

**DISTRICT OF COLUMBIA APPROPRIATIONS
FOR FISCAL YEAR 2004**

WEDNESDAY, JUNE 11, 2003

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

The subcommittee met at 10:07 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Mike DeWine (chairman) presiding.
Present: Senators DeWine and Landrieu.

DISTRICT OF COLUMBIA

STATEMENTS OF:

HON. ANTHONY A. WILLIAMS, MAYOR

**LINDA W. CROPP, CHAIRMAN, COUNCIL OF THE DISTRICT OF CO-
LUMBIA**

NATWAR M. GANDHI, CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR MIKE DEWINE

Senator DEWINE. Good morning. This hearing will come to order. Today we will hear testimony regarding the District of Columbia's fiscal year 2004 local budget request. Mayor Williams, Council Chairman Cropp, and Chief Financial Officer Gandhi will present the city's budget and will discuss the District's requests for Federal resources.

I want to first note that this past Friday, the General Accounting Office released the results of its 18-month long review of the financial health of the District. This important study presents a troubling picture of the long-term structural imbalance of the District's economy. This imbalance represents a gap between the District's ability to raise revenue at reasonable tax rates and its ability to provide services of reasonable quality to its residents.

I recognize that the structural imbalance is driven by expenditure requirements and revenue restrictions which are beyond the control of the District's leadership. Clearly, the city's revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax Federal property or the income of non-residents.

I agree that the city faces a troubling problem in the long term. This report is the catalyst for serious discussions here on Capitol Hill about how the Federal Government should protect the financial health of our Nation's capital. Indeed, many of the problems facing the city result from it being the seat of the Federal Government. Therefore, to do nothing is not acceptable. As chairman of

this subcommittee, I will work hard to ensure that we start exploring ways to avoid a financial catastrophe for the District.

Now, let me turn to the District's fiscal year 2004 budget. Before introducing our distinguished panel, I want to discuss some of my priorities for this bill. First, I hope to provide resources to improve the city's foster care system so that more children have the opportunity to enjoy safe, permanent, and loving homes. The hearings we have held this year on the foster care problem have highlighted ways that we can help improve the situation. I know that the Mayor and Ranking Member Landrieu share this desire and I look forward to partnering with them on this initiative.

Also, I would like to continue a Federal investment in the city's Combined Sewer Overflow project. This multi-year project will re-vamp a system that was constructed at the end of the 19th Century and which overflows 50 to 60 times every year, dumping raw sewage into the Anacostia River. Given the demands the Federal Government places on this system, we clearly have a responsibility to contribute to its much-needed renovations. By cleaning up the Anacostia River, we will expedite the Mayor's proposed Anacostia waterfront development initiative, which I wholeheartedly support. This development will ultimately provide recreational and commercial opportunities for D.C. residents and visitors.

I also want to ensure that efforts to construct biodecontamination and quarantine facilities at Children's Hospital and Washington Hospital Center continue to proceed.

These are a few of my priorities for this bill. Now I look forward to hearing what the District's priorities are for Federal funding and how the city has used the funds we recently provided in the fiscal year 2003 appropriations bill.

Clearly, there are many worthy activities which will place demands on the always-limited resources in the D.C. Appropriations Bill. But I look forward to working with these city leaders to continue to make life better for all who live, work, and visit this capitol city.

Witnesses will be limited to 5 minutes for their oral remarks. Copies of your written statements will be placed in the record in their entirety.

Senator Landrieu, would you like to make an opening statement?

STATEMENT OF SENATOR MARY L. LANDRIEU

Senator LANDRIEU. Thank you, Mr. Chairman. I would like to welcome our witnesses, and thank Chairman DeWine for calling the annual hearing on the District's local funds budget. I look forward to hearing from the city on the status of the District's economy, current Federal funding priorities, and a summary of the fiscal year 2004 local funds budget.

At this time, almost every city in the country is struggling to maintain a balanced budget, much less deliver adequate or even good services to their citizens. I am pleased to see that the District has been careful to look ahead and address looming budget pressures while maintaining priority services. The city is in good fiscal standing, and I trust that this environment will continue. However, long-term outstanding economic pressures on the city and contin-

ued service challenges in such areas as public education and child welfare will require a new partnership with the District.

Under the temporary State fiscal relief package included in the tax cut passed last month, the District will receive \$94 million over 2 years. Considering current spending pressures of approximately \$50 million, I would be interested to learn how the city is planning to spend these new funds.

In addition, substantial Federal funding was provided to the District in fiscal year 2002 and fiscal year 2003 (\$122 million in direct response to requests made by the Mayor, out of a total \$512 million in the D.C. appropriations bill for Federal responsibilities). The last 2 years have been unprecedented in the amount of discretionary Federal dollars that have gone to the city, as well as an increase in congressional confidence in local leadership, resulting in increased autonomy for the District of Columbia. Fiscal year 2004 has a much more conservative outlook as the committee attempts to reconcile a weak economy, few proposed increases for Federal discretionary programs and growing needs across the Nation, as well as in the District. Chairman DeWine and I share a commitment to the restoration of the Anacostia Waterfront, assistance for charter schools, and enhanced security this year. In this hearing, I hope we can identify the city's main priorities and how best to address them with very limited funding.

A more broad challenge was confirmed last week when the General Accounting Office released a landmark report finding that the city faces an annual deficit of \$400 million to \$1 billion between their revenue capacity and cost of providing average services. The report, requested by Congresswoman Norton and myself, found the underlying reason for the structural imbalance in the city's budget is due to the high cost of providing services in the District of Columbia.

The District is uniquely situated and requires a unique relationship with the Federal Government; however, right now, I am not convinced that more money is the answer. Many options for funding have been discussed: a renewed Federal payment, changing the tax collection ability of the District, or funding directed to specific infrastructure in the District of Columbia.

In this hearing I would like to discuss how to maximize the benefit of existing Federal funding, such as Medicaid and education. As I stated last week, we need to create a new partnership with the District. We must examine the underlying issues that create an imbalance and take a multifaceted approach to addressing it, before the District goes back to years of deficit.

One major benefit for the District, with no budgetary impact, endorsed by President Bush, is to release the local budget from annual Congressional approval. The concept of budget autonomy for the District's local budget is building momentum on the Hill and I hope it will be approved this year. These are funds derived from locally generated tax dollars. The last word on how the city's budget is expended should be made by locally elected leaders, just like any other city. I urge my colleagues to examine the benefits of this proposal as legislation makes its way through Congress.

I would like for the Mayor and Council Chairman to comment on how current and future general provisions—limitations on spend-

ing local and Federal funds—will be addressed under budget autonomy. I respect the city leaders' diligence in implementing and upholding these "social riders" through the years, against local pressure. I expect this same degree of respect for the law will be maintained in the future. There are legitimate means for Congress to provide guidance to the city; however, it is my hope that at some point in the future congressional interest in imposing riders will wane.

The committee has also held hearings this year on child welfare in the District and discovered disturbing gaps in service and care. Through Chairman DeWine's leadership I hope we can discuss options for addressing this area as well. I appreciate your attendance today and look forward to continuing our partnership for growth and success of the city. The General Accounting Office released a landmark report finding the city faces an annual deficit, a structural imbalance, of \$400 million to \$1 billion. This amount is the difference between the city's revenue capacity and the cost of producing average services. The GAO report outlines definitively that there is, in fact, a structural imbalance of the management and efficiencies of the District. They are still constraints beyond what is in your control to solve it, so I want to support the chairman's concepts that he outlined this morning, whether we have an internal study group or an external group, to come up with some specific solutions. There are some ideas that have been presented, but I hope that in your testimony this morning perhaps you all would have some suggestions, and then we could follow the chairman's lead in establishing a more specific commission to come up with some solutions that Congress could indeed take up.

I also want to support the chairman's efforts as we work together to enhance and strengthen the foster care system. As Mr. Mayor, you know, are I think painfully aware that the District of Columbia is not the only entity by far in the Nation that is struggling with this tremendous challenge. Just yesterday there was a front page article in the New York Times about the deplorable conditions of the New Jersey child welfare system. I have to say that in Louisiana this is a tremendous challenge for our State Government to keep the finances and the management of a foster care system in a way that temporarily removes children from homes so that they can be safe and secure, and then re-engage or place them back with those families or to move them to a permanent home through adoption or through a foster family that looks as much like a real family as possible, and that is something that the chairman and I are firmly committed to working with you all, and we have had several good hearings.

The only other two things I would mention briefly, I am very interested in how we proceed in the future to provide every child in this District with an excellent education. There are any number of ideas that have come forward, work that is underway, progress that has been made, but challenges that remain. It is going to be a key focus of mine, Mr. Chairman, as we move forward to see what the options are in providing an excellent education system for every child, and to have the Federal Government live up and stand up and step up to its responsibilities in that regard. Again, the District of Columbia is not in many instances that different from other

cities and States struggling to do the same, but I want to stay focused on that.

And finally, parks and recreation does not always receive the attention, and perhaps in some people's minds, in the scheme of things relative to economic development and education and health care it does not always take the priority that I think it should deserve, because we have got to give our young people something to say yes to, and it really underlines the quality of life issue for the District, and while we have more green space here than in many cities, and we are fortunate because of the Federal Government, we still, I think, lack some recreational opportunities for children, for young people, and for adults that the suburbs in this area seem to have in abundance, and I think that is a real problem when it comes to economic development, attracting people back to the city, keeping children and families engaged and productive in positive expenditures of their time, so I want to continue—I am glad the chairman agreed with me, and we invested some direct Federal dollars to work with your local dollars in that regard, but it is not just throwing more money, it is the management and the way that the parks system will provide recreational opportunities for children.

So I thank you, Mr. Chairman, and I am going to give you your seat back and go find—

Senator DEWINE. You can stay there if you want to.

Senator LANDRIEU. All right. Well, I will stay here then.

Senator DEWINE. Just don't get too—

Senator LANDRIEU. I won't get too—well, look, it's so comfortable, I mean—

Senator DEWINE. Don't get too comfortable there or too accustomed to that.

I am glad I got the gavel back.

Senator LANDRIEU. You got the gavel back, and the chair. Thank you.

Senator DEWINE. Let me introduce our panel. Anthony Williams was inaugurated as the fourth Mayor of the District of Columbia on January 4, 1999. This past January, of course, Mayor Williams began serving his second term in office.

Linda Cropp was sworn in on August 8, 1997 as the first woman to chair the Council of the District of Columbia after serving on the council for 7 years.

Dr. Gandhi is the Chief Financial Officer for the District of Columbia, and is responsible for the city's finances, including his \$5.4 billion operating budget and bond obligations.

Mayor, why don't you start off.

STATEMENT OF HON. ANTHONY A. WILLIAMS

Mr. WILLIAMS. First of all, I want to thank you, Mr. Chairman, and thank the Ranking Minority Member Landrieu, and thank the other members of the committee for this opportunity to testify on the District's 2004 budget and financial plan, and wherever possible I will try to abbreviate my remarks, recognizing that they have been submitted in whole in the record.

This subcommittee has been a partner in our city's revitalization over the last few years, and as Mayor, I think I represent all of our citizens in saying that we are gratified for the support and en-

couragement offered by the previous chair and other Members, and certainly are pleased now to be working with you, Mr. Chairman. Your support and encouragement for our efforts to make our city shine are deeply appreciated and, in particular, your devotion to our children at risk has been both a consistent and long feature of your service, and it's a welcome signal of Congress' joint bipartisan commitment in this important area, recognizing Senator Landrieu's commitment in this area as well.

