 million for management reform in fiscal year 1999, and the President has recommended $25 million in management reforms to improve the District's economic development infrastructure.

If the District is appropriated $25 million for management reform, for what type of management reforms would the funds be used?

Answer. The $25 million included in the President's budget for fiscal year 1999 will be used primarily for capital investments and departmental management improvements, including:

*Asset management.*—Funds are required to develop a comprehensive database for real property information and to develop an automated integrated tax system.

*Department of Consumer and Regulatory Affairs ("DCRA").*—Additional funds are needed to streamline the building permit and zoning processes.

*Department of Health.*—Funds will be used to continue the transfer of DCRA environmental health administration function to the Department of Health.

*Department of Public Works.*—Management reform funds are required to consolidate the waste transfer station operations, improvement of right-of-way management, and to improve fleet management services.

*Metropolitan Police Department.*—Funds will be used to support critical information technology for the improvement of public safety.

*Question.* Please provide the Committee with a complete list of all non-profits currently using District public school facilities, as well as a schedule of hours for each non-profit.

Answer. There are non-profit entities using all 146 public school buildings. These non-profits include community groups, who use the buildings for meetings, to early childhood programs that lease space in surplus buildings. The D.C. Public Schools realize approximately $500,000 in rent from these activities each year. The attached list denotes school facilities that are occupied by non-profit tenants or District government agencies that do not pay rent.

*District of Columbia Schools Occupied by Government Agencies or Non-Profit Entities Paying no Rent*

| *School facility* | *Occupying entity* |
|---|---|
| Addison School, 3210 O Street, NW | Department of Human Services. |
| Bundy School, 429 O Street, NW | Department of Human Services. |
| Blair School, 6239 Eye Street, NE | Department of Human Services—Homeless shelter. |
| Bryan School, 1325 Independence Avenue, SE | Department of Human Services (Vacating July, 1998). |
| Crummel School | Department of Human Services. |
| Galludet & Kendall Streets, NE | Homeless shelter (Proposed sale of property, homeless trailers will be allowed to stay for one year from the date of settlement). |
| Emery School, Lincoln Road & Prospect Street, NE. | Department of Human Services—Homeless shelter. |
| Grimke School, 1923 Vermont Avenue, NW | Fire and Emergency Medical Services Department and Department of Corrections headquarters. |
| Hamilton School, 610 Brentwood Parkway, NE | Superior Court of the District of Columbia. |
| Madison School, 10th and G Streets, NE | Department of Human Services—Homeless shelter. |
| Nicholas Avenue School, 2427 Martin Luther King Avenue, SE. | ARCH/CEEP Training Program—Property will be proposed for sale by September, 1998. |
| Pierce School, 14 and G Streets, NE | Department of Human Services. |
| Randall School, 820 Half Street, SW | Department of Human Services. |
| Reno School, Howard & Fessender Street, NW | Department of Human Services. |

*Question.* Recently the General Accounting Office issued a report titled "Software Acquisition Process for a New Financial Management System" (AIMD–98–88, April, 1998). Have you reviewed the final report, and do you have any comments?

Answer. The GAO report measured the District's source selection process against a standard that was not used in its selection, therefore the GAO overstates the weaknesses of the District's process. The Chief Financial Officer for the District, in a reply that is contained in the GAO report, notes that the issues cited are being addressed. On June 2, 1998, the Chief Management Officer provided the Executive Director of the Authority with comments on the GAO report. A copy of that letter is attached.

LETTER FROM CAMILLE CATES BARNETT

DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY,
*Washington, DC, June 2, 1998.*

Mr. JOHN W. HILL, JR.,
*Executive Director, District of Columbia Financial Responsibility and Management Assistance Authority, Washington, DC.*

DEAR MR. HILL: I appreciate the opportunity to review the report prepared by the United States General Accounting Office, Software Acquisition Processes for a New Financial Management System for the District of Columbia. Let me begin by noting that this report makes several important, if somewhat critical, observations regarding the state of software acquisition in the District.

Although the report found more strengths than weaknesses in the District's FMS acquisition process, it emphasized weaknesses in requirements development, management and evaluation. While it is fair to challenge the FMS acquisition process in these areas, Mr. Williams, in his reply to the report, is correct in pointing out that many of these problems are being addressed. Moreover, as you noted, the absence of any major software purchases by the District in recent years has contributed to the lack of written policy in the software acquisition area. Nevertheless, I believe the report somewhat overstates the weaknesses in the FMS procurement.

