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# B64 ISSUANCE OF BONDS AND EXAMINATION OF FISCAL AFFAIRS

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## HEARING BEFORE THE COMMITTEE ON THE DISTRICT OF COLUMBIA UNITED STATES SENATE NINETY-FOURTH CONGRESS

FIRST SESSION

ON

### S. Con. Res. 78

DISAPPROVING THE ACT OF THE DISTRICT OF COLUMBIA  
COUNCIL (1-57) ENTITLED "AN ACT TO AUTHORIZE THE  
ISSUANCE OF \$50,000,000 GENERAL OBLIGATION BONDS OF  
THE DISTRICT OF COLUMBIA TO REFUND CERTAIN LOANS  
MADE TO THE DISTRICT FROM THE UNITED STATES  
TREASURY"

AND

OVERSIGHT ON EXAMINATION, INVESTIGATION, AND AU-  
DITING OF DISTRICT OF COLUMBIA FISCAL AFFAIRS

DECEMBER 2, 1975

Printed for the use of the  
Committee on the District of Columbia



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(II)



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## ISSUANCE OF BONDS AND EXAMINATION OF FISCAL AFFAIRS

TUESDAY, DECEMBER 2, 1975

U.S. SENATE,  
COMMITTEE ON THE DISTRICT OF COLUMBIA,  
*Washington, D.C.*

The committee met, pursuant to notice, at 9:30 a.m. in room 6226, Dirksen Senate Office Building, Senator Thomas F. Eagleton (chairman) presiding.

Members present: Senators Eagleton, Mathias, and Bartlett.

Also present: Robert Harris, staff director and general counsel; Colbert I. King, minority staff director; and Andrew Carron, professional staff member.

The CHAIRMAN. Good morning, ladies and gentlemen. The Senate District of Columbia Committee will now be in session. This hearing has been called to consider Senate Concurrent Resolution 78.

This resolution would disapprove District of Columbia Council Act 1-57 authorizing the issuance of \$50 million in bonds. The committee expects to hear testimony which will enable it to decide on the advisability of proceeding with a bond offering at this time.

All six of my colleagues on the committee have cosponsored this resolution, and I believe I speak for all of them when I say that there is no more compelling economic issue today than that of municipal finances. This is a topic which demands the most searching investigation.

When the Home Rule Act was passed by Congress in 1973, a large measure of control over the District of Columbia was turned over to the local elected government. Congress retained veto authority over acts passed by the Council, although to date it has not been exercised.

In the fiscal area, however, Congress retained express authority, as well as the general veto power. There was some difference of opinion on this subject when the home rule bill was before the two Houses, but it was finally the will of Congress that sound public policy required retention of jurisdiction in the fiscal sphere.

As a matter of law, Congress—and specifically the two Committees on the District of Columbia and the two Appropriations Subcommittees—must consider and consent to the annual budgets and any other city legislation which bears on financial matters. I must emphasize that this is not a question of interpretation or judgment, it is the law.

So as the bonding authorization moved through the city's approval process, I directed the staff of the Committee on the District of Columbia to begin studying the ramifications of this action.



When the Council approved the bond issue and submitted it to Congress, I asked for the information necessary to make an informed decision on the merits of this action. Let me explain briefly what I have discovered and my reasons for introducing the resolution of disapproval.

The Home Rule Act gave the District of Columbia authority to sell municipal bonds to the public for the first time. That is what the Council seeks to do. Also in the Home Rule Act, first claim on the annual Federal payment was given to debt service. There would be, in effect, a Federal umbrella over District of Columbia bonds.

Today, the bulk of the \$250 million Federal payment goes toward normal and necessary operating expenses. The Federal payment is one of four major items in the District budget.

The other three items are locally raised revenues on the income side, and operating expenses and debt service on the outgo side of the ledger. These four budget components must remain in balance. Future income and expenditures are therefore inextricably linked both to the ability to meet debt payments and to the potential claim on the Federal budget.

It is in these areas of spending and taxing that my reservations lie. Today's hearing is intended to enumerate and explore some of these topics; for example, unfunded pension liabilities, operating deficits, accounting for expense items, the size of the payroll, and the stability of the tax base. Other aspects may also be relevant, and I encourage the witnesses to explore those that they may consider important.

I have examined some of these issues, and it is my conclusion that not enough is known about the District's financial situation to permit the bonding authority to go through at this time.

As chairman of this committee, I have a quasifiduciary responsibility—to Congress, the Nation, and the District—to intervene when the facts dictate. I would be remiss if, having these questions unresolved, I were to remain silent and permit these bonds to go through with the implicit cachet of the Senate and Congress.

Even though the bonds are intended only to refinance existing debt, they mark the entry of the District into the municipal bond market and the first sale of District securities to the general public.

Before any bonds are marketed, I want to be assured that investors can be paid off in a timely fashion and that the implications for the Federal budget are very clearly understood.

The future fiscal viability of the District is at the heart of this issue. We have seen clearly in the case of New York City what can happen when seemingly minor problems are left alone to fester.

I do not mean to suggest that the problems of the District are identical to those of New York. Yet, the symptoms are distressingly similar, and they are better addressed now rather than later.

I intend to call a series of hearings next year which will look into these areas. My goal is to assure the health of the District of Columbia over the rest of this country. Central to this goal are two objectives: the maintenance of necessary municipal services, and the establishment of tax policies designed to enhance the revenue base. The size of the Federal payment necessary to close any gap between income and outgo must also be discussed.

As a result of these investigations and hearings, the District of Columbia will be healthier, more sure of its future, and better able to enter the municipal bond market having had these problems raised



and resolved. In the meantime there may be some dislocation and plans may have to be changed.

The committee, I believe, would be sympathetic to requests from the city for special borrowing authority necessary to bridge this period of investigation. No city, especially the District of Columbia, can stand still for a year or more while its problems are being worked out.

We understand that, and we will consider fiscal remedies for the short term even as we discuss the greater long-term issues. But to proceed with the bond issue now would only postpone the day of reckoning and intensify the problem which must inevitably be confronted.

I now place in the record a copy of S. Con. Res. 78.