In fact, this committee's members bring very valuable experience in State-level management, and that gives you all a unique appreciation for the challenges and constraints under which the District must operate. I think we can rest assured of a strong and vibrant relationship with you.

As you know, many cities and States across the Nation are facing their worst budgetary challenge of the last 60 years, and the District is no exception. Due to the economic downturn, we experienced a decline in revenues of almost \$370 million in the first half of fiscal year 2003. This decline equates to a 10 percent loss in our local operating budget. Because the economy has not yet recovered, these challenges have continued, as you know, into the 2004 fiscal year, and we began formulation of the budget with a projected gap of \$114 million.

In facing these challenges, we not only continued our record of sound fiscal management, we achieved, I think, a level of responsible and conservative budgeting found only among the most fiscally prudent governments in our country. As a result, the fiscal year 2004 budget transmitted today is balanced in current and future years. I am not saying it is pretty, but it is balanced, and we can talk about that.

More notably, the District's leaders balanced this budget entirely through budget reductions. No tax increases were adopted, and not one dollar of the \$250 million in cash reserves, one of the strongest ratios of cash reserves in the country, was used. In many instances, we were able to reduce spending by using existing funds more wisely. In many other areas, however, significant sacrifices were required. Most notable among these is a deferral of key infrastructure investments.

In making these sacrifices, we preserved existing funding for existing schools and libraries, but could allocate no new funding for the next phase of modernization. As a result, current 10-year plans for renovating neglected schools and libraries must be scaled back dramatically, leaving major challenges in the education of our children. This sacrifice, coupled with even greater reductions in roads, bridges, and other buildings to me presents one of the greatest challenges that we face today, and have not addressed, as you have mentioned in your opening remarks, Mr. Chairman, in the foreseeable future. In short, we have a significant problem.

Now, the Federal Government requires that the District provide services like a State, but unlike every other State in the Nation, we are prohibited by Congress from collecting a nonresident income tax. This takes a tremendous percentage of our potential tax base offline. As a result, the District must fund expenditures far greater than the revenues provided through a reasonable level of taxation.

As you put it, it is very, very difficult to maintain a reasonable level of service at a reasonable rate of taxation.

Faced with this clash between needs and revenue capacity, we have maintained a balanced budget through overtaxing of our citizens and a deferral of critical investments which continues to damage the viability of the District as a place to live and operate a business, and I might add by way of operating a business, the disproportionate taxation of our businesses is actually far larger than the disproportionate rate of taxation of our citizens, not to say that that is acceptable, either, but for businesses it is particularly stark.

In specific terms, the amount of the structural imbalance is between \$400 million and \$1.1 billion per year. This estimate has been thoroughly analyzed and documented by the Rivlin Commission, the Brookings Institution, and McKinsey & Company. To independently assess this matter, the Members of Congress, including Ranking Member Landrieu of this subcommittee, requested that GAO conduct a full-scale analysis. I would like to quote as Mayor several key findings that are particularly significant to me.

1. The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue we could devise by average tax rates.

2. The District's per capita total revenue capacity is higher than all State fiscal systems, but not to the same extent that costs are higher. In addition, our revenue capacity would be larger without the constraints on our taxing authority, such as the inability to tax Federal property or the income of nonresidents.

3. Addressing management problems, which we are committed to doing, would not offset the District's underlying structural imbalance, because this imbalance, as the Ranking Member has said and you have said, Mr. Chairman, is determined by factors beyond our direct control.

And finally, again as you have mentioned, if this imbalance is to be addressed in the next term, it may be necessary to change Federal policies to expand the District's tax base or to provide additional financial support or some combination thereof.

Through these findings that the independent—I want to stress, independent—GAO has confirmed that the District cannot compete, or—well, we cannot compete in the long term, and we certainly cannot complete our financial recovery under our own power. Instead, we must somehow address the Federal policies that could force the District back into insolvency, which I think would be a tragedy of just overwhelming proportions.

Congresswoman Eleanor Holmes Norton has introduced the Federal Fair Compensation Act, which I believe would go a long—well, which I believe would address the situation, and I believe that, as Congress moves through this study, it ought to look first to the Federal Fair Compensation Act as a way to address the problem.

Now, of course, the city must do its part in terms of better management of existing resources. Special education and Medicaid present two areas that need concentrated attention. The subcommittee I think should be pleased to know that we are making some headway, along with city councilman and chair of the Education Committee on the Council Kevin Chavous, I am chairing a

Special Education Task Force that brought together all the Government entities that have a role in special education.

After intensive meetings over several months, we were able to agree on a cost-reduction plan that the CFO certifies will yield \$20 million in savings in fiscal year 2004, while at the same time improving the educational experience offered to children in special ed.

Last month, I appointed the first Government-wide Medicaid czar who will bring similar direction and unity of purpose on how we draw down Medicaid funds. In addition to this matter of finances, we also face a procedural barrier in the Federal appropriations process. I will not go into a long list of details, but I would urge this committee's support for budget autonomy legislation that is now emerging in the Congress. We certainly welcome the partnership with this committee. We certainly welcome and certainly endorse wholeheartedly the oversight by this committee of Federal funds, but we believe that, like every other State and city in the country, we should have the autonomy and have the discretion to use our own funds as they are developed and derived from local sources.

There are specific funding requests in the fiscal 2004 budget before the committee. As I have shared with you, Mr. Chairman, and also with the Ranking Member, I am alarmed that the President's overall request for the D.C. appropriations bill in 2004 is 17 percent below the 2003 level. A cut of this magnitude jeopardizes ongoing projects already funded by the subcommittee, many of which both of you have mentioned. In particular, Congress allocated \$50 million for the CSO, Combined Sewage Overflow Project, which was matched with local funds. This was a very welcome down payment on a billion-dollar-plus multi-year project for an antiquated, outdated system, as you have mentioned.

Updating this system, which was built originally by the Federal Government, pollution of which is—I think a majority of which is from the Federal Government, is an integral part of our Waterfront Initiative. Therefore, we are seeking that additional \$50 million. The President's budget includes \$15 million for this purpose and another \$10 million for the bike trail. I strongly urge this subcommittee to accept the President's proposal, but add the additional dollars to match last year's commitment.

In 2003, Congress provided \$4 million for a family literacy program. Since receiving this payment just 3 months ago, we have an ambitious program under way that will soon have at least 20 literacy leaders dispatched around the city to help community-based providers, Government agencies, the faith-based community expand the network of adult learners.

We also have a training symposium this summer to begin to train the trainers. With an additional \$4 million in fiscal year 2004, this subcommittee can sustain this effort. This is in a city where 40 percent of our city has a learning challenge and is reading at below adequate level.

Because education for our children is so critical, I strongly urge the Congress to add new funding beyond last year's level to support our public schools and expand opportunities for parents to consider nonpublic education settings. We believe that this three-sector approach will allow the city to leverage its best assets among the

public schools, the public charter schools, and the private parochial schools. We are strongly committed to expanding the menu of school settings for our children both within the public system and outside of that system, but all as part of a coordinated effort.

And on a related matter, I want to acknowledge the concerns that have been raised by this subcommittee regarding Child and Family Services in the District. As a former child in foster care, this is important to me, and I know it is important to both of you and the members of this committee. Historically, this whole Child Welfare System has been extremely troubled and although I believe substantial progress has been made, including the creation of the family court and the newly unified agency, there still remain, undoubtedly, challenges that we must continue to address. The CSA Director and I are redoubling our efforts to complete the reform process in serving our most vulnerable youth, including a more seamless approach in how we relate to children at risk.

The subcommittee's ongoing interest in supporting efforts to recruit social workers, promote early intervention in case work for children and families, support foster parents, is all part of this effort.

PREPARED STATEMENT

I might add, Mr. Chairman, that my appointment of a Senate nomination to the council, of a new corporation counsel, one of the key factors in my mind in sending the nomination to the Council of Robert Spagnoletti was his experience in the U.S. Attorney's Office in bringing together and getting on the right track domestic abuse in the U.S. Attorney's Office, and he evinced a strong interest in doing the same thing as it relates to child support and core council support for all these family matters, and I believe that he will help us accelerate and promote the efforts that I know you want to see, and we are committed to.

In short, we welcome this committee's partnership and oversight, and look forward to working with you in the days and months ahead in the challenges facing our city.

[The statement follows:]

PREPARED STATEMENT OF ANTHONY A. WILLIAMS

Thank you Chairman DeWine, Ranking Minority Member Landrieu, Senator Hutchison, Senator Brownback, and Senator Durbin for this opportunity to testify on the District's fiscal year 2004 budget and financial plan. This subcommittee has been a partner in our city's renaissance over the last few years. As Mayor, I am grateful for the support and encouragement offered by the previous chair and others members, and I am pleased to now be working even more closely with Senator DeWine. His support and encouragement for our efforts to make our city shine are deeply appreciated. In particular, his devotion to our children at-risk has been both consistent and strong, and is a welcome signal of the Congress' commitment in this area.

This committee's members bring very valuable experience in State-level management, and that gives you a unique appreciation for the challenges and the constraints under which the District must operate. The citizens of our national capital can rest assured that the city's relationship with this subcommittee continues to be strong and will serve us well as we strive together to address the pressing needs of the District.

Specifically, this session of Congress could be pivotal in the evolution of the Federal-District relationship:

—fiscal challenges posed by the serious structural imbalance are becoming more acute, and there are a number of proposals to help address the issue;

- the disruption of service delivery caused by problems with the congressional approval process can hopefully come to an end through proposed legislation;
- the education of our children can be enhanced through new partnerships between the District and Federal Governments; and
- important infrastructure projects are at critical junctures that require additional Federal support. These include the Combined Sewer Overflow system, the Unified Communications Center, and the Forensics Laboratory.

With all these advances hopefully in our grasp, it is indeed a time of great opportunities and great challenges. As you know, cities and States across the Nation are facing the worst budgetary challenge of the last 60 years, and the District is no exception. Due to the national economic downturn, the District experienced a decline in revenues of approximately \$370 million in the first half of fiscal year 2003. This decline equates to a 10 percent loss in our local operating budget. Because the economy has not yet recovered, these challenges continued into fiscal year 2004, and the District began formulation of that budget with a projected gap of \$114 million.

In facing these challenges, however, the District not only continued its record of sound fiscal management, we achieved a level of responsible and conservative budgeting found only among the most financially prudent governments. As a result, the fiscal year 2004 budget transmitted today is balanced in the current and future years. More notably, the District's leaders balanced this budget entirely through budget reductions. No tax increases were adopted, and not one dollar of the \$250 million in cash reserves was used.

Just as significant is the fact that this budget protects core services. In times of tight resources, some would set their goals aside in order to weather the storm, but I believe the opposite must be done: in these difficult times we must focus on our goals more than ever so that we may protect them and continue making forward progress.

The proposed fiscal year 2004 budget reflects this approach by focusing resources in the areas of highest priorities for our residents. These are (1) education programs, including early childhood education, school choice, and adult literacy; (2) public safety, which includes providing greater police presence in neighborhoods and a vastly improved 911 emergency communications system; and (3) opportunity for all, which includes the housing, job-readiness, and health care needed for all residents to become productive and healthy members of the community and economy.

In order to protect these priorities, however, some reductions had to be made in other areas of the budget.