The reason the report overstates the weaknesses is quite simple: GAO utilized a tool—the Software Engineering Institute's (SEI) Software Acquisition Capability Maturity Model (SA–CMM)—which has very specific requirements for achieving a particular "maturity" level. It is unlikely that any software acquisition project would score well on the model, in the absence of prior knowledge of its specific requirements. Moreover, a single weakness—such as the absence of written policies, procedures or guidelines—negatively affects the respondent's score in virtually every key process being evaluated. Finally, the model seems best-suited for ensuring proper development and implementation of very large, complex custom-designed software applications—such as those developed for the Department of Defense (DOD).

In contrast, many municipal applications are largely "off-the-shelf" products, albeit with some modifications. Unlike many DOD-type applications, they typically are products that have been tested previously in the real-world. Consequently, risk management, while important, is not as critical as in the development and implementation of new and complex custom applications. Fully 29 percent of the weaknesses noted in the GAO report for FMS, were in the risk management area.

The SA–CMM model may set a good standard for the District to follow in future software acquisition. However, I have some concern as to whether this is the best model for the District to use, or to use in all cases. Other standardized software acquisition protocols also may be available. It is my recommendation that the District review the various protocols available and select those which best suit the City's needs. It may be that different protocols are appropriate for different types of purchases.

I will follow-up on this with the District's Interim Chief Technology Officer. If you have any questions, feel free to contact me.

Sincerely,

CAMILLE CATES BARNETT, PH.D.,
*Chief Management Officer.*

BUDGETED AND ACTUAL EXPENDITURES FOR THE CURRENT FISCAL YEAR, FOR DISTRICT OF COLUMBIA PUBLIC SCHOOLS [DCPS]

*Question.* Please provide precise information, with supporting documentation, as to the confirmed amount of the financial discrepancy between DCPS' budgeted and actual expenditures.

Answer. As of May 31, 1998, the projected deficit for DCPS was $26.818 million. This includes a projected Personal Services ("PS") deficit of $39.056 million and a Non-Personal Services surplus of $12.238 million.

TABLE I.—FISCAL YEAR 1998 BUDGET AND PROJECTED EXPENDITURES

[Local funds]

| Budget category | Fiscal year 1998 | | Under/(over) budget |
|---|---|---|---|
| | Budgeted amount | Expenditure | |
| Personal Services | $366.076 | $388.523 | ($22.447) |
| Teamsters' Settlement | ..... | 14.769 | (14.769) |
| Premium Pay | ..... | 1.840 | (1.840) |
| Non-Personal Services | 128.803 | 116.565 | 12.238 |
| Total | 494.879 | 521.697 | (26.818) |

*Personal Services Deficit.*—The projected $39.056 million PS deficit can be broken down as follows:

A. $22.447 million is the projected PS expenditures through September 30, 1998.

B. $14.769 million is the net amount required to fulfill the Teamsters' settlement through fiscal year 1999. This net figure represents the total liability for DCPS of $25.4 million in the settlement, less a reserved amount of $10.6 million. These are the details of the settlement:

—$1.75 million for a 5 percent one-time payment which was paid in December of 1997.

—$1.43 million for an additional one-time payment which was paid in March of 1998.

—$2.78 million for a March 1, 1998 pay raise which remains an element of the DCPS deficit.

—$19.4 million for three payments of $6.45 million for total back payments for the period fiscal year 1993–1997. The first two payments are due in fiscal year 1998. The third payment will be due in fiscal year 1999.

C. $1.840 million is premium pay from June 1998 through the end of the fiscal year. This amount was calculated based on the actual costs of additional gross pay from the prior fiscal year and based on the current freeze in place.

*Non-Personal Services Cost Savings.*—As a result of the increase in budget authority and the Non-Personal Services ("NPS") spending freeze, DCPS anticipates $12.238 million in NPS cost savings. Initially, DCPS identified a $9.6 million shortfall in NPS, includes $8.1 million due to a court-mandated transportation program and $1.5 million to support additional academic enhancements. Since many of the academic enhancements represent productivity and management improvements, the Authority authorized management productivity funds to DCPS. In addition, DCPS has frozen all NPS accounts, with exception of those funds that are bound by contractual obligations or used for emergency requests approved by the Superintendent and the CFO of DCPS.

*Question.* Provide the spending elements which have contributed to the purported discrepancy between budget and expenditures. For each spending element, include the budgeted and actual spending amounts and the factors utilized in determining those amounts.