[The resolution referred to follows:]

## CONCURRENT RESOLUTION

Resolved, That the Senate and House of Representatives do hereby

concur in the resolution of the House of Representatives, passed

January 10, 1934, and amended, relating to the

provision of a loan to the District of Columbia

for the purpose of enabling it to meet its

obligations, and for other purposes.

Enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

January 10, 1934.

Attest: My hand and the seal of the Senate this

fourth day of January, 1934.

WILLIAM H. HARRIS, Secretary of the Senate.

Attest: My hand and the seal of the House of Representatives this

fourth day of January, 1934.

CLAYTON K. LADD, Clerk of the House of Representatives.



94TH CONGRESS  
1ST SESSION

# S. CON. RES. 78

## IN THE SENATE OF THE UNITED STATES

NOVEMBER 20 (legislative day, NOVEMBER 18), 1975

Mr. EAGLETON (for himself, Mr. BARTLETT, Mr. GARN, Mr. GLENN, Mr. INOUE, Mr. MATHIAS, and Mr. STEVENSON) submitted the following concurrent resolution; which was referred to the Committee on the District of Columbia

## CONCURRENT RESOLUTION

Disapproving the Act of the District of Columbia Council (1-57) entitled "An Act to authorize the issuance of \$50,000,000 General Obligation Bonds of the District of Columbia to refund certain loans made to the District from the United States Treasury".

1      *Resolved by the Senate (the House of Representatives*  
2      *concurring)*, That the Congress disapproves of the action  
3      of the Council of the District of Columbia described as  
4      follows: The Act enacted by the Council of the District of  
5      Columbia (1-57) entitled "An Act to authorize the issuance  
6      of \$50,000,000 General Obligation Bonds of the District of  
7      Columbia to refund certain loans made to the District from  
8      the United States Treasury", passed by the Council of the



1 District of Columbia on October 21, 1975, signed by the  
2 Mayor of the District of Columbia on October 22, 1975, and  
3 transmitted to the Congress on October 24, 1975, pursuant  
4 to section 602 (c) (1) of the District of Columbia Self-Gov-  
5 ernment and Governmental Reorganization Act.



The CHAIRMAN. Senator Mathias, the ranking minority member of the committee is with us. He may make any comments he would wish to make.

Senator MATHIAS. Mr. Chairman, I would like to submit a prepared statement which sets forth my general views on this subject.

The CHAIRMAN. Without any objections, it is so ordered.

Senator MATHIAS. I might comment just briefly. I would like to thank the chairman for his promptness in convening this hearing, because if there is one thing that is certain it is the uncertainty on the question of the bond issue. It would be a very great burden for the District to bear. I think we have to resolve the question now that it has been raised.

I think the chairman was very wise in having pushed forward this hearing today. I will be guided by the kind of testimony in evidence which is brought before the hearing on any decision that I make.

I would say that the yardstick that I would use is a very simple one and one I have applied before and that is whether the Bond Act is constitutional, and whether it is in harmony with the Home Rule Act, and whether or not any Federal interest is involved.

I think, clearly, there is no question of constitutionality or legality other than the Home Rule Act. So the central issue becomes whether the entry of the District of Columbia in the municipal bond market at this time, given the state of local and city financial health, and the market itself, poses any threat to the Federal interest so as to warrant the congressional disapproval of Act 1-57.

I think to reach a sound decision on this matter, we should have a precise understanding of the city's fiscal posture and the direction in which the District is heading.

Mr. Chairman, I will present the balance of my statement for the record.

The CHAIRMAN. Thank you very much, Senator Mathias.

[The prepared statement of Senator Mathias follows:]

PREPARED STATEMENT OF SENATOR CHARLES McC. MATHIAS, JR., RANKING REPUBLICAN ON THE SENATE COMMITTEE ON THE DISTRICT OF COLUMBIA

#### HEARINGS ON SENATE CONCURRENT RESOLUTION 78

At the time I joined with the chairman and all members of this committee in introducing a concurrent resolution disapproving the proposed bond issue by the Government of the District of Columbia, I announced my intention to actively participate in hearings on the fiscal situation in the Nation's Capital. I also stated that the introduction of this resolution followed promptly by comprehensive hearings was a prudent step to take, particularly in light of the New York City financial crisis. I pointed out, however, that my final decision on the resolution to disapprove the proposed bond issue would be determined by the evidence presented to the committee. I am pleased, therefore, that the chairman has decided to hold early hearings, and I anticipate that the testimony we receive will prove useful to each member of the committee.

Before we turn to the witnesses, I would like to make a few brief observations.

The Home Rule Act provides that acts of the city council shall lie before the Congress for 30 legislative days during which time they must be reviewed by the Senate and House District of Columbia Committees. The Home Rule Act also provides that the Congress may disapprove an act of the council if such action is deemed necessary. The legislative history of the Home Rule Act is abundantly clear on one point: The Congress carefully and deliberately delegated certain authority to and imposed certain limitations on the elected mayor and city council. At the same time, the Congress reserved, full, residual, ultimate and exclusive legislative jurisdiction over the Nation's Capital in conformity with the constitutional mandate.



Today's hearing, therefore, should be regarded as congressional observance of our constitutional obligations and the committee's adherence to the applicable provisions of the Home Rule Act.

As noted earlier, Senate Concurrent Resolution 78 would disapprove the D.C. City Council's Act, 1-57, which is now pending before this committee. The purpose of Act 1-57 is to authorize the issuance of \$50 million in general obligation bonds of the District to refund loans of \$6 million and \$44 million made this year from the U.S. Treasury.

On previous occasions, I have stated that I shall be guided by three basic questions as I consider legislation passed by the city council. First of all, I will ask whether the legislation observes constitutional limitations as all lawmaking must. Secondly, whether the legislation passed by the council observes the expressed or implied restrictions in the Home Rule Act. My final consideration is whether the legislation will adversely affect that pervasive element called the "federal interest."

The home rule act does provide authority to the District to issue long-term general obligation bonds, revenue bonds and short term notes, subject to congressional approval. The authority of the council to pass act 1-57, therefore, is unquestioned. Similarly, no congressional issue is present in this case.

There is, however, a clear and indisputable federal interest at issue here.