SACRIFICES MADE TO PRESERVE BUDGETARY BALANCE

In many instances the District was able to reduce spending by using existing funds more wisely. In many other areas, however, significant sacrifices were required. Most notable among these is the deferral of key infrastructure investments. In fiscal year 2003 the District eliminated funding for \$250 million in approved capital construction, including transportation investments, recreation facilities, and important technology investments. An additional \$87 million of funding for such projects was eliminated in fiscal year 2004.

In making these sacrifices the District preserved existing funding for schools and libraries, but could allocate no new funding for the next phase of modernization. As a result, current 10-year plans for renovating neglected schools and libraries must be scaled back dramatically, leaving a major challenge for the education of our children. This sacrifice, coupled with even greater reductions in roads, bridges, and buildings, present one of the greatest challenges that the District faces today and, if not addressed, into the foreseeable future.

Is this challenge purely the result of our national economic woes? In fact, it is not. Even during times of economic growth, the District's can not support the level of investment required to compensate for the many decades of neglect from which our infrastructure has suffered. This is true not because of any factor under the District's control, however, but because of the uniquely unfair constraints placed on the District's tax base by the Federal Government.

FEDERAL CONSTRAINTS ON REVENUE COLLECTION RESULTING IN STRUCTURAL IMBALANCE

The Federal Government requires that the District provide services like a State, but unlike every other State in the Nation, the District is prohibited by the Congress from collecting a non-resident income tax. As a result, the District must fund expenditures far greater than the revenues provided through a reasonable level of taxation. Faced with this clash between expenditure needs and revenue capacity,

the District has maintained a balanced budget through several strategies that have provided solvency in the short term, but cannot be maintained. These strategies are:

—*Producing service improvements within existing constraints.*—The District has aggressively improved service delivery through more focused use of existing resources. Having capitalized on the major opportunities for such efficiencies, however, the District cannot expect to solve its structural imbalance through this strategy.

—*Taxing local residents and businesses at high levels.*—With a severely limited tax base, the District has had no choice but to rely on local residents and businesses to provide revenues for government services, resulting in many tax rates that far exceed those of surrounding jurisdictions. This translates into additional hurdles to attracting and retaining residents and businesses that could help stabilize our fragile economic base.

—*Deferring spending on critical infrastructure and services.*—At present, the District is deferring each year hundreds of millions of dollars in critical investments. These include funding for school buildings, transportation systems, water and sewer projects, economic development, and social services.

Although these strategies have temporarily addressed the imbalance between expenditures and revenues, they cannot be employed much longer. The overtaxing of our citizens and deferral of critical investments continue to damage the viability of the District as a place to live and operate a business. As a result, the financial and operational recovery underway will falter and the District will lose the important ground that it and its Federal partners have worked to gain.

In specific terms, the amount of the structural imbalance is between \$400 million and \$1.1 billion per year. This estimate has been thoroughly analyzed and documented by the Rivlin Commission, the Brookings Institute, and McKinsey and Co. To independently assess this matter, the members of Congress, including Senator Landrieu of this committee, requested that the U.S. General Accounting Office (GAO) conduct a full-scale analysis, which was released just last week.

I would like to quote several key findings from this report:

1. “The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates.”

2. “The District’s per capital total revenue capacity is higher than all state fiscal systems, but not to the same extent that its costs are higher. In addition, its revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.”

3. “Addressing management problems would not offset the District’s underlying structural imbalance because this imbalance is determined by factors beyond the District’s direct control.”

4. “If this imbalance is to be addressed, in the near term, it may be necessary to change federal policies to expand the District’s tax base or to provide additional financial support.”

Through these findings, the independent GAO has confirmed that the District can not complete its financial recovery alone. Instead, we must somehow address the Federal policies that could force the District into insolvency. Congresswoman Eleanor Holmes Norton will shortly introduce the “Federal Fair Compensation Act” which would go a long way to addressing the situation. Congress ought to move this legislation or an alternative quickly.

Of course, the city must do its part in terms of better management of existing resources. Special Education and Medicaid represent two areas that need concentrated attention. The subcommittee should be pleased to know that we are making some headway. Along with the City Council, I am chairing a special education task force that brought together all the government entities who have a role in special education. After intensive meetings over several months, we were able to agree on a cost reduction plan that the Chief Financial Officer (CFO) certifies will yield \$20 million savings in fiscal year 2004, while at the same time improving the educational experience offered to children in special education. Last month I appointed the first government-wide “Medicaid Czar” who will bring similar direction and unity of purpose to how we draw down Medicaid dollars.

In addition to this matter of finances, the District also faces a procedural barrier in the Federal appropriations process.

DISRUPTIONS RESULTING FROM FEDERAL REVIEW OF THE DISTRICT’S BUDGET

Unlike any other State or local jurisdiction in the Nation, the District must have its locally-raised revenues appropriated to it through an act of Congress. Aside from the obvious issues related to government by consent of the governed, this process

creates major disruptions in the delivery and improvement of basic government services. Specifically, there are several key reasons why the President and Congress should change the current process:

- The current system denies the District the capacity to adapt quickly to changing needs for front line services. The Federal Government requires the District to formulate its budget a year in advance in order to accommodate the Federal review process.
- Congressional delays disrupt critical new improvements.*—Virtually every year, Congress fails to approve the District's budget by the beginning of the fiscal year, most recently more than 3 months later.
- Mid-year budget reallocations require an act of Congress, and disrupt service delivery.*—As discussed, local governments need the flexibility to respond to rapid changes in their needs.
- The city must "use or lose" funding at the end of each year.*—Congressional approval for spending expires at the end of the year, which punishes program managers who save funds by not allowing the city to carry them over for one-time uses.

Last January, the President's statement in favor of budget autonomy for the District was transmitted to the Congress, and is greatly appreciated by the District. At present, the House and Senate oversight committees on the District of Columbia are developing legislation that would begin reforming the Federal approval process for the District's budget. Of course, the process for Federal funds for the city and relevant oversight would be unchanged. As Congress pursues passage of this legislation, the District looks to you for leadership in affecting this change that will relieve the impediments to the District's continued financial and operational recovery.

CRITICAL FEDERAL FINANCIAL SUPPORT

There are several specific funding requests in the fiscal year 2004 budget before this committee. I am alarmed that the President's overall fiscal year 2004 request for the DC appropriations bill is 17 percent below the fiscal year 2003 level. A cut of this magnitude jeopardizes ongoing projects already funded by this subcommittee. In particular, last year Congress allocated \$50 million for the Combined Sewer Overflow (CSO) project, which was matched with local funds. This was a very welcomed down payment on a billion-dollar-plus multi-year project. Updating our antiquated sewer system, which was built originally by the Federal Government, is an integral part of our Anacostia Waterfront Initiative. Therefore we are seeking an additional \$50 million in fiscal year 2004. The President's budget includes \$15 million for this purpose and another \$10 million for the Anacostia Bike Trail. I strongly urge the subcommittee to accept the President's proposal, and add \$35 million to the sewer project to match last year's commitment.

The President has also included \$15 million for the Public Safety Event Fund, which reimburses the city for various security costs of demonstrations and other events related to our status as the Nation's capital. This fund helps shift the unfair burden of covering these costs from District taxpayers and allows the District to better balance our duties to protect residential neighborhoods and the Nation's capital. I strongly urge the subcommittee to provide these important resources.

In addition, thanks to the generosity of this subcommittee, the Tuition Assistance Grant Program has provided thousands of District residents with tremendously expanded options for post-secondary education. Indeed, many of these people might not have otherwise attended college. In fiscal year 2003, the program will use all its allotted funding and will require an additional \$17 million in fiscal year 2004.

In fiscal year 2003 Congress provided \$4 million for a family literacy program. Since receiving this payment just 3 months ago, we have an ambitious program underway that will soon have at least 20 Literacy Leaders dispatched around the city to help community-based providers, government agencies, and the faith-based community expand the network of adult learners. We will also have a training symposium this summer to "train the trainers". My goal is to reverse the city's destiny in this area by transforming ourselves from a city with a shockingly high rate of adult literacy challenges to a city where the right to read is sacred. Adults will have a harder time fulfilling opportunities for health care, employment, and stable family life as long as they lack basic reading skills. It is time that the stigma associated with adult learning challenges be eradicated and all of Washington make this a priority. With an additional \$4 million in fiscal year 2004 the subcommittee can sustain our efforts.

SUPPORTING CHILDREN IN THE DISTRICT

Because quality education for our children is a critical priority for the city, I strongly urge the Congress to add new funding beyond last year's levels to support our public schools and expand opportunities for parents to consider nonpublic educational settings. This 3-sector approach will allow the city to leverage its best assets among public schools, public charter schools, and private/parochial schools.

The District of Columbia Public School system is making headway in reform, including the very promising Transformation initiative for 15 low-performing schools. It also has a liberal out-of-boundary program that affords parents opportunities to consider public schools across the city. Our robust charter school system is a national model for public school choice whose expansion is limited largely by a lack of adequate facilities. In addition, dozens of private and parochial schools are assets for our children. Consequently, I want to reiterate my support for school choice—both within the public system and between public and private schools. I urge the Congress to be both bold in supporting school choice in DC through a 3-sector approach.

On a related matter, I want to acknowledge the concerns that have been raised by this subcommittee regarding child and family services in the District. Historically, the whole child welfare service system has been extremely troubled, and although major progress has been made, including creation of the Family Court and a newly unified Child and Family Services Agency, there still remain challenges that we must continue to address. Our capable CFSA director and I are redoubling our efforts to complete the reform process in serving our most vulnerable youth, including a more seamless approach in how government agencies relate to children at risk. The subcommittee's ongoing interest in supporting efforts to recruit social workers, promote early intervention in case work for children and families, and support foster parents who take on this difficult work is very encouraging.

And finally, before I conclude this testimony there are several specific points that must be made clear for the record. First, I ask that the District's appropriation be passed without the undemocratic "riders" that are sometimes included. These non-budgetary provisions subvert the will of District citizens and their only elected representatives. If the elected leadership of the city has decided to use local funds for various purposes, we ask only for you to grant us the same prerogatives and liberties that cities in your own districts enjoy.

In addition, I would also like to note for the committee that the city continues to be vigilant in its emergency preparedness responsibilities and is expeditiously drawing down on Federal funds provided for this purpose. We are making great progress working with surrounding jurisdictions and Federal agencies in developing effective regional responses. Similarly, working with local hospitals, our capacities in the areas of preventing and responding to bioterrorism are greatly expanded. Through partnership with the Federal Government, the District is rapidly becoming one of the best prepared jurisdictions in the Nation.

And finally, no discussion of District-Federal partnership is complete without a discussion of voting representation in Congress. The District is the capital of the world's greatest democracy, and it is the ultimate hypocrisy that its citizens suffer from the exact disenfranchisement this Nation was founded to end. Like all of us in this hearing room, I was filled with great pride and gratitude watching the young men and women of our armed forces help bring democracy closer to the people of Iraq. At the same time, however, I was struck with the irony that those among them who hail from our great city do not enjoy full democracy here.

Again, Senator DeWine and members of the subcommittee, I thank you for your support of the District and I thank you for this opportunity to testify before you today. After the testimony of Chairman Cropp and Dr. Gandhi, I will gladly answer any questions you may have.

Senator DEWINE. Mr. Mayor, thank you very much.
Ms. Cropp.