Answer. The components of the projected deficit can be classified as either personnel overspending, program enhancement, or court-mandated spending. The DCPS Superintendent introduced several academic enhancements that were critical to carrying out academic reforms in fiscal year 1998. Additionally, court mandates related to Special Education required several unbudgeted expenditures. Personnel overspending will be addressed in the Authority's response to inquiry number four.

The following table shows the components of the deficit in thousands:

TABLE II.—*Components of the Deficit*

| *Components* | *Deficit* |
|---|---|
| Fiscal Year 1998 Personal Services (PS) Budget | $366.076 |
| Actual YTD Expenditures (Group 6 (10/1/97 through 4/30/98, <14 pay periods)) (Groups I and 2 (10/1/97 through 5/9/98, <15.8 pay periods)) | (260.521) |
| Projected Expenditures (Regular Pay and Benefits—11, 12, 14): | |
| Group 6 @ 14,030 x 6 remaining pay periods | (84.184) |
| Groups I and 2 @ 3,621 x 10.3 remaining pay periods | (37.298) |
| Group 6 Summer Payroll | (6.000) |

| *Components* | *Deficit* |
|---|---|
| Step Increases | (0.520) |
| Total Actual and Projected Expenditures adjustments | (388.523) |
| Subtotal (Actual and Projected v. Fiscal year 1998 Personal Services) | (22.447) |
| Additional PS Funding Requirements: | |
| Backpay for Teamsters' Union | (14.769) |
| Premium Pay/Additional Gross | (1.840) |
| Additional Adjustments Total | (16.609) |
| Total PS Potential Deficit | (39.056) |

*Question.* Provide specific information as to staffing levels at the beginning of the school year and presently. Detail levels of personnel for administrative, school-based v. non-school-based, classroom v. non-classroom, school support and another employee classifications that constitute the DPCS employment total. Numbers of full-time and part-time employees must also be identified in the total and definitions of each employee category should be provided.

Answer. Detailed below is a report on current staffing levels and staffing levels for the beginning of fiscal year 1998.

EMPLOYEE CATEGORIES

*Central.*—Employees who support local schools in administrative areas such as budget and finance, human resources, and Management Information Systems ("MIS").

*Instructional Support.*—Employees who have supervisory, coordinating, and planning responsibility in academic instructional areas. Programs like media and library services are included in this category.

*Instructional.*—Employees who provide instruction for elementary, junior high/middle, or senior high school. This category also includes special education and adult education.

*Support Services.*—Employees who perform services related to the physical plants within the school system including custodial services and building maintenance, building repairs and improvements, and capital projects development.

TABLE III.—DCPS STAFFING BY FUNCTION

| | No. of FTE's [1] | | | | | |
|---|---|---|---|---|---|---|
| | Beginning of fiscal year 1998 | | | As of 5/31/98 | | |
| | Local | Non-local | Total | Local | Non-local | Total |
| Central | 228 | 413 | 641 | 260 | 438 | 689 |
| Instructional Support | 433 | 401 | 834 | 463 | 499 | 962 |
| Instructional | 6,394 | 164 | 6,558 | 6,564 | 166 | 6,730 |
| Support Services | 1,632 | 19 | 1,651 | 1,598 | 25 | 1,623 |
| Total | 8,687 | 997 | 9,684 | 8,885 | 1,128 | 10,013 |
| Full-Time | 8,121 | 707 | 8,828 | 8,329 | 727 | 9,056 |
| Part-Time | 566 | 290 | 856 | 556 | 401 | 957 |
| Subtotal | 8,687 | 997 | 9,684 | 8,885 | 1,128 | 10,013 |
| Less: RIF | ..... | ..... | ..... | (147) | ..... | (147) |
| Total | 8,687 | 997 | 9,684 | 8,738 | 1,128 | 9,866 |

[1] FTE—Full-Time Equivalent.

Regarding the overspending in personal services, by June 30, 1998, 637 employees will be separated from DCPS through a system-wide reduction-in-force. In addition, DCPS will release another 100–300 employees by September 30, 1998. These personnel reductions will result in approximately $2.5 million in savings.

*Question.* Provide empirical evidence to address whether the personnel costs contained in the approved budget were based on an accurate representation of the annual costs for those respective employment classifications, including full-year and partial-year employment contracts. In addition, document the method for constructing the baseline budget for personnel costs.

Answer. The fiscal year 1998 total budget request was $614.8 million, including $525.8 million in local funds and $89 million in non-local funds. The request supported a total of 10,009 Full-Time Equivalents (FTE's)—8,623 from local funding, 1,251 from federal funds, and 135 from private, intra-District or other funds.