Act 1-57 pledges the full faith and credit of the District of Columbia for the payment of the interest and principal on the bonds when due. Backing up this pledge is the federal payment, which represents a substantial financial commitment on the part of U.S. taxpayers to the District of Columbia. As the city's bond counselors have noted, the sinking fund provision and the availability of the federal payment to make up deficits "immeasurably strengthens the general security of the bond and its marketability."

The central issue in this hearing, therefore, is whether the entry of the District of Columbia into the municipal bond market at this time, given the state of both the city's financial health and the market itself, poses a sufficient risk to the federal interest to warrant congressional disapproval of act 1-57.

To reach a sound decision on this matter, this committee should have a precise understanding of this city's fiscal posture; equally important, we need to know the direction in which the nation's capital is heading.

This week the Congress will take up legislation which addresses the New York City fiscal crisis. As we discover the roots of that crisis, this committee must ask itself whether our nation's capital could, one day, suffer a similar fate. We read, for example, that while New York City, under State law, is required to balance its budget, that the city continually ran up deficits by resorting to fiscal gimmicks to get around the balanced budget requirements. We are now aware of the slow growth in New York City's residential property tax rolls; that rent control has cut into New York City's tax revenues, which has caused housing stock deterioration, abandonment, and tax delinquencies. We read about New York City's growing revenue needs, and its shrinking tax base. We read about the large growth in the number of municipal employees and their salary levels, the inadequately funded pension liabilities and, the city's costly system of higher education. We hear about the city's practice of funding deficits by short-term borrowing in anticipation of revenues that never materialize. We learn about the scheme by which operating expenses were piled into the capital budget and funded through long-term borrowing. We now see the sad day of reckoning in the "big apple."

By no means do I suggest that the District of Columbia is on the verge of becoming a New York City. On the contrary, the District does not face problems of the magnitude of the big apple's. But what are the problems here? Are these problems addressed, and if so, are they being addressed adequately? To what degree do they resemble New York City's? Are these problems being addressed, and if so, are they being addressed adequately? Are the District's problems of such a magnitude that the Congress should prevent the new government from entering the municipal bond market at this time? These hearings, I hope, will assist the committee in finding the answers to these questions.

The CHAIRMAN. I am pleased to have as our first witness this morning the distinguished Mayor of the District of Columbia, Mayor Walter Washington, accompanied by Mr. Julian Dugas and the budget officer of the city, Mr. Comer Coppie. Mayor, we welcome you, and you may proceed as you wish.



Your prepared statement, in its entirety, will be placed in the record at the conclusion of your testimony.

**STATEMENT BY HON. WALTER E. WASHINGTON, MAYOR OF THE DISTRICT OF COLUMBIA, ACCOMPANIED BY JULIAN R. DUGAS, GENERAL ASSISTANT, AND COMER S. COPPIE, SPECIAL ASSISTANT FOR BUDGET AND MANAGEMENT SYSTEMS**

Mayor WASHINGTON. Thank you, Mr. Chairman.

I would like to open with just a couple of parenthetical remarks that are not in my prepared statement and that is that certainly, Mr. Chairman, we are fully aware of our role as a new government. Only 11 months ago, we were sworn in as the first elected District government. In short, until quite recently, the residents of the Nation's Capital were denied the same rights that the Congress has worked to guarantee to the residents of other communities.

As I testified before this committee, the historical record is very much on my mind. It is very much on the minds of the people of the District. It should be on everyone's mind.

Mr. Chairman, there is something we can learn from the ineptness and the distortion that were displayed on the debate of the fiscal crisis of New York State and New York City. The problems of the States are inherent to the condition of urban America. They do not lend themselves to simple solutions that are formulated merely by examining their balance sheets. The bottom line, as I say, is not fiscal, it is structural and social.

I thought it was somewhat unique that as I heard from the mayor's meeting in Miami, that the problem of the urban crisis seems more demanding than ever. It is also unique that on this day one part of the Congress is dealing with the matter of New York and putting it in condition to function which I fully support. But in this hearing, we are dealing with not \$2.3 billion, or any money, but simply the ability of this Government to use the power that the Congress recently gave them to float a first issue of bonds.

To me, it is somewhat ironical that that condition exists while we deal with this city. I call attention to that because in reading from GAO's July 1975 document here on evaluating governmental performance, it points out—and I quote on page 93 of that document—"Few cities"—

The CHAIRMAN. Are you reading from your prepared testimony?

Mayor WASHINGTON. No, I am not. I will offer this for the record. It is just a paragraph.

The CHAIRMAN. All right. It is going to make it a bit difficult to examine the witnesses without the prepared statement, but we will do our best.

Mayor WASHINGTON. Mr. Chairman, you will not have more than a paragraph or two parenthetically and this is only a paragraph:

Few cities have had closer scrutiny than the city of Washington, not only by GAO and the Congress, but by millions of visitors each year from the United States and overseas. We all have an interest in making the city a model reflecting the goals and aspirations of urban America.

I pause, Mr. Chairman, and offer that for the record so that you might have this document.



The CHAIRMAN. Without objection, it will be received.  
[The document referred to follows:]

#### INTRODUCTION

Today we are privileged to have with us a man who is well known to us, not only for his extensive knowledge of several areas related to GAO audit efforts, but also for his able leadership of our community government. Our speaker is the Honorable Walter E. Washington, Mayor-Commissioner of the District of Columbia, and nationally recognized housing expert, public administrator, and civic leader. Mayor Washington is a career public housing official who has directed both the National Capital Housing Authority and the New York City Public Housing Authority.

During his service with NCHA, he created the nation's first turn-key project. This method of providing low-rent public housing proved to be a viable alternative to conventional methods and has been used successfully throughout the country since that time. In 1967, Mayor Washington's outstanding leadership talents were recognized by President Johnson, who nominated him as the first Mayor-Commissioner of the reorganized Washington, D.C., government. He was renominated for the second and third terms by President Nixon.

Few cities have had closer scrutiny than the city of Washington, not only by GAO and the Congress, but by millions of visitors each year from the United States and overseas. We all have an interest in making the city a model reflecting the goals and aspirations of urban America. Mayor Washington has faced, and faces today, many difficult social and economic problems which are characteristic of an urban environment. He has faced these problems with imagination and forthrightness.