STATEMENT OF HON. LINDA W. CROPP

Ms. CROPP. Good morning, Chairman DeWine and Ranking Minority Member Landrieu. It is a pleasure to be before you today to testify on behalf of the District of Columbia. Let me thank you, Mr. Chairman and Senator Landrieu, for your comments with regard to the GAO report, and there is a nexus between the structural imbal-

ance and our ability to serve the needs of our young people, comments that you also made.

The fiscal year 2004 budget, another in a series of fiscally sound and responsible budgets, marks another important stride in our city's home rule. It fully illustrates that the Mayor and the council can work together and put together a good spending plan that continues to make the District a better place to live, to work, to raise a family, and to visit. It also is a reflection of our resolve to stand as one good government that will remain fiscally prudent and, most importantly, responsible.

Fiscal discipline. This has always been and will be a top priority on our legislative agenda. We not only demand it of the executive branch, we practice it. The various forms of fiscal discipline, from rainy day funds to financial safeguards, insurance and investment policies, economic triggers to pay-as-you-go funds that we have demanded of and imposed on ourselves in the past several years have yielded significant returns for the District of Columbia.

Case in point, the council insisted that the Government limit the growth of our spending in fiscal year 2004 while ensuring that all basic municipal needs were met. Instead of increasing taxes to address declining revenues for fiscal year 2004, the council, with the mayor, limited the rate of growth in our spending to under 5 percent. Again, this was done without any detriment to the District of Columbia residents who receive services and benefits from important programs.

The \$323 million-plus revenue shortfall in fiscal year 2003 budget on the very first day of our new fiscal year, October 1, 2002, was dealt with very quickly by the Mayor and the council. On April 1, 6 months into the fiscal year, the council took emergency action, as recommended by the mayor, on another \$134 million that was a hole in this year's budget. Our counterparts in Maryland and Virginia and all across the country, of course, face similar challenges because of the economy in our Nation, although we think that the District has acted more quickly, effectively, and responsibly to take the actions necessary to bring our budget in balance.

Finally, it is important to note that, due to the city's fiscal discipline and our hard work, we have a positive image fostered by the partnership of locally elected leadership in our business community. We have finally been recognized and rewarded on Wall Street, where the District Government bond rating has been upgraded from stable to positive. Moreover, the city's bond rating is expected to be further upgraded while other jurisdictions' ratings are being downgraded during this economic period.

As the council continues its work during the fiscal year 2003 and 2004 legislative session, we will remain vigilant about maintaining fiscal discipline that we have imposed on the executive branch and ourselves, and we will also focus on other important goals set forth in our legislative agenda. These goals include the revitalization of our neighborhoods, investment in our youth, protection of our vulnerable residents, oversight of executive performance and service delivery, promotion of continued economic stability and growth, and expansion of home rule and democracy, our priorities, put together with a fiscally sound and responsible spending plan, is good for the District.

The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight, was realigned. Funds were redirected and targeted for projects with higher priorities and critical needs such as schools for children, improving blighted properties in our neighborhoods, and enhancing existing facilities, better public-council interaction.

I have provided copies of the committee reports from all of our council's committees for the record, and I believe that it will be good reading and will also provide you good information with regard to the status of many things in the District of Columbia.

Senator DEWINE. Those will be made a part of the record. Thank you very much.

Ms. CROPP. Thank you. An integral part of the council's budget process is public input. As such, many hearings on the fiscal 2004 budget were held. This gives the council and the Mayor an opportunity to hear from our citizens. The process gave citizens and our workforce the opportunity to comment and critique programmatic and funding needs and agency performance and their impact. The feedback is invaluable, because it contributed and culminated in decisions and recommendations of each committee in the mark-up process.

At the end of this public process—translated into 54 public hearings or about 289 hours—we incorporated the findings from that public hearing process, from our residents and our employees, into the budget. On May 6, the council approved the \$6.6 billion spending plan that provides adequate funding for basic city services, in keeping with the seven goals of our legislative agenda. All of this was done, including full funding of our police department, without a tax increase. In fact, we are continuing with the portions of the tax reduction associated with the Tax Parity Act as passed by the council in 1999, which were already in place. The council action will bring our taxes more in line with our neighbors' over a 5-year period. We believe this has contributed to the economic renaissance that our city is experiencing.

Historically, the relationship between the District and the Federal Government has been a unique political and financial arrangement. Between 1879 and 1920, the Federal Government provided assistance by paying half of all of the District's expenditures. Subsequently, given the various Federal prohibitions on taxing non-residents' incomes, Federal properties, Federal purchase of goods and services, the District would receive a direct payment. This payment was stopped in 1997, when the Federal Government expropriated the cost of the contributions for the police, firefighters, teachers, and retirement plans, and various court services.

It is worth recalling that in 1997 the Revitalization Act was passed. One recommendation was that since the District no longer receives the Federal payment, that the District should not have its local budget portion come before Congress, just like other States. I join with the Mayor in asking that you support budget autonomy for the District of Columbia. Although the District may be solely responsible for its local spending, it's not responsible for the structural imbalance that exists in its spending needs and its revenue generation capacity.

The District, not unlike any other major urban city in this country, has a population that is older, sicker, and poorer. The big difference, and it is a major and important difference with the District and other large urban cities, is, we help support Baltimore and Richmond, because most of our income leaves the city and goes out to help support our suburban economies, totally a reversal from where it is in the rest of the country, where in most instances, the suburban jurisdictions help to offset the high cost of what is going on in the district. That is a huge structural imbalance unlike anything else. The GAO report is very clear, the imbalance ranges between \$470 million and \$1.1 billion a year. The cost of providing public services is just much higher in the District than in other areas.

Mr. Chairman, you had asked if we had some suggestions. The Mayor certainly outlined the Federal Fair Compensation Act that our Congresswoman has introduced that we would hope that we could start discussions around that. I would like to also call your attention to the fact that in 1997, Congress recognized that the District paid an inordinate amount of Medicaid funds. We were the only city in the country, in this entire United States, that paid 50 percent of the cost of Medicaid. You recognized that that was an imbalance, and we changed the payment to 70 percent Federal and 30 percent District of Columbia. That is another area where you can look.

The Federal Government pays a higher proportion of Medicaid than many other jurisdictions. It seems only fair and just, and a way to deal with the structural imbalance, that we at least get the same rate as other States may get for just the city, when no other city has to pay a Medicaid cost.

Another area is our whole Metro payment. That certainly is a benefit to us, as we serve, as the capital city, our suburban jurisdictions. While we have Metro and we have our suburban areas that sit on the Metro board, their States pay the cost of Metro, so Montgomery County and Fairfax, Arlington, Prince George's, they do not even have to pay part of their Medicaid cost, while the District of Columbia once again, in a highly structurally imbalanced way, must bear the brunt of our Metro cost, so that is another area where we could look.

Finally, as you consider our appropriations request, we ask that you support and pass the budget in time for the start of a new fiscal year and before adjournment of the 108th Congress. It really is telling that while our budget period started in October we did not have an approved budget until January. In some instances, we needed to reduce the cost of our Government to deal with our economy. It is important to remember that at the end of the budget process, both the Mayor and the council found themselves in sync and approved a budget that invests in service delivery and basic programs. We urge you to pass the budget as is without any riders.

This much-anticipated 2004 budget is important, because it shows again that the Mayor and the council coexist and underscore our commitment to make Washington, D.C. one of the best-governed cities in the world. The council will continue to oversee our operations and expenditures, sometimes to the chagrin of the

Mayor, but I think both of us agree that it is for the good of the city as a whole.

PREPARED STATEMENT

We will be responsive to our constituents who call the District their home. We will work with the Mayor, with you and Congress and our surrounding Governments to achieve mutually shared goals. Together with the Mayor, we will produce good, responsible budgets that invest dollars for the District and leave a legacy for our future generations. Granted, we do not always agree, but we are always at the table to assert ourselves as an institution and work for the betterment and the future of our citizens.

Thank you very much for this opportunity.
[The statement follows:]

PREPARED STATEMENT OF LINDA W. CROPP

Good morning, Chairman DeWine and Ranking Minority Member Landrieu, and members of the Senate Appropriations Subcommittee on the District of Columbia. I am pleased to be here with my colleagues to testify on the District's budget for fiscal year 2004.

INTRODUCTION

The fiscal year 2004 budget—another in a series of fiscally sound and responsible budgets—marks another important stride in our city's history of home rule. This is the second budget that the locally elected leaders have crafted entirely within the Home Rule process. It fully illustrates that the Council and the Mayor can work together and put together a good spending plan that continues to make the District a better place in which to live, to work, to raise a family, and to visit. It is also a reflection of our resolve to stand as one good government that will remain fiscally prudent and most importantly responsible.

This past February, the Mayor and Council received the annual Comprehensive Annual Financial Report, which certified that the District's fiscal year 2002 budget that ended on September 30, 2002 was our sixth consecutive balanced or surplus budget.

Fiscal Discipline.—This has always been and will always be a TOP PRIORITY on our legislative agenda. We not only demand it of the executive branch, we practice it. The various forms of fiscal discipline—from rainy day savings, financial safeguards, insurance and investment policies, economic triggers to PAY-AS-YOU-GO funds—that we have demanded of, and imposed on ourselves in the past several years, have yielded significant returns to the District of Columbia.

Case in point . . . The Council insisted that the government limit the growth of spending in fiscal year 2004, while ensuring that all basic municipal needs were met. Instead of increasing taxes to address declining revenues for fiscal year 2004, the Council resolved to limit the rate of spending to under 5 percent. Again, this was done without detriment to the District residents who receive services and benefits from important programs.

This reflects a continuation of the same fiscal discipline strategies that the Council applied to the budget shortfalls that have occurred during fiscal year 2003. The Council took the lead and made tough decisions with the Mayor in closing a \$323-million-dollar-plus revenue shortfall in this year's fiscal year 2003 budget on the very first day of the fiscal year—October 1, 2002. On April 1st, 6 months into the fiscal year, the Council took emergency action to close another \$134 million hole in this year's budget. Our counterparts in Maryland and Virginia and all across the country of course face similar challenges, although we think that the District has acted more quickly, effectively and responsibly to take the actions necessary to keep our budget in balance.

Finally, it is important to note that due to the city's fiscal discipline, our Congressional counterparts, as well as the hard work and positive image fostered by the partnerships of the locally elected leadership and our business community, we have finally been recognized and rewarded on Wall Street, where the DC government's bond rating has been upgraded from "stable" to "positive." Moreover, the city's bond rating is expected to be further upgraded, while other jurisdictions ratings are being downgraded at this time.

COUNCIL PERIOD XV

As the Council continues its work during the fiscal year 2003 and fiscal year 2004 legislative sessions, we will remain vigilant about maintaining the fiscal discipline that we have imposed on the Executive Branch, and ourselves. Also, we will focus on other important goals set forth in our legislative agenda. These include:

- Revitalization of our Neighborhoods;
- Investment in our Youth;
- Protection of our Vulnerable Residents;
- Oversight of Executive Performance and Service Delivery;
- Promotion of Continued Economic Stability and Growth; and
- Expansion of Home Rule and Democracy.