The fiscal year 1998 budget was comprised of two parts.

—The school-based staffing model was used to determine the number of FTE positions needed to fund school-based personnel.

—DCPS did not to complete the analysis necessary to determine the actual number of central overhead personnel required. As a consequence, the non-school-based portion of the budget was funded at fiscal year 1997 levels.

DCPS budget allocation for fiscal year 1998 left a 440 FTE gap between the 9,063 FTE's authorized in fiscal year 1997 and the 8,623 FTE's requested in the fiscal year 1998 budget. The budget required the elimination of 400 positions of school-based staffing or the implementation of alternative offsetting FTE reductions within central administration.

*Question.* As related to Inquiry No. 4, please advise as to what impact these matters will have on the budget currently being developed, and how that impact will be addressed.

Answer. The fiscal year 1999 PS budget is comprised of a school-based budget, using average salaries for each pay plan and grade. The PS budget in fiscal year 1999 will reflect changes driven by staffing requirement assessments, corrections to a head count of personnel, and reductions-in-force. Additionally, the actual expenditures for fiscal year 1999 will be closely monitored. As a result of the implementation of an integrated personnel and payroll data management system, DCPS will have more accurate and timely personnel budget and expenditure information.

*Question.* Provide information on the costs of the special education program, particularly transportation requirements. This information should include the number of students receiving special education services, the congressionally approved budget versus the revised budget (actual expenditures through April 1998, plus projected expenditures of the balance of fiscal year 1998) separate for special education, administration, assessment, instruction and support services and transportation.

TABLE IV.—FISCAL YEAR 1998 SPECIAL EDUCATION COSTS

[In millions of dollars]

| Special education | Fiscal year 1998 budget | Actual expenditures thru 5/8/98 | Projected thru 9/30/98 | Total (Actual and projected exp.) [1] |
|---|---|---|---|---|
| Administration | ..... | 0.378 | 0.270 | 0.648 |
| Instruction | ..... | 7.501 | 5.587 | 13.088 |
| Support Services | ..... | 9.052 | 6.891 | 15.943 |
| Assessment | ..... | 0.826 | 0.463 | 1.289 |
| Benefits (est. 8.5 percent) | ..... | 1.439 | 1.084 | 2.523 |
| Total-Personnel | 40.592 | 19.196 | 14.295 | [2] 33.491 |
| Total OTPS | 20.070 | 23.195 | 20.610 | 43.805 |
| Local Funds Total | 60.662 | 42.391 | 34.905 | 77.296 |

[1] Assumes 10 remaining pay periods.

[2] Data reflects employees coded to the special education division. Personnel information is still being updated and corrected to accurately reflect employees' work locations. Therefore, these expenditure projections will change as the information is updated.

[In millions of dollars]

| Transportation | Fiscal year 1998 budget | Actual expendi-tures | Projected expendi-tures | Actual and pro-jected |
|---|---|---|---|---|
| Grant (Non-local) | 3.508 | 1.421 | 2.087 | 3.508 |
| Medicaid (Non-local) | 6.200 | 5.000 | 1.200 | 6.200 |
| Non-local Total | 9.708 | 6.421 | 3.287 | 9.708 |
| Transportation (Local) | 24.800 | 13.023 | 11.777 | 24.800 |

| Special Education population | No. of students (5/4/98) | Projected no. thru 9/30/98 |
|---|---|---|
| DCPS | 6,758 | 8,682 |
| Tuition Grants | 1,421 | [1] 1,497 |
| Total | 8,179 | 10,179 |
| Transportation required by: | | |
| Public School Students | 1,760 | 2,261 |
| Private Schools Students | 893 | 941 |
| Total Students | 2,653 | [2] 3,202 |

[1] Growth factor is 19 students per month, based on special education data of students placed in private schools over a twelve month period.
[2] Projection based on the proportion of students receiving services as of 5/4/98.

*Question.* Please provide information as to the effect of the Summer School program, if any, on the budget discrepancy. Please include the source of funding of what is estimated to by $10 million expenditure requirements.

Answer. To date, DCPS has received a $10.3 million in Federal grant funds for the Summer School program. Therefore, there will the Summer School program will have no impact on the local deficit since all funding has been provided through grant sources.