GAO has directed considerable effort toward the review and evaluation of District programs and Federal programs involving the District, sometimes critically but, hopefully, constructively. We in GAO have a relationship with Mayor Washington and his administration which goes beyond that of mutual concern about urban development. Although Washington, D.C., functions primarily as a city, and as such its government must deal with all of the problems and challenges of any great city, the District government must also perform for District residents most functions which are performed elsewhere by state, county, and local governments. In addition, the District of Columbia resembles a Federal agency in many respects.

The man who directs such a government whose constituents include District residents, the region, Federal agencies, the White House, and the Congress must be dedicated, far-sighted, and capable. Mayor Washington is such a man. He is nationally recognized as an innovative public administrator with tremendous capacity to handle a wide variety of difficult problems of urban government. He has received numerous, well-deserved awards and university honors, both before and during his service as Mayor-Commissioner.—*Comptroller General*.

(From: Evaluating Governmental Performance: Changes and Challenges for GAO (July 1975). A series of lectures delivered at the U.S. General Accounting Office 1973-75.)

Mayor WASHINGTON. Now, I will go back to my prepared statement.

Senate Concurrent Resolution 78 calls for the disapproval of the act authorizing the issuance of the first general obligation bonds of the District of Columbia. The authority to issue bonds was regarded as one of the major tools of self-government granted to the District by the Congress under the home rule charter.

Pursuant to that authority, the Council of the District of Columbia passed and I signed an act to authorize the issuance of \$50 million of general obligation bonds to refund a portion of the city's outstanding debt to the U.S. Treasury.

What we are proposing to do is to shift a portion of our current debt from the Treasury to the private capital market through the issuance of the \$50 million of bonds. The planned bond issue does not represent 1 cent of new debt on the part of the District. The city presently owes the \$50 million to the Treasury.



The District will not refinance the Treasury loans unless it can do so at reduced interest costs. The District charter gives the Mayor the option of rejecting all bids offered by the bond issue, and I will exercise that option if appropriate. In addition, the bond authorization act now before this committee sets a maximum interest rate of 8 percent for any maturity of the bonds.

Let us be clear about what the concurrent resolution will and will not do. It will not result in savings to the District by halting the proposed bond issue. Nor will it keep the city from incurring additional debt. What passage of the resolution will do is keep the city from beginning to realize the benefits of its recently granted bonding authority at a time when every possible means should be used to reduce the costs.

The District was granted the authority to borrow on the tax-exempt market, as do other State and local governments, by the District charter. The city had sought bonding authority for some time so that we could realize the interest cost savings associated with tax-exempt bonds. Savings of millions of dollars are possible.

The Treasury charges the District interest at the rate the Federal Government pays on its own long-term borrowings. The income on Federal bonds and notes is subject to taxation. State and local governments have generally been able to borrow at lower interest rates than the Treasury rates because the income earned by holders of their bonds is not subject to Federal taxation. In effect, the Federal Government subsidizes the borrowing costs of State and local governments, with the exception until now of the District of Columbia.

Savings from the proposed refinancing can be substantial. With an interest rate of 8 percent and repayment over 30 years, the annual debt service on \$50 million is \$4,441,372. The District would save more than \$400,000 a year on 30-year bonds sold at 7 percent and more than \$800,000 a year with bonds sold at 6 percent. At 20 years, at 1 percent, this would amount to approximately \$8 million during that period.

I do not believe that the disapproval action can be justified on the basis of the merits of the specific bond issue to be authorized. The refinancing issue we have proposed represents a responsible approach to administering the District's current debt.

Mr. Chairman, it is parenthetically the only thing we have here that we see will save money for the taxpayers. That is why we strongly urge you to consider permitting this to go forward.

More than the merits of the proposed bond issue has been discussed in connection with the concurrent resolution. Questions have been raised about the city's fiscal condition—its strengths and its weaknesses. Our present situation is in part the result of actions taken by the Congress during the years in which it exercised sole legislative authority for the District. That is true for our strong points as well as our problems.

I would like to take this opportunity to discuss some of the issues that have been identified.

I point out that many people have expressed concern about the size of the District's capital improvement program, and it is certainly true that the financing of the city's capital projects represents a significant obligation on the part of present and future District residents.

It is clear, however, that the building program was and is necessary and that it represents a valid investment in the future of this



city. We will be reaping the benefits of that investment for decades to come.

The District is not embarking on a massive building program. An extensive and urgently needed building program was started in the late 1960's to replace or modernize obsolete and deteriorating public facilities that had been neglected for decades and to meet new or growing needs for facilities.

We are replacing or improving overcrowded and outdated schools. Some schools were called shameful Shaw, for instance, and hideous Hine, just a few blocks behind us, schools of that sort that our young children were trying to study in. Many of these were built over a half a century ago. We are modernizing public safety facilities, including the replacement of the 100-year-old jail, which we all have been reading about. We are providing for improved mass transit, better recreational facilities, modern health care facilities, and, indeed, a court building.

Not so long ago, we were walking our prisoners from one station to another in broad open daylight, because of the inadequacy of a court facility.

I would point out again, Mr. Chairman, parenthetically that this capital improvements program is the bricks and mortar that are in this city now in every neighborhood that can be seen and provide the base for the city's future and the future that is so important, because they have had a part in it.

Most of our planned projects have already been approved and are under way. The peak period for capital outlay appropriations was fiscal years 1972 through 1975, when \$780 million in capital funds was authorized by the Congress. Not one of these projects—not one of them—have come forward without the Congress of the United States passing upon them, authorizing them, financing them, as we have moved forward.

We now have 76 projects under construction and another 47 projects in the design stage. We expect the amount of the District's debt to increase from the current \$1 billion to approximately \$1.6 billion to complete those projects. Our 6-year capital planning program calls for new projects with a total cost of less than \$300 million.

I would say again, parenthetically, I think we have peaked. I think that we have neared the point where we have met our basic facility needs in just about every area—from schools, to playgrounds, to swimming pools, to a new jail, to a modern courthouse, and to many other of those facilities that are the backbone of any community; and the necessary backbone in order for a city to maintain itself or else it deteriorates.