THE COUNCIL/MAYOR BUDGET PROCESS

In December of last year, the Council passed the fiscal year 2004 Budget Submission Requirements Resolution of 2002. It established March 17 as the date by which the Mayor shall submit to the Council the proposed budget. The Mayor transmitted his budget on March 17 and the Council acted on it within the 50 days as required by the Home Rule Charter. During this 50-day period, the Council worked diligently with the Mayor in aligning both sets of priorities and, put together a fiscally sound and responsible spending plan. The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight by the Council, was realigned. For example, funds were redirected and targeted for projects with higher priority and critical needs, such as schools for the children, improving blighted properties in the neighborhoods, and enhancing existing facilities for better public/Council interaction.

I have provided copies of the Council's committee reports and the fiscal year 2004 Budget and I would ask that they be made part of the record.

When the Mayor submitted the budget to us on March 17, he had proposed a local budget of \$3.8 billion, an increase of \$195.5 million or 5.4 percent above the revised fiscal year 2003 budget, as amended by the fiscal year 2003 Amendment Act of 2002 and later approved by the Congress.

THE COUNCIL/PUBLIC CITIZEN BUDGET PROCESS

An integral part of the Council budget process is public input and, as such, many hearings on the fiscal year 2004 budget were held. The process gave the citizens and our workforce an opportunity to comment and critique programmatic and funding needs and agency performances that impact them. This feedback is invaluable because it contributed and culminated in the decisions and recommendations of each committee in the mark-up of the budgets. Following a review of the committee marks, the Committee of the Whole made additional recommendations in order to bring the budget into balance. At the end of this public process—which translated into 54 public hearings or about 289.15 hours—we incorporated findings from our residents and employees into the budget.

HIGHLIGHTS OF THE FISCAL YEAR 2004 BUDGET

On May 6, the Council approved the \$6.6 billion spending plan that provides adequate funding for basic city services and programs. In keeping up with the seven goals on our legislative agenda, schools continue to receive full funding. To protect our vulnerable residents, the Council found \$4 million to fund the Interim Disability Assistance program for disabled adults. In the area of public safety, the Council provided the funding needed to increase the number of active policemen in the Metropolitan Police Department (MPD) to 3,800 by the end of fiscal year 2004. The Council accomplished this by separating the dollars needed to fund this initiative from the rest of the MPD budget by placing the dollars into Pay Go funding. To invest for future generations, capital and operating dollars were added for our young children to improve their studying environments and broaden their academic and vocational skills. We continued the District's effort to collect Medicaid reimbursement for local expenditures that are eligible for such Federal reimbursement.

All of this was done without any general tax increase. In fact, we are continuing with the portions of tax reductions associated with the Tax Parity Act passed by the Council in 1999, which are already in place. This Council action will bring our taxes more in-line with our neighbors over a 5-year period. We believe this has contributed to the economic renaissance that our city is experiencing.

FEDERAL CONTRIBUTION

Historically, the relationship between the District and the Federal Government has been a unique political and financial arrangement. Between 1879 and 1920, the Federal Government would provide assistance by paying half of all District expenditures. Subsequently, given the various Federal prohibitions on taxing nonresident incomes, Federal properties, Federal purchase of goods and services, the District would receive a direct payment. This payment was stopped in 1997 when the Federal Government expropriated the cost of the contributions for the police, fire-fighters, and teachers retirement plans and various Court services.

It is worth recalling that when the 1997 Revitalization Act was passed, one recommendation was that since the District no longer receives any Federal payments, Congress would not need to review or approve its budget. At a minimum, Congress should no longer approve the local portion of the District's budget. Just like the other 50 States, the District would be solely responsible for approving its own local spending.

Although the District government may be solely responsible for its local spending, it is not responsible for "the structural imbalance" that exists between its spending needs and its revenue generation capacity. Just recently, the General Accounting Office (GAO) released a report regarding this imbalance. Some of the significant conclusions of this report include:

- The imbalance ranges between \$470 million and \$1.1 billion per year;
- The cost of providing public services is much higher in the District than it is in the average State due to a relatively large poverty population, poor health indicators, high crime, and the high cost of living;
- Although the District has a very high revenue capacity, we are already taxing toward the upper limit of our revenue capacity, thereby creating a punitive tax structure.

In order to solve the problem of structural imbalance, the General Accounting Office suggests that the Congress consider one of the following: (1) Relax current taxing restrictions on the District; or (2) Compensate the District for its special status as a capital city.

CONCLUSION

Finally, as you consider our appropriations request, we ask that you support and pass the budget in time for the start of the new fiscal year and before the adjournment of the 108th Congress. It is important to remember that at the end of the budget process, both the Council and the Mayor found themselves in sync and approved a budget that invests in service delivery and basic programs. Furthermore, we urge you to pass the budget as is, without any extraneous riders. This much anticipated fiscal year 2004 budget is important because it shows that the Mayor and the Council can co-exist together and underscores our commitment to make Washington, DC one of the best governed cities in the world.

Nonetheless, the Council will continue to oversee executive operations and expenditures. We will be responsive to our constituents who call the District their home. We will work with the Mayor, Congress, and the surrounding governments to achieve mutually shared goals. Together with the Mayor, we will produce good responsible budgets that invest dollars for the District and leave a legacy for future generations. Granted we do not always agree from time to time, but we will be at the table to assert ourselves as an institution and work for the betterment and future of our citizens.

Senator DEWINE. Thank you very much. Doctor.

STATEMENT OF DR. NATWAR GANDHI

Dr. GANDHI. Good morning, Mr. Chairman, Senator Landrieu, Congresswoman Norton. As the Chief Financial Officer, my primary responsibility is to ensure the overall financial viability of the District at all times. In the past year, we have enjoyed some notable successes, including the sixth consecutive balanced budget. Overall, the city ended fiscal year 2002 with a general fund surplus of \$27.4 million, and a positive general fund balance of \$865 million. In fiscal 1996, there was a negative fund balance of \$518 million, so we have witnessed a turnaround of over \$1.3 billion since

then. This in itself is clear evidence the District is qualified for Home Rule and ready for budget autonomy.

I believe we are in a good position to continue this progress. We instituted several changes in financial systems that will give us a much better picture of our financial posture as we go through the year.

During fiscal year 2003, we began to implement standardized spending plans and to report actual performance against those plans, using a new online financial management tool for controlling agency budgets. At the end of fiscal year 2001, we had \$100 million in cash reserves. This amount grew to about \$248.7 million by the end of fiscal year 2002, and will increase to nearly \$254 million by the end of fiscal year 2003, to remain at 7 percent of total local expenditures. These reserves were fully funded 5 years before the designated deadline.

Along with the fund balance noted earlier, these steps solidified the District's bond rating and led Moody's to upgrade their outlook on the District's \$3 billion in general obligation bonds from "stable" to "positive". This is particularly significant at a time when rating agencies are downgrading or looking negatively at numerous States and localities. We hope our positive outlook will lead to a ratings upgrade later this year, as Chairman Cropp expected, which will contribute to even lower borrowing costs in the future.

For the fiscal year 2003 financial outlook, through the leadership and cooperation of our elected officials, the District made the necessary tough decisions to assure a balanced budget for fiscal year 2003. As of early June, the remaining spending pressure for fiscal year 2003 is estimated at about \$50 million, primarily driven by the high utilization cost for the health care safety net. These amounts will be addressed. I am confident that we will end the year with a balanced budget.

For the fiscal year 2004 budget request, in local funds, which comprise about two-thirds of the total budget, the 2004 budget request is about \$3.8 billion, an increase of about \$230 million over the approved 2003 level. The total number of positions funded with the local fund is about \$26,245, a decrease of 150 positions, or less than 1 percent.

As you will see, the budget projects positive net operating margins through fiscal year 2007. This projection shows a positive financial picture, and is based on revenue forecasts that use realistic economic and demographic assumptions generally accepted by the forecasting community and the Federal Government. However, a close examination of the data suggests that the District is operating on a slim financial margin indeed. Fortunately, we expect local revenues to begin to grow in fiscal year 2004, after the decline and stagnation of the past 2 fiscal years, but the growth that can be expected is nothing like the 7 percent annual change between fiscal year 1999 and fiscal year 2001.

The District now faces a more slowly rising revenue curve, as financial and real estate markets return to more normal patterns, generating revenues that are expected to grow at around 4½ percent per year. We believe that it will be challenging for this revenue to sustain our current level of services, and there is no room for consideration of additional program initiatives, significant infra-

structure investment, or tax cuts. For these reasons, the city and its elected leadership will face difficult program and financial decisions in the years to come.

One of the reasons for the difficulty is the structural imbalance in the District's budget that needs to be addressed. Chairman Cropp and the Mayor already have talked about the structural imbalance issue, so I will not dwell on that any further. I appreciate your leadership and Senator Landrieu's leadership in our appropriations, and it is my hope that the current GAO report would help Congress and the District move beyond the questions of whether there is a structural imbalance to questions of how the Federal Government and District Government can work together to address this problem. This problem must be addressed with urgency to ensure the long-term financial viability of the Nation's capital city.

PREPARED STATEMENT

Mr. Chairman, this concludes my prepared remarks. I request that this testimony be made part of the record. I will be pleased to answer any questions you may have. Thank you.

[The statement follows:]

PREPARED STATEMENT OF NATWAR M. GANDHI

Good morning, Mr. Chairman, Senator Landrieu, and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here today to testify on the District's fiscal year 2004 budget request to the Congress. My remarks will briefly touch on the fiscal year 2003 financial outlook, the fiscal year 2004 request, and the structural imbalance that threatens the District's long-term financial viability.

OVERVIEW

As the Chief Financial Officer, my responsibility is to ensure the overall financial viability of the District of Columbia in the short-, mid-, and long-term. In the past year, we have enjoyed some notable successes, including the sixth consecutive "unqualified" (or clean) opinion from the city's independent auditors, with the fiscal year 2002 Comprehensive Annual Financial Report (CAFR) completed ahead of time and with a balanced budget. Overall, the city ended fiscal year 2002 with a general fund surplus of \$27.4 million, and a positive general fund balance of \$865.3 million. In fiscal year 1996, there was a negative fund balance of \$518 million, so we have witnessed a turnaround of over \$1.3 billion since then. Even allowing for the restatements necessary to conform our financial reporting to the new requirements of Governmental Accounting Standards Board (GASB) Statement Number 34, this result is clear evidence that the District is qualified for Home Rule.

I believe we are in a good position to continue this progress. We instituted several changes in financial systems that will give us a much better picture of our financial posture as we go through the year. We successfully implemented GASB 34 on time with minimal outside assistance. During fiscal year 2003, we began to implement standardized spending plans and to report actual performance against those plans using CFOSource, a new online financial management tool for controlling agency budgets. At the end of fiscal year 2001, we had \$100.9 million in cash reserves; this amount grew to \$248.7 million by the end of fiscal year 2002, and will increase to nearly \$254 million by the end of fiscal year 2003 to remain at 7 percent of total local expenditures. These reserves were fully funded 5 years before the legislative deadline. Along with the fund balance noted earlier, these steps solidified the District's bond ratings and led Moody's to upgrade their outlook on the District's \$3 billion in general obligation bonds from "stable" to "positive". This is particularly significant at a time when rating agencies are downgrading or looking negatively at numerous States and localities. We hope our positive outlook will lead to a ratings upgrade later this year, which would contribute to even lower borrowing costs in the future.

We have made progress on other fronts as well. This year, for the second time, the District of Columbia's "Comprehensive Financial Management Policy" appears as an appendix of the budget submission. This policy, required annually by the fiscal year 2001 District of Columbia Appropriations Act, Public Law 106-522, is actually a compilation of policies in key areas and a financial management tool that codifies current policies and procedures. It is updated annually.