TABLE V.—*Summer School Funding*

| *Funding Source* | *Amount* |
|---|---|
| S.T.A.R.S. Grant (White House) | $4.997 |
| Impact Aid unobligated fiscal year 1997 carry-over | 0.449 |
| Title I unobligated fiscal year 1997 carry-over | 3.567 |
| Title II unobligated fiscal year 1997 carry-over | 0.396 |
| Title IV unobligated fiscal year 1997 carry-over | 0.228 |
| Title IV unobligated fiscal year 1997 carry-over | 0.910 |
| Title VI unobligated fiscal year 1997 carry-over | 0.595 |
| Total | 10.323 |

*Question.* Provide clarification of the supervisory oversight responsibility and accountability related to these matters. Please describe department and agency roles in budget development and implementation for DC Public Schools. Specifically, who has responsibility for the development and implementation of the annual budget for DCPS once it has been approved?

Answer. The Authority is responsible for the performance of DCPS. The CFO for the District of Columbia is responsible for the performance of the CFO for DCPS. As with all other District agencies, the management of the finances is independent from the management of the program. The CFO for each agency must implement financial control mechanisms to restrict unwarranted spending.

OFFICE OF THE CHIEF FINANCIAL OFFICER MONITORING

CFO's for agencies are required to submit monthly reports on the financial status of their agencies The Financial Review Process ("FRP") shows the agency's year-to-date expenditures on a monthly basis. The Deputy CFO for Budget and Planning for the District requests agency CFO's to submit FRP's by the fifteenth of each month. The FRP report includes:

—Summary and projection of local and non-local funds;
—PS forecast assumptions regarding hiring and attrition, overtime, reductions-in-force, and on board FTE's;
—NPS spending assumptions, including fixed costs, contractual service obligations, subsidies and transfers, and supply and equipment purchases;
—Intra-District transfers, including payments and collections;
—Revenue shortfalls; and
—Requests for procedural assistance.

The FRP is an effective tool for the CFO to monitor the spending of District agencies. Expenditure data from the District's Financial Management System ("EMS") is used to project spending throughout the fiscal year. Together, the FRP and FMS provide OBP with a framework for reconciling data, reviewing analytical assumptions, and testing methodologies.

DCPS' Monthly Financial Report is submitted to the Congress, the Authority, the Council of the District of Columbia, and the Mayor fifteen days after each monthly reporting period, as required by the School Reform Act of 1995.

*Question*. What actions will DCPS take to ensure a reliable and credible budget process that ensures resources are available to sustain a public education system in the District of Columbia that meets the expectations of DCPS parents, communities and the taxpaying public?

Answer. The fiscal year 1999 budget for DCPS was developed based on programmatic requirements. The budget was implemented in such a way that each school, department, or program will have a budget plan and improved monitoring tools. This will allow DCPS to hold individual managers, accountable for budget implementation. Some of the highlights of the new budgeting process follow:

1. The overall appropriated budget is now categorized into two major portions, school-based expenses and supporting functions. The school-based portion of the budget was developed using a new ground-up staffing model, which consistently allocates school staff and local school management to each school, based on enrollment size and other criteria. The staffing model will reflect the new enrollment figures, school closures, and revised staffing criterion. This school-based budget allows each school to be empowered as well as accountable, for the costs in the school.

2. The supporting functions of DCPS have been redesigned, reflecting the new organizational structure implemented by the Superintendent. Each program manager has identified base funding needs associated with core programs, and determined amounts needed to fulfill the mission of each program. With the fiscal year 1999 budget, each program manager will meet with the budget office to provide an implementation plan for personal services and non-personal services costs. With the development, and reorganization of the departments, each program manager will be solely responsible for carrying out their budget plan, as well as having more accurate financial information.

3. With the implementation of the District's Central Automated Personnel and Payroll system, the District's personnel budget and costs will be more accurate. This new payroll and personnel control system will prevent DCPS from hiring in excess of the authorized FTE limit for each department, to more quickly enter new personnel, and personnel changes in to the accounting system, and to eliminate or greatly reduce reliance on the DCPS supplemental payroll system.

4. With the implementation of the District's new EMS system, DCPS program managers and principals will have on-line information on their budgets and related expenditures. They will have the ability to monitor budgets, procurement and payments.

DCPS and the CFO are instituting actions to address the projected shortfalls in fiscal year 1998. DCPS will comply with the approved fiscal year 1998 budget. The Authority will ensure that the necessary systems are implemented to ensure that the budget for fiscal year 1999 will be implemented within the constraints of the appropriated budget.

## CONCLUSION OF HEARINGS

Senator FAIRCLOTH. If there is no further business, the subcommittee is recessed.

[Whereupon, at 3:45 p.m., Wednesday, June 10, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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