On the retirement system, and I would say, Mr. Chairman, that we have not dealt with all of these items in complete depth. We have identified them because we were not exactly sure which of the items and how far you wanted us to go. We have identified them. We are prepared to discuss them in whatever depth you may desire.

Another subject that has received considerable attention is the financing of the city's employee retirement programs. The District has fulfilled its financing responsibilities under law for all its employee retirement systems, on a pay-as-you-go basis.

The Congress had access to detailed studies on the financing of those systems at the time the home rule legislation was enacted. The charter



appropriately provided for the protection of the pension benefits for current employees. In other words, it grandfathered in all of the existing rights that existed prior to home rule and those rights are retained by the employees.

Nearly two-thirds of the city's employees are covered by systems administered either by the Federal Government or by a private organization. General schedule and wage board employees are covered by the Civil Service System; certain employees are under the Social Security System; and higher-education personnel are covered by a private system.

The District administers three pension systems that cover about 36 percent of the total workforce. Included under those systems are: Police officers, firefighters, public school teachers, and judges. Funds have been established for the last two systems. The police and fire retirement system is completely on a pay-as-you-go basis.

The benefits levels and other features of the three systems were established by Acts of Congress. The police and fire retirement system was created in 1916 and established in much its present form in 1957, long before we came on the scene.

The teachers pension system was created in 1920. The act of June 4, 1957, set the basic form of the system as it is today. Both of those, 60 years old, and then suddenly this becomes a great and momentous problem for the city in its first 11 months of home rule.

The existence of unfunded liabilities for those three systems has long been known to District officials and to the Congress. We initiated actuarial studies of the systems in 1971. The city's first issue analysis report, released in November of 1972, described the financing of the systems and presented the estimates of unfunded liability. Additional effort is not needed to identify the problem but to reach agreement on how to deal with it.

In the spring of 1974, we presented alternatives for funding the police and fire and teachers retirement systems to the Congress. Those alternatives called for Federal contributions to help establish funds for the systems on an actuarial basis, basically because these systems were 50 years old. No congressional action was taken on those proposals.

Given the present financial pressures on this city and all local governments, it is unrealistic to expect the District to go immediately to a funded system without Federal assistance. There has been strong Federal involvement in the development of the city's retirement systems. Therefore, there should be an equally strong degree of Federal involvement in the financing of those systems.

Mr. Chairman, the thing that sort of concerns us is that the unfunded nature of the retirement systems suddenly becomes something for us to deal with.

Now, I call your attention to GAO's own report where it points out here that there is no uniform practices or principles existing on financing Federal retirement systems. Some systems are financed on a contributory basis; some on a noncontributory basis; some fully funded and some are completely unfunded. Then it points out something that may be startling, even to the members, that the unfunded liability of the Federal retirement systems was an estimated \$201 billion at the end of fiscal 1973.



The CHAIRMAN. On that point, Mayor, I think Congress is going to have to pay equal attention to this whole retirement system as it is now paying attention to the District of Columbia retirement system.

Mayor WASHINGTON. Mr. Chairman, this problem is that we are part of that system.

The CHAIRMAN. The Federal Government's system is underfunded. There is no excuse for a city system to be underfunded, just to make the record clear. This was before Congress. This predated your coming in as mayor. You are saddled with it. The question is how to extricate ourselves from this pension dilemma.

Second, while you are on that point of quoting the General Accounting Office, of the 20 largest cities in the United States, how many have unfunded pension systems?

Mayor WASHINGTON. I cannot tell you offhand, but I can find out.

The CHAIRMAN. Very few.

Mr. COPPIE. Mr. Chairman, I think that point needs to be clarified. Better than two-thirds of our employees are covered by a funded system.

The CHAIRMAN. Yes; two-thirds of your employees are under the general pension requirements of the Federal Government.

Mr. COPPIE. That is right.

The CHAIRMAN. I am addressing myself to those two programs that are unfunded. I am talking about police and fire.

Mr. COPPIE. A substantial number of major cities across the country have unfunded police and fire retirement systems.

The CHAIRMAN. They may be underfunded but—

Mr. COPPIE. Substantial number of unfunded retirement systems.

Mayor WASHINGTON. We will present that to you. My point, Mr. Chairman, is that we are in that system. What has come out of perspective is that the city has something new in an unfunded liability. I tried to point out that this is not new. Here sits the Federal Government with \$201 billion. So obviously it is somewhere around. You know, we simply did not want to be drawn out as an unusual unit of government and that is why I am making that particular point for us.

Do not misunderstand, Mr. Chairman. I am not asking for special consideration of this jurisdiction. I am only trying to point out that we are in a system. We are part of a \$201 billion system which is unfunded and we do have the others which are unfunded. I am only trying to get this in perspective because this is not an unusual situation that seems to me would bear on whether or not we issue bonds where we would be making money.

The matter of the number of employees has been raised. Comments have been made about the level of employment in the city government. It is true that, on a per capita basis, the District has a comparatively large number of public employees. Employment figures must be looked at, however, in the context of the District's totally urban character and its multijurisdictional responsibilities. We carry out services and programs provided at the State, county, and municipal levels elsewhere.

For example, the District is responsible for full water and sewer services, which are often provided by a separate district or authority in other localities.



Educational services from preschool through higher education are provided by the District. Education is not found in many municipal budgets. In addition, the District carries out State-level correctional, judicial, and highway programs. Yet, the District is still most often compared with city governments.

We maintain, parenthetically, you are comparing apples and oranges.

Also, the city must serve a large daytime population of commuters and the millions of tourists who visit the Nation's Capital each year—thank heaven. We appreciate that. We want more of them. I hope the 35 million get here, Mr. Chairman.

The CHAIRMAN. Where are they going to park?

Mayor WASHINGTON. Well, we are working on that every day but, of course, under this provision of bonding, we may not be able to get to it, Mr. Chairman.

That does not mean that we are not also concerned about the level of city employment. I want to point out that we have started a program of performance measurement and productivity improvement to help insure that current employees are providing a high level of services for the dollars spent and to make certain that staffing levels can be justified.