Effective with the fiscal year 2003 budget development process, we began the transition to performance-based budgeting. With the active support of the Office of the City Administrator, seven large operating agencies, including the OCFO, submitted performance-based budgets based on agency strategic business plans aligned with the mayor's citywide strategic plan. For the fiscal year 2004 budget process, we worked with another 27 agencies (the remainder of the Mayor's cabinet) to convert them to performance-based budgeting.

A long-term replacement strategy for the District's payroll systems and their integration with other administrative systems has been developed as part of the Administrative Services Modernization Program (ASMP), spearheaded by the Office of the Chief Technology Officer. Over the next 2 to 3 years, all of the District's administrative systems—personnel, payroll, procurement, property management, and budget—will be upgraded and integrated with the System of Accounting and Reporting (SOAR). For the first time, this will give the District a top quality, integrated information system with which to manage District operations. Now that we have 3 years of operating experience with SOAR, we are utilizing more of its capabilities. We already have an Integrated Tax System, rated as among the best in the country by the Federation of Tax Administrators, and the District is the first city to offer free online tax filing and the only city to provide account balances via the Web.

FISCAL YEAR 2003 FINANCIAL OUTLOOK

Through the leadership and cooperation of our elected officials, the District made the necessary tough decisions to assure a balanced budget for fiscal year 2003.

As of early June, remaining spending pressures for fiscal year 2003 are estimated at \$50 million, primarily driven by higher utilization costs for the Health Care Safety Net. This amount will be addressed. I am confident we will end the year with a balanced budget.

I want to thank you, Mr. Chairman, and you, Senator Landrieu, and the subcommittee members and staff for your leadership and support on the District's portion of the fiscal year 2003 budget supplemental that was enacted in April of this year.

FISCAL YEAR 2004 BUDGET REQUEST

The Council of the District of Columbia voted to approve the consensus fiscal year 2004 budget request on May 6. Copies of the budget documents have been distributed, and CD-ROMs will be made available shortly. I would like to briefly summarize some of the key points in the request.

In total, the District's gross fund operating request for fiscal year 2004 is \$5.69 billion, which represents an increase of about \$119 million, or 2.1 percent, over approved fiscal year 2003 levels. The total number of positions in fiscal year 2004 from all funding sources is 33,867, which represents an increase of 233 positions, or less than 1 percent.

In local funds, which comprise about two-thirds of the total budget, the fiscal year 2004 budget request is about \$3.83 billion, an increase of about \$230 million, or 6.4 percent, over approved fiscal year 2003 levels. The total number of positions funded with local funds is 26,245, a decrease of 150 positions, or less than 1 percent.

Over the 4-year period from fiscal year 1998 to fiscal year 2002, the District's local fund expenditures increased by 6.1 percent annually, or a total of \$741 million over this period, from \$2.768 billion in fiscal year 1998 to \$3.509 billion in fiscal year 2002. Of this \$741 million increase, \$621 million (nearly 84 percent) came in two areas: \$316 million in the D.C. Public Schools and the Public Charter Schools, and \$305 million in the Departments of Human Services, Mental Health, and Health, and the Child and Family Services Agency (all of which were part of the Department of Human Services in 1997). At these six agencies, expenditures increased at a rate of 11.1 percent annually over the past 4 years. Expenditures in all other District agencies combined increased by \$120 million, or 1.8 percent annually, over the same period.

As you will see, the budget projects positive net operating margins through fiscal year 2007. This projection shows a positive financial picture and is based on revenue forecasts that use realistic economic and demographic assumptions generally accepted by the forecasting community and the Federal Government.

However, a close examination of the data suggests that the District is operating on a slim financial margin. Fortunately, we expect local revenues to begin to grow in fiscal year 2004, after the decline and stagnation of the past 2 fiscal years. But the growth that can be expected is nothing like the 7.4 percent annual change between fiscal year 1999 and fiscal year 2001. The District now faces a more slowly rising revenue curve, as financial and real estate markets return to more normal patterns, generating revenues that are expected to grow around 4.5 percent per year. We believe that it will be challenging for this revenue to sustain our current level of service, and there is no room for consideration of additional program initiatives, significant infrastructure investments, or tax cuts. For these reasons, the city and its elected leadership will face difficult program and financial decisions in the years to come. One of the reasons for the difficulty is a structural imbalance in the District's budget that needs to be addressed.

STRUCTURAL IMBALANCE IN THE DISTRICT'S BUDGET

Over the past several years, the District has submitted balanced and responsible budgets during periods of increasing as well as stagnating and declining revenues. Our restrained budgeting in the good years helped us work through some of the hard times in fiscal year 2002 and fiscal year 2003. For fiscal year 2004, the District is submitting a balanced budget in a particularly challenging economic environment, a testament to the ability of the District's elected leaders to manage through difficult times. However, despite this balanced budget, and despite the surpluses the District has generated over the past 6 years, the District has a serious long-term financial problem—a structural imbalance that transcends short-term challenges and cyclical revenue fluctuations. This structural imbalance is a long-term gap between the District's ability to raise revenue at reasonable tax rates and the District's ability to provide services of reasonable quality to its residents. It is driven by expenditure requirements and revenue restrictions that are beyond the control of District leadership.

Several outside assessments of the District's financial condition have affirmed the presence of this imbalance. In March 2002, a McKinsey & Company report funded by the Federal City Council stated, among other things, that Federal constraints impose an annual opportunity cost of at least \$500 to \$600 million. In October 2002, Alice Rivlin and Carol O'Clairacain of the Brookings Institution assessed the District's relationship with the Federal Government and concluded that a strong rationale exists for additional Federal financial assistance to the District. And just last week, the General Accounting Office (GAO) released its final report, thoroughly assessing the District's financial structure and corroborating the existence of a structural deficit in the District's finances.

Economic changes have led other jurisdictions to begin identifying structural issues as well, and the District shares in the breadth and depth of problems facing most States and localities. In addition, however, the District's structural imbalance is more extreme, driven by the unique set of services provided by the District and the unique set of restrictions that limit the District's revenue raising capacity. I have testified to these requirements and restrictions on several occasions. In the District, we provide city services, State services, county services and even the services of a school district; we provide public safety and public works services to the Federal Government itself. We do all this with an artificially constrained tax base. We cannot tax the income of people working in the District and living elsewhere, a restriction faced by no State. We cannot tax 42 percent of the property value within the city because it is owned by the Federal Government. We cannot count on high-density property to make up for our limited taxable property because of the height restrictions on District buildings.

The cumulative effect of these requirements and restrictions is that the District faces a long-term structural imbalance, whereby it is unlikely that we can provide a standard quality and range of services to our citizens, even with tax burdens that exceed those elsewhere. This imbalance manifests itself in many ways:

- The District's per capita expenditure requirements are very high. We face high per capita expenditure requirements because we provide public services in a market with high labor costs; we provide services to a large commuter population; and we have many residents with high service needs. On top of these cost drivers, the District provides about \$500 million in services of a State-like nature, and we provide millions of dollars of services as host to the Nation's capital. Although the District certainly has the potential to improve the efficiency of operations, the District's higher costs are determined by factors beyond our control and cannot be offset entirely by improved service delivery.

- The District compensates for its very high expenditure requirements with taxes that are very high. The District's tax effort is among the highest, if not the highest, in the Nation. The need for high taxes is driven further by restrictions on the District's ability to tax income earned in the District and a significant portion of the property within the District.
- The structural imbalance is not just a reality facing the District's operating budget. The imbalance contributes to a significant capital budget and infrastructure problem as well. The District faces an accumulated infrastructure backlog of \$2.5 billion, which has not been funded in recent capital improvement plans. The District continues to defer capital investment to avert the operating costs associated with debt service. The problem is acute because additional borrowing could raise outstanding debt to levels that adversely affect the District's credit rating.

When it comes to addressing the structural imbalance, we have few options. Increasing the tax burden on District businesses and residents even further could have an adverse impact on total receipts, because it could influence potential and current residents or businesses to locate in adjacent, lower-tax States. Given the structural imbalance, the District must choose between tax levels that are even higher than the national average, service levels that are lower than the national average, or combinations of both.

An alternative solution is Federal compensation for the District's unique relationship with the Federal Government. Not only does the District provide unreimbursed services to the Federal Government and fund itself with a federally restricted tax base, but the Federal Government has a strong interest in a fiscally secure District of Columbia. Ultimately, the long-term solution to the structural imbalance is a matter to be addressed by District and congressional policy-makers. A dialogue must continue that revisits the Federal/local partnership and arrives at a long-term solution for equitable support of District services.

It is my hope that the GAO report helps Congress and the District move beyond questions of whether there is a structural imbalance to questions of how the Federal Government and District government can work together to address this problem. And this problem must be addressed with urgency to ensure the long-term financial viability of the Nation's capital city.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. I request that this testimony be made part of the record. I will be pleased to answer any questions you or the other members may have.

Senator DEWINE. Good, thank you very much.

Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Chairman. I really appreciate the overview provided by each one of you, and particularly the points of your focus.

EDUCATION

Mr. Mayor, maybe I should start with an issue that has been in the news a great deal, an issue that probably needs some clarifying, and we are going to spend some time working on this issue here, and that is the issue of education and choices and opportunities that we have to improve the educational opportunities for children not just here in the District. As you know, it has been a major focus of Congress with the passage of "Leave No Child Behind" as well as other efforts of funding and reforming special education.

It has been a real focus of Congress to try to figure a new way to work in partnership with local Governments and State Governments to enhance the quality of education for all children, and it is a contentious debate at times, because there are a variety of different approaches. There seems to be some consensus emerging at least on the subject of providing more options than what exist now, but as you know, there is not tremendous support, and I agree with that, for abandoning the public school system, even though I know

that people would contend that this is not what some people are attempting to do. Some evidence would suggest that some people have maybe completely given up on the public school system and want to go elsewhere. I am not one of those.

So given this debate, could you just express to us, as clearly as you can, about what your views are. You have talked about a three-sector approach when this subject comes up, could you just clarify that issue for us? I realize that the school budget is not part of the District's Federal budget—though the school board is not here, I would like your views, Mr. Mayor. Many Mayors are now stepping up to try to help their cities navigate this issue of school choice, and your voice is one that we listen to a great deal, could you clarify what some of your thoughts are about that issue, and then I will come back to some others that you outlined.

Mr. WILLIAMS. Well, I think, Senator Landrieu, that education is really critical to the future of the city. It is critical to have any kind of workforce and talent pool that our businesses need. It is critical in terms of having in the future the civic leadership that any city needs, let alone our Nation's capital, and if you look at a lot of literature about cities right now, people will tell you that more and more employers are looking to come to cities for the sense of energy and creativity, energy that a city is about.

Well, clearly you are not going to have that energy and creativity if a good part of your city is really not fully part of the mainstream educationally, in terms of literacy and otherwise, so education is vitally important, and what we have tried to do is certainly in the first instance put a major emphasis on education over, if you look at the budgets over the last 4 or 5 years that I have introduced to the council, you know, major increases have really gone to either human services or they have gone to education. Everything else has pretty much been flat—education, some 42 percent increase in education.