Mr. Chairman, if I can be spared a bit of humor here. We got into productivity from the New York experience. I am not too sure that our productivity program is one that we are going to pursue in that framework. They have started on that program and we have accelerated to a great degree and we believe it is working. But the important point on employees is that since 1971, the city has abolished approximately 6,000 positions.

Current plans call for a reduction in the number of city employees on the payroll to about 35,000—not 40,000—but 35,000 by the end of the current fiscal year to help finance recent employee pay raises.

We believe that if you will look at that attrition rate and that area which New York has used and they have, by attrition for the most part, cut back from 300,000 by about 40,000. This attrition rate itself—

The CHAIRMAN. Mayor Beame testified before a committee that they terminated 38,000 employees. Terminating is a nice word for “getting rid of.”

Mayor WASHINGTON. We have looked at some of those figures. He also hired some of them back.

The CHAIRMAN. He did not say that.

Mayor WASHINGTON. But I know that. I am only saying that we have gone in a substantial degree into attrition. We hope that both the Council and the executive branch set a course where we could deal with the level of services and hopefully reach a nonreduction in force in the place of unemployment.

The CHAIRMAN. Since you have raised New York, and since it will be mentioned elsewhere in the hearings, Mayor Beame did testify that he did terminate 38,000 employees, but he did not want to do so. But he was mandated to do so by the Big Mac board. He had no choice but to terminate 38,000. It was not by attrition. He used the word “terminate,” which is the gentle word for dismiss or fire.

Mayor WASHINGTON. All I am saying is that we have moved ours from 40,000 or better. In 4 years, we have eliminated 6,000 and we are



down to a goal of 35,000 which we are hopeful that we can reach by the end of the fiscal year which is the goal we have set.

The adequacy of the District's financial reporting and financial management systems has been questioned.

The District issues a complete financial report each year. Our annual appropriations requests receive intensive review by two committees of the Congress, which hold hearings and receive highly detailed budget justification.

Over the years, we have submitted to the Congress numerous studies and reports on such subjects as: comparisons of city employment and expenditures; retirement program financing; capital improvements plans and financing; projections of expenditures and revenues.

I must say in all candor in my period of service, both before the Home Rule Act and since, that I found those appropriation committees not only most sharp with the pencils but on the other hand, most understanding of the needs of the city. We have not gone without careful attention to any period of time that I have been functioning without that kind of very close scrutiny by those respective committees.

The reason I mentioned that is that a number of the issues that we are now addressing are issues that are now, even this moment, precisely before the House Appropriations Committee and, again, will come up before the Senate Appropriations Committee starting December 5. So that yearly they have been examined and yearly they have come through with some of the outstanding Members of this body having served in that capacity, and having raised great questions, men whose names are in the history of this body.

But I would say further, if I might, I will point out what I was trying to say about the functions on the same document which I introduced in the GAO's report by the Comptroller General. He points out even better than I have that although Washington—on the same page—"Although Washington, D.C., functions primarily as a city, and as such its government must deal with all of the problems and challenges of any great city, the District government must also perform for District residents most functions which are performed elsewhere by State, county, and local governments. In addition, the District of Columbia resembles a Federal agency in many respects."

This is a point, that I think as we look at it with further examination, you are going to find more and more that—not only the Federal budgeting but the Federal accounting—basically we are in a Federal system.

It just seemed to me, Mr. Chairman, if I might be allowed, that we have in our audit staffs, the GAO and our own audit staff, identified areas for improvement in the financial management of the District government, and we have moved to make the necessary improvements. It was somewhat of a shock to me to find that the GAO felt that they could not audit us and they audit the Defense Department. I could not see much in the District that is unrelated to that system. But, nevertheless, we know that the structure and content of the city's financial reports have been largely determined by the requirements of the Federal Government and are, therefore, not comparable with the usual municipal reporting practices. That is my point.

We are reviewing and revising the city's reporting to conform more closely with the standards generally accepted for the State and local



governments in our home rule period, but this effort is in the early stages, as we have pointed out to you.

There has been a continuing effort to strengthen the District's financial management system to insure better control of obligations and expenditures and to support improved management of all city resources. One aim of the effort has been to unify the various systems that have developed over the years. The General Accounting Office has assisted the city in this process.

No discussion of municipal finance would be complete without mention of the problems facing New York City, and many comparisons have been made between New York and the District, why, I do not know, because this is not New York City.

I noticed just yesterday at the conference of Mayors, Mayor Beame said that he hopes to be in balance in his budget by 1977 or 1978. Mr. Chairman, at no point, has this city been out of balance.

The first thing we start with on the House side—the first question is the budget and balance. We have maintained a balanced budget throughout. This is not a goal. This is a reality. Peculiarly, it is a law. I think we are the only institution or organization in the Federal Government that requires a balanced budget by law. All of the other Federal agencies—and we have functioned that way—have not had to balance their budgets, but we have had to.

Like almost all major cities, the District does have problems, however, problems that cannot be readily solved at the local level. We realize that. We believe that responsible action by the Congress and the President to deal with the problems of the Nation's cities is long overdue.

What the cities need is Federal assistance with adequate resources, to help us deal with spiralling inflation, unemployment, and other factors that characterize the urban crisis.

This is especially true for income maintenance and other problems of low-income residents of the major urban centers. The causes of poverty are found in economic and social patterns that extend far beyond a particular locality. They are national patterns and problems. I am delighted to see that we are beginning to turn our attention to those. From the standpoint of New York, perhaps all of us will have a kind of attention that will come to deal with these broader problems that no community, local or State, can solve by themselves.

Our financial advisor has indicated that the District's bond issues will not be adversely affected by the problems of other major cities to the extent that we can distinguish the District's financial situation from other cities. We believe we can show the greater strengths and stability of the District of Columbia in comparison with many major cities.

As the Nation's Capital, the District has a higher degree of economic stability than do many other jurisdictions. Government employment and tourism remain strong contributors to the city's economic basis and help shield the District from the adverse effects of national economic difficulties.

We have used the provisions of the District charter that permit the city to establish a fund for the repayment of debt service and that provide for the Federal payment to be used as security for the repayment of principal and interest on the bonds to the extent necessary.



We have not suffered from the chronic budget and financing problems that we have seen in many other major cities.

In addition, the District has the benefit of a more balanced revenue base than most other State and local governments. The District has a progressive individual income tax, a range of sales and gross receipts taxes, property taxes, and a special annual Federal payment.

I would now like to return to the starting point for these hearings—the city's first bond issue. We have been planning for a date of sale in early 1976 for the proposed refunding of \$50 million of outstanding Treasury debt.

We will not, and cannot, conclude the sale unless the result will be a reduction in the interest rate that the city is currently paying on those borrowings.

The authority to issue bonds was one of the major elements of self-government granted under the new District charter. I would sincerely hope that the Congress will not keep the city from exercising that authority.

Mr. Chairman, we will be happy to take your questions.

The CHAIRMAN. Thank you very much.

[Mayor Washington's prepared statement follows:]



STATEMENT OF WALTER E. WASHINGTON

MAYOR

DISTRICT OF COLUMBIA

ON SENATE CONCURRENT RESOLUTION 78

BEFORE THE COMMITTEE ON THE

DISTRICT OF COLUMBIA

UNITED STATES SENATE

DECEMBER 2, 1975



Mr. Chairman, Members of the Committee:

Senate Concurrent Resolution 78 calls for the disapproval of the act authorizing the issuance of the first general obligation bonds of the District of Columbia. The authority to issue bonds was regarded as one of the major tools of self-government granted to the District by the Congress under the home rule Charter. Pursuant to that authority, the Council of the District of Columbia passed and I signed an act to authorize the issuance of \$50 million of general obligation bonds to refund a portion of the city's outstanding debt to the United States Treasury.

What we are proposing to do is to shift a portion of our current debt from the Treasury to the private capital market through the issuance of the \$50 million of bonds. The planned bond issue does not represent one cent of new debt on the part of the District. The city presently owes the \$50 million to the Treasury.

The District will not refinance the Treasury loans unless it can do so at reduced interest costs. The District Charter gives the Mayor the option of rejecting all bids offered for the bond issue, and I will exercise that option if appropriate. In addition, the bond authorization act now before this Committee sets a maximum interest rate of 8 percent for any maturity of the bonds.

Let us be clear about what the Concurrent Resolution will and will not do. It will not result in savings to the District by halting the proposed bond issue. Nor will it keep the city from



incurring additional debt. What passage of the resolution will do is keep the city from beginning to realize the benefits of its recently granted bonding authority at a time when every possible means should be used to reduce costs.

#### Benefits of Bonding Program

The District was granted the authority to borrow on the tax-exempt market, as do other state and local governments, by the District Charter. The city had sought bonding authority for some time so that we could realize the interest cost savings associated with tax-exempt bonds. Savings of millions of dollars are possible.

The Treasury charges the District interest at the rate the Federal Government pays on its own long-term borrowings. The income on Federal bonds and notes is subject to taxation. State and local governments have generally been able to borrow at lower interest rates than the Treasury rates because the income earned by holders of their bonds is not subject to Federal taxation. In effect, the Federal Government subsidizes the borrowing costs of state and local governments - with the exception until now of the District of Columbia.

Savings from the proposed refinancing can be substantial. With an interest rate of 8 percent and repayment over 30 years, the annual debt service on \$50 million is \$4,441,372. The District would save more than \$400,000 a year on 30-year bonds sold at 7 percent and more than \$800,000 a year with bonds sold at 6 percent.



I do not believe that the disapproval action can be justified on the basis of the merits of the specific bond issue to be authorized. The refinancing issue we have proposed represents a responsible approach to administering the District's current debt.

#### Fiscal Condition of the City

More than the merits of the proposed bond issue has been discussed in connection with the concurrent resolution. Questions have been raised about the city's fiscal condition, its strengths and its weaknesses. Our present situation is in part the result of actions taken by the Congress during the years in which it exercised sole legislative authority for the District. That is true for our strong points as well as our problems.

I would like to take this opportunity to discuss some of the issues that have been identified.

#### Capital Improvements Program

There have been expressions of concern about the size of the District's capital improvements program, and it is certainly true that the financing of the city's capital projects represents a significant obligation on the part of present and future District residents. It is clear, however, that the building program was and is necessary and that it represents a valid investment in the future of this city. We will be reaping the benefits of that investment for decades to come.



The District is not embarking on a massive building program. An extensive and urgently needed building program was started in the late 1960's to replace or modernize obsolete and deteriorating public facilities that had been neglected for decades and to meet new or growing needs for facilities. We are replacing or improving overcrowded and outdated schools, many of which were built half a century ago; we are modernizing public safety facilities, including the replacement of the 100-year-old jail; we are providing for improved mass transit, better recreational facilities, modern health care facilities.

Most of our planned projects have already been approved and are under way. The peak period for capital outlay appropriations was Fiscal Years 1972-1975, when \$780 million in capital funds was authorized by the Congress. We now have 76 projects under construction and another 47 projects in the design stage. We expect the amount of the District's debt to increase from the current \$1 billion to approximately \$1.6 billion to complete those projects. Our 6-year capital planning program calls for new projects with a total cost of less than \$300 million.

#### Retirement Systems for D. C. Employees

Another subject that has received considerable attention is the financing of the city's employee retirement programs. The District has fulfilled its financing responsibilities under law for all its employee retirement systems. The Congress had access to



detailed studies on the financing of those systems at the time the home rule legislation was enacted. The Charter appropriately provided for the protection of the pension benefits of current employees.

I would first like to describe briefly the nature of the city's pension systems.

Nearly two-thirds of the city's employees are covered by systems administered either by the Federal Government or by a private organization. General Schedule and Wage Board employees are covered by the Civil Service System; certain employees are under the Social Security System; and higher education personnel are covered by a private system.

The District administers three pension systems that cover about 36 percent of the total workforce; included under those systems are police officers and firefighters, public school teachers, and judges. Funds have been established for the last two systems; the police and fire retirement system is completely on a pay-as-you-go basis.