As we face this looming structural, well, present and looming structural imbalance in the capital budget, we have had to basically cut out of the capital budget \$250 million in order to preserve capital dollars for school programs, so schools have been, are, and will continue to be, the public schools, a major part of our emphasis, because they are clearly the major part of the lifting and the delivery system for our children, and in that regard, the program that I have supported, calling for additional dollars for a choice program, or additional dollars above and beyond the dollars that we are investing in our schools.

To the extent that children leave our regular public schools under this program, we would hold our regular public schools harmless, so in any event, regular public schools would have additional dollars to devote to better class sizes, other kinds of initiatives.

Above and beyond that, we are proposing as part of this three-sector strategy provision of dollars, I would like to see in the order of magnitude of \$50 million ongoing funding to relieve the funds of State costs that they can then invest, State costs borne by our District, no other State, or not other city, certainly, that can go into teachers, learning, and other kinds of enrichment.

The second part of this program, in addition to these ongoing dollars for the public schools, would involve \$50 million matched by the private sector for school modernization for our charter schools. Right now, the demand far outstrips the supply for our charter schools. One of the big issues, as you know, is facilities in our charter schools. This will go a long way toward helping our charter schools meet and satisfy that gap.

And then finally, certainly there is a choice component here for the third sector. We believe that it ought to be devoted to children who are right now trapped in our low-performing schools, our lowest-income children, their ability to go to schools in the District, schools that would agree to accept nondiscriminatory policies, and certainly—and I am pleased that the Cardinal has already evinced support for this, certainly one leader in the private parochial area—that there be a common accountability mechanism, so that—you know, one of the things I am seeing right now as we enter into this debate is there is so much fury, inflammatory rhetoric about what can or will happen if we do this, but not a lot of it is based on real, empirical data.

What we are talking about here is a pilot. We are talking about experimenting, and we are talking about doing a study under the Department of Education, Federal Department of Education, so that 4 or 5 years from now, we can look and say, okay, the outcomes were better, or maybe the outcomes are the same, or maybe they are no different, in which case we ought to try something new. And that is what I am proposing, and that is what I strongly support.

I think we have tried one model for a long, long time. We are not abandoning that model, but if we can help 2,000 or 3,000 children as part of a multisector approach, I think we ought to do it.

SCHOOL CHOICE

Senator LANDRIEU. Well, just to conclude, and then I have got a couple of questions on different subjects. Regarding school choice, perhaps an approach would be a limited pilot, as you have described, but that would include not just the District, but several other cities, but quite limited, and the parameters quite secure. One of the reasons that I hesitate to even be more supportive at this point is because of the experience we just went through with “Leave No Child Behind”, where funding was promised, but it was not forthcoming, and so I guess that there are many Members of Congress on both the Democratic and I would say some on the Republican side, that are wondering how we even move forward from here. There were commitments of funding levels made to schools across the country, and in my position the chairman may disagree, but those levels were not—whosever’s fault it was, we could argue—but those levels were not maintained, and so entering into any kind of arrangement without some security of the funding that follows whatever arrangements is something I think we should be very careful about, and again, having an approach that might include other regions of the country as well, if we were going to pursue it.

But finally, I do want to, Mr. Mayor, commend you for being at least open. I think in this debate we have to be open to new ap-

proaches, but your efforts and the council's efforts particularly on expanding charter school options and choices in the District is very commendable. There are not many cities, Mr. Chairman—and I think now almost 17 percent of the students have a choice for charter schools. There are many cities that have much more limited choices, so the District has made a lot of progress in their charter school movement, and now having quality charter schools and accountability.

But when you move into other areas beyond that, this issue of what children will be tested, what tests they will agree to, the private sector, as you know, holds very dearly their freedom to either not have tests, have whatever kinds of tests they want—of course, they do not have public funds involved, so they have that freedom, but adopting a new system would require private and independent schools to maybe adopt certain criteria that they might not feel is appropriate.

So we are not going to resolve it today, but I just want to commend you for being open, but I guess caution that we proceed very slowly because of some of the things that I outlined.

Go ahead.

Ms. CROPP. If I may just for a moment add to that, the council shares in your concern with regard to funding for unfunded mandates. With "No Child Left Behind", the District is looking right now for millions of dollars to try to pay for that. We have the issue of our transformation schools that we are still dealing with.

I would just like to put on the record for discussion not only in the District, but I think nationally, the real issue and concern with education is with the hard-core child who is having problems. The District has probably the largest charter school population of any city, any State in the country almost, or we are probably up there in the highest rank. Normally, those who go to charter schools, it is a certain culture, or a certain belief from the parents starting out with the children, but we still are not really tapping into that hard-core, uneducated child, and no matter what of the pilots that we are talking about now, until we touch into this hard-core group of those who are undereducated, I do not think we are going to achieve what we want to achieve.

And the District of Columbia has really done exceptionally well, I think, over the past several years, but the area, if I had to select an area where I think we have the greatest need in growth it is with education and with our young people, and I would hope, as everyone, the District, nationally, other jurisdictions, as we look at it, we do not just look at those individuals who are going to make it. You know, with the charter schools, the parents obviously have a care for education. With school of choice, the parents obviously are trying to seek a higher level of education for their children, but it is that hard core that is in the public schools around this country, that if we do not address them, we are not going to resolve the problem at all.

Senator LANDRIEU. Well, I thank the councilwoman, and I am not going to take any more time, but only to say that many of those hard-core children, as you are describing them, and perhaps that is a good term, are special needs children, and the Federal Government said they would pick up 40 percent of the tab of special

needs, and the Federal Government is only picking up 8 percent for jurisdictions all over the country, so that would have to be addressed as one of the founding building blocks of this new proposal, that discrepancy in funding, before we would proceed.

Mr. Chairman.

BOND RATING

Senator DEWINE. Dr. Gandhi, what is the outlook on Wall Street for the city's bond rating, and do you think that the recent GAO report will affect the bond rating?

Dr. GANDHI. Sir, let's say my hope is that next time we go to Wall Street—which will be another month or two—that we would see an upgrade. That is my hope.

Senator DEWINE. An upgrade?

Dr. GANDHI. Upgrade, sir, but let me say there are two fundamental issues here. The people on Wall Street are looking at, first, how well the city is managing its fiscal affairs, and I think the elected leaders have proved that, in the 2003 and 2004 budgets, they have done heavy lifting and have done monumental work in terms of making sure that our budget is balanced. It is balanced without raising any taxes. They were able to provide realistic remedies to solving problems without using any tricks—no one-time revenues, no accounting mechanism that others have used. We have not done that.

The second issue here is that they do look at our structural problem. There is no way of going around that. That does affect us, and they look at our long-term economic viability. Unless the Congress resolves this fundamental issue, we do have some problem, but as far as the city's fiscal credibility, I think we have proved on Wall Street that we can manage the city, and manage in a very fiscally prudent and financially responsible manner.

The last thing I would say, sir, is that we now have roughly 25 percent of our fund balance, and until the year 2007, every year we will have more than half, up to 60 percent of our fund balance, in cash. No other State, except perhaps Mississippi, that has a requirement of putting 7 percent of fund expenditure in general fund cash reserve. We have that.

Further, and I will end with this, the replenishment requirement that we have is rather—how shall I put this?—very strict; so basically, that fund is untouchable, and that gives a lot of assurance to the people on Wall Street that that money is always there, and there in cash, so I am very hopeful.

Mr. WILLIAMS. If I could add, Mr. Chairman—

Senator DEWINE. Good. Mr. Mayor, go ahead.

Mr. WILLIAMS. Because of my experience as CFO, I think that it actually helps, because when we go up and talk to them, one of their major issues is this issue of the imbalance, and the Federal relationship, and to the extent that a recognized authority like GAO has pointed this out, and that there are statements from you as Chairman and the Ranking Member on this, and certainly our Congresswoman, I think that that actually—I think Wall Street sees that as supportive, as opposed to counterproductive.

Another thing, as I just said, I am proud of the fact that from the time of our fiscal insolvency until now—and you are talking about a swing probably of, what, around \$1 billion?

Dr. GANDHI. \$1.3 billion, yes, sir.

Mr. WILLIAMS. Right, in liability, to now a fund balance, we never financed our debt. So we basically worked that debt down year by year, managing—you know, like the family managing the MasterCard, we just managed it down the very, very old-fashioned, hard way. And I think that is to our credit, over these last 7, 8 years.

Dr. GANDHI. And Mr. Chairman I would add, just to supplement the Mayor's point, that when the tobacco money came to us, we securitized that, and that substantially lowered our debt by \$1/2 billion.

Senator DEWINE. You did what, Doctor?

Dr. GANDHI. Securitized our tobacco debt, and consequently we do not have to now rely upon lower tobacco consumption and lower tobacco input into the fund. We are basically free of that obligation, so I think it was a very wise fiscal move on the part of the elected leadership, and it established our credibility on Wall Street even further.

COMBINED SEWER OVERFLOW PROJECT UPGRADES

Senator DEWINE. Mr. Mayor, in fiscal year 2003, our subcommittee provided \$50 million to begin these urgently needed upgrades to the city's Combined Sewer Overflow Project. Do you want to give us an update on the status of the project?

And also, with Federal cost-sharing, how will you be able to reduce the time for the project completion, and also maybe tell us a little bit about, if the funding level goes down? In other words, if the numbers we are able to give you will go down to, say, \$10–15 million, what does that mean to you?

Mr. WILLIAMS. Right. Well, Mr. Chair, first of all the project, as you know, has three phases. There is the Anacostia phase, the Potomac phase, and the Rock Creek phase. All of them, particularly the Anacostia and Rock Creek, are particularly polluted.

The most urgent and complicated of these is the Anacostia River phase, which as you have mentioned is \$1 billion. The contribution of \$50 million so far has been matched by a \$90 million contribution from WASA, which will go to completing early work. There remains, however, a need of \$800 million for this Anacostia phase. There are several projects that are already underway, pumping capacity, targeted separation, an initiative to maximize storage in the existing system. Were we to receive reliable funding—in other words, if we were to know we were going to receive reliable funding over a period of years, we would then be able to finance the project properly and start the project in all of its phases and get it done over a reasonable period of time.

Senator DEWINE. Reliable means what?

Mr. WILLIAMS. Pardon me?

Senator LANDRIEU. Dedicated.

Mr. WILLIAMS. Dedicated, reliable, recurring funding.

Senator DEWINE. At what level, though? It means at a certain level, I assume.

Mr. WILLIAMS. Well, I do not want to—I could get you the exact number, but I would believe that if we were able to receive the level of funding we have already received on a reliable basis, recurring basis, we could then take that to the markets and package the project and get it done in a timely fashion.

Senator DEWINE. Sure.

Mr. WILLIAMS. Were we not to receive this, I do not see a way that we can rely on our taxpayers and our businesses to shoulder the total cost of doing this project, and I think the results are just tragic, because it would grossly undermine the overall effort to revitalize the river, revitalize the city's waterfront here in our Nation's capital, what is it, ten blocks from the U.S. Capitol.

And I might mention that the sewage system is antiquated. It was built in the last century. The major issue is, as you know, storm separation. This is the old, quote-unquote old city, south of Florida, here in Washington, D.C. The Federal Government probably has got about a 60 percent share of that old city, so it really is—it is not just a Federal issue because we are the Nation's capital. It is a Federal issue because our largest employer or major corporate partner here has got to do its share.

METRO COMMITMENT

Senator DEWINE. Let me move to another area. You are requesting Federal support to help the District meet its commitment to Metro. Do you want to explain why you feel this Federal commitment is so important?

Mr. WILLIAMS. Well, Metro is certainly important to our city's economic livelihood, because our city has probably the second-largest in the country, I believe it is, ingress-egress of commuters of any city in the country. We have—like many cities in the country, we are in the top tier in terms of transportation congestion. This has been exacerbated by Federal actions, however well-intentioned, whether they are up here at the Capitol, but certainly down with the executive agencies, and most prominently, the White House. We have got Pennsylvania Avenue closed.

I do applaud the effort to begin work on studying a tunnel, but we are way behind in getting the circulator moving, which will help free up traffic, so here you are trying to revitalize the city. We have seen \$27 billion of investment in the city, and yet we have got this transportation congestion, coagulation, which is really hampering that effort to bring in additional business. The tractor man was a great example of how one little hiccup in the system can ricochet all over the region.

Another example, if the Pentagon decides they are going to change how they register employees as they come in, or change how they do business—I remember this happened shortly after 9/11. We had traffic backed up for miles all over the place, so we really need Metro.

Now, Metro, the District's share of Metro is disproportionately higher than the surrounding jurisdictions, even though we do not have the tax base to support it, so our share is disproportionately higher, and we are paying that share, as Chairman Cropp has mentioned, unlike our partners in Montgomery County, Fairfax County, and the like.

Dr. GANDHI. If I may supplement the Mayor—

Ms. CROPP. If I may add to that?

Senator DEWINE. Sure.

Ms. CROPP. What the mayor just articulated, with the share that we are paying, our capital dollars are being spent, and we are almost at a very high level. The infrastructure of the city as a whole needs to be repaired. The Mayor, the council, we have aggressively been trying to do that, fix our streets and do other things. With limited capital dollars, and with such a large share having to go to Metro, at some point the city is going to have to make a decision.

Remember, we are talking about our taxpayers' dollars, and our taxpayers are saying, we want our parks and recreation that you are talking about, and the fact that we cannot even keep our parks, our recreation facilities, but we are going to help to pay and offset a disproportionate share of Metro for people outside of the District of Columbia, once again, a structural imbalance where the people who are paying for it are not even getting their dollars' worth.

Mr. WILLIAMS. That is an excellent point. In 2005, I believe, the Metro share climbs up to \$200 million, so you are already cutting the capital budget tremendously in order to meet the kind of per capita debt ratio that is going to satisfy Wall Street, and you have to cut it tremendously in order to just maintain ground with the schools, yet we have got to face this \$200 million of Metro that is going to further crowd out, as the chairman is saying, needed investments.

Senator DEWINE. Doctor.

Dr. GANDHI. If I may just supplement by some numbers here the Council Chairman and the Mayor's point—if you really look at this formula, which is really antiquated, we are now paying around 39 percent of the subsidies, while we hold only about 6 percent of the real property valuation in the region, and only about 20 percent of the workforce is the riders who are on Metro. Any working day, the majority of the people riding Metro are basically regional people, and any working hour, especially in rush hours, the majority of the riders are Federal workers.

Senator DEWINE. Senator Landrieu.

Senator LANDRIEU. Let me ask—and I really appreciate the discussion on Metro, because I think there might be some opportunities there for us to pursue some of the suggestions that all of you have made, Dr. Gandhi, some of us debated within this recent tax relief an opportunity, although it never came to fruition, to allow our cities to save through refinancing, because there are some Federal restrictions right now on refinancing. We did not opt to do that, which I think we should have, because we could have, at no cost to the taxpayer, saved our city some money.

Would that be applicable to you in terms of, if we allowed some refinancing options, and I am not talking about reamortizing the debt, stretching it out, I am just talking about a refinancing to take advantage of potentially lower rates. Have you looked at that to see—

Dr. GANDHI. I appreciate your concern, Senator Landrieu, and I think currently we are exploring every available opportunity to refinance our debt. We want to be absolutely sure that as we refinance, that roughly 15 percent of the total current outstanding

debt should be the limit by which we have new issue of additional general obligation. We also want to make sure that our debt services do not rise above the limits that we have imposed upon ourselves in terms of the overall revenues.

But our fundamental problem, as the Mayor and Mrs. Cropp have pointed out, is that our per capita debt now is among the highest in the country, and we are neck and neck with New York.

Senator LANDRIEU. And what is that? What is your per capita debt?

Dr. GANDHI. That is around, roughly in 2004 it is likely to be around \$5,000 per capita. That is a lot of per capita debt, because we are carrying the debt of the municipality, county, and the State.

Senator LANDRIEU. Correct. It is a combined debt that you are carrying.

Dr. GANDHI. Senator, the chairman had asked me a question about the viability of having an upgrade in the bond rating, but this is one of the things they look at, what is your per capita debt. In per capita debt, we are very high.

Senator LANDRIEU. Well, explore—and if you have any Federal restrictions that are not allowing you to refinance to take advantage of lower rates, let us know, because it may be something that our committee could help you with, because some of us had that idea to allow all the cities to do it in the tax package. It did not make it in the final package.

And finally—I know we have a vote—Mr. Mayor, we are committed, as the chairman, under his leadership, to help on this Anacostia piece. I think it is very important, to find out what the surrounding areas are contributing, because as I think about it, even if we would redo the sewer system here in the District, there are lots of other States or counties that drain into this basin. I should be more clear as to what Maryland and some of the other jurisdictions are doing in terms of their nonpoint pollution source and revitalization of their infrastructure, or is their infrastructure already where it needs to be?

Mr. WILLIAMS. Well, certainly I would say that—and I applaud Senator Sarbanes, the former Governor, the current Governor, county executives, Prince George's and Montgomery County have all pledged their support to the Anacostia Waterfront Initiative, and indeed some steps have been taken certainly on a cosmetic level, although that is important, too, just the trash traps on some on the tributaries up in Maryland, so we at least do not have just huge amounts of floating debris on the top of the river, but above and beyond that, a firm commitment on real dollars to the water clean-up is still forthcoming.

But I think that, you know, were there to be the kind of commitment by this Congress, I think—and certainly there is a commitment here at the local level—we are able to leverage that and get that commitment up there as well.

Senator LANDRIEU. So to do this project, you would need Maryland, primarily, participating. Any other State?

Mr. WILLIAMS. Well, you are talking about three rivers again. You are talking about Potomac, Anacostia, and Rock Creek.

Senator LANDRIEU. So you would need Virginia, Maryland—

Mr. WILLIAMS. The two most polluted, Rock Creek and Anacostia River, you are talking primarily Maryland. When you get into the Potomac, obviously you are talking about ultimately up into West Virginia and Virginia, in the watershed.

Senator LANDRIEU. Okay. Thank you.

PREPARED STATEMENT OF SENATOR PAUL STRAUSS

Senator DEWINE. Senator Strauss has prepared a statement for the record, which will be included.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PAUL STRAUSS

Chairman DeWine, Senator Landrieu and distinguished members of the Senate Subcommittee. I am Paul Strauss, the Shadow United States Senator elected by the voters of the District of Columbia.

I appreciate the opportunity to provide this statement on behalf of my constituents in the District of Columbia. Today I would like to address the District's fiscal year 2004 local budget request to Congress. I would like to state for the record that the locally raised portion District of Columbia budget should not have to go through this process. The fact that there is a congressional hearing devoted to our budget is fundamentally wrong. These hearings have been held in the D.C. Council and the District should not have to submit this purely local portion of the budget to Congress at all.

It is essential to the District of Columbia that Congress pass this budget in time for the new fiscal year 2003. You must avoid getting the local District of Columbia budget held up in Continuing Resolutions. The consequences are severe enough when the Federal Budgets get held up in Continuing Resolutions but the consequences are far worse when applied to the budget of the District of Columbia. When the District of Columbia's budget is held up, needed spending adjustments increases are not allowed to be implemented and the cost of debt services increases. Our local governmental services suffer greatly every new day that our budget is held up.

An easy solution to the dilemma of our budget being held up every year is budget autonomy. The budget autonomy bill in the House of Representatives allows the District Budget to be separated from the Federal Appropriations Process. That is a good step in the right direction but it does not go far enough. Our local budget should have nothing to do with Congress. Since fiscal year 1996, the District of Columbia has continuously provided Congress with a balanced budget. The District of Columbia has demonstrated itself as a competent, governing body, which should allow the District right to reject all policy interference and social riders attempting to regulate the government within the District. It should be the privilege and priority of the government of the District of Columbia, not Congress, to make the District's economic decisions. Although it is a present constitutional prerogative of Congress to exercise oversight of the District and its budgetary needs, it is not always appropriate.

The District of Columbia has submitted a budget that calls for serious investments in education and public services. Mayor Williams, Chair Cropp, and Chief Financial Officer Gandhi have explained the specifics in great detail and I support their efforts in the budgetary requests of the District of Columbia.

I do not mean to suggest that there is no role for Congress in the D.C. Budget process. This committee should focus on resolving the structural imbalance faced by the District of Columbia. The structural imbalance faced by the District of Columbia is one of the major problems concerning the budget. The gap between the District's ability to raise revenue at reasonable tax rates and the District's ability to provide services of reasonable quality to its residents jeopardizes the District's ability to retain residents. Instead of being penalized for residing in the District, they should receive the same constitutional rights as all American citizens.

The government of the District of Columbia needs to be fairly compensated by Congress for the services it provides to Federal agencies. This compensation would provide a solution to the structural imbalance within the District's budget. The District's government represents the citizens of the most unique city in the Nation. The District has repeatedly provided Congress with a budget that has proved to be both sensible and attainable. The outlook for the current fiscal year 2003 budget is being projected as balanced with a surplus. The government of the District has proven

itself to be the best determiner of the expenditures within the District itself. This reoccurring record of balanced and responsible budget management during times of economic hardships and declining revenues is yet another fact that proves the District's elected officials can govern the District. Not allowing the District to have complete control over its spending only increases the structural imbalance in the District which continues to discourage its citizens.

The elected officials of the District work hard to ensure the District is able to attain the locally raised revenue needed to fund various local interests such as public service and education. The city should be able to utilize its tax dollars in a more flexible manner. Allowing the District's government flexibility with its tax dollars would give them an opportunity to provide the community grater benefit from that revenue. Flexible use of locally raised revenue within the District of Columbia would provide the proper funding would ensure the community's public service departments remain secure and stable entities within the city. My constituents have the right to receive needed revenue to meet their children's educational needs. I urge you to approve the proposed budget, as it will be necessary in aiding the improvement of our District's schools. The District submitted a timely budget so Congress has appropriate time to approve it. I again ask that Congress pass this budget before the beginning of the fiscal year. It is unfair the District and its constituents suffer Congressional delays that often disrupt critical improvements such as these within the local government.

I would like to thank you, Chairperson DeWine for the opportunity to present this statement. This budget was carefully drafted in order to benefit the citizens of the District of Columbia. I support this prompt passage without amendment. In closing, let me thank two members of my legislative staff, Matt Helfant and Tricia Torok, for their assistance in preparing my testimony this morning.

SUBCOMMITTEE RECESS

Senator DEWINE. Well, we thank you very much.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Senator DEWINE. I think it has been a very helpful hearing.

Mr. WILLIAMS. Thank you.

Senator DEWINE. Thank you.

[Whereupon, at 11:23 a.m., Wednesday, June 11, the subcommittee was recessed, to reconvene subject to the call of the Chair.]