The benefits levels and other features of the three systems were established by Acts of Congress. The police and fire retirement system was created in 1916 and established in much its present form in 1957. The teachers pension system was created in 1920; the Act of June 4, 1957, set the basic form of the system as it is today.



The existence of unfunded liabilities for those three systems has long been known to District officials and to the Congress. We initiated actuarial studies of the systems in 1971. The city's first issue analysis report, released in November 1972, described the financing of the systems and presented the estimates of unfunded liability. Additional effort is not needed to identify the problem but to reach agreement on how to deal with it.

In the Spring of 1974, we presented alternatives for funding the police and fire and teachers retirement systems to the Congress. Those alternatives called for Federal contributions to help establish funds for the systems on an actuarial basis. No Congressional action was taken on those proposals.

Given the present financial pressures on this city and all local governments, it is unrealistic to expect the District to go immediately to a funded system without Federal assistance. There has been strong Federal involvement in the development of city's retirement systems. Therefore, there should be an equally strong degree of Federal involvement in the financing of those systems.

#### Number of Employees

Comments have also been made about the level of employment in the city government. It is true that, on a per capita basis, the District has a comparatively large number of public employees. Employment figures must be looked at, however, in the context of the District's totally urban character and its multi-jurisdictional



responsibilities; we carry out services and programs provided at the state, county, and municipal levels elsewhere. For example, the District is responsible for full water and sewer services, which are often provided by a separate district or authority in other localities. Educational services from pre-school through higher education are provided by the District; education is not found in many municipal budgets. In addition, the District carries out state-level correctional, judicial, and highway programs. Yet, the District is still most often compared with city governments.

Also, the city must serve a large daytime population of commuters and the millions of tourists who visit the nation's capital each year.

That does not mean that we are not also concerned about the level of city employment. We have started a program of performance measurement and productivity improvement to help ensure that current employees are providing a high level of services for the dollars spent and to make certain that staffing levels can be justified. Since 1971, the city has abolished approximately 6,000 positions. Current plans call for a reduction in the number of city employees on the payroll to about 35,000 by the end of the current fiscal year to help finance recent employee pay raises.

#### Financial Management and Reporting

The adequacy of the District's financial reporting and financial management systems has been questioned.



The District issues a complete financial report each year. Our annual appropriations requests receive intensive review by two Committees of the Congress, which hold hearings and receive highly detailed budget justifications. Over the years, we have submitted to the Congress numerous studies and reports on such subjects as: comparisons of city employment and expenditures; retirement program financing; capital improvements plans and financing; projections of expenditures and revenues.

We have taken the initiative to project estimated expenditures based on current program levels and statutory requirements and to compare spending levels with estimated revenues. Our detailed reports have been provided to the Congress. With that information, we are beginning to take the necessary steps to close the projected gaps between expenditures and revenues in the coming years.

In addition, the General Accounting Office and our own audit staffs have identified areas for improvement in the financial management of the District Government, and we have moved to make the necessary improvements.

The structure and content of the city's financial reports have been largely determined by the requirements of the Federal Government and are therefore not directly comparable with the usual municipal reporting practices. We are reviewing and revising the city's reporting to conform more closely with standards generally accepted for state and local governments, but this effort is in the early stages.



There has been a continuing effort to strengthen the District's financial management system to ensure better control of obligations and expenditures and to support improved management of all city resources. One aim of the effort has been to unify the various systems that have developed through the years. The General Accounting Office has assisted the city in the improvement program.

#### Credit Crisis of New York City

No discussion of municipal finance would be complete without mention of the problems facing New York City, and many comparisons have been made between New York and the District. The District of Columbia is not New York City.

Like almost all major cities, the District does have problems, however -- problems that cannot be readily solved at the local level. But responsible action by the Congress and the President to deal with the problems of the nation's cities is long overdue. What the cities need is Federal assistance with adequate resources, to help us deal with spiralling inflation, unemployment, and other factors that characterize the urban crisis.

This is especially true for income maintenance and other programs for low income residents of the major urban centers. The causes of poverty are found in economic and social patterns that extend far beyond a particular locality; they are national patterns and problems.



Strengths of the District

Our financial advisor has indicated that the District's bond issue will not be adversely affected by the problems of other major cities to the extent that we can distinguish the District's financial situation from other cities'. We believe we can show the greater strengths and stability of the District of Columbia in comparison with many major cities.

As the nation's capital, the District has a higher degree of economic stability than do many other jurisdictions. Government employment and tourism remain strong contributors to the city's economic basis and help shield the District from the adverse effects of national economic difficulties.

We have used the provisions of the District Charter that permit the city to establish a fund for the repayment of debt service and that provide for the Federal Payment to be used as security for the repayment of principal and interest on the bonds to the extent necessary.

We have not suffered from the chronic budget and financing problems that we have seen in many other major cities.

In addition, the District has the benefit of a more balanced revenue base than most other state and local governments. The District has a progressive individual income tax, a range of sales and gross receipts taxes, property taxes, and a special annual Federal Payment.



Success of Bond Issues

I would now like to return to the starting point for these hearings: the city's first bond issue. We have been planning for a date of sale in early 1976 for the proposed refunding of \$50 million of outstanding Treasury debt.

We will not, and cannot, conclude the sale unless the result will be a reduction in the interest rate that the city is currently paying on those borrowings.

The authority to issue bonds was one of the major elements of self-government granted under the new District Charter. I sincerely hope that the Congress will not keep the City from exercising that authority.

I will be pleased to answer any questions that you may have.

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The CHAIRMAN. Senator Bartlett, do you have any introductory comments or observations?

Senator BARTLETT. Thank you very much.

Mayor Washington, thank you for your testimony.

I want to compliment the chairman on having the hearings and the action he has taken to date. I think it is most appropriate that there be a very thorough review of the city's finances at the time that they have see fit to contemplate a bond issue.

I compliment, also, the chairman for the request of the audit. I think an audit is very important to have for those charged with the responsibility of operating the city as well as those who are charged with the responsibility of sitting on this committee. I would certainly want to see that audit, Mr. Chairman, be it an audit from the outside.

I am reminded of many people who served on boards or who have operated businesses who have thought that their operations were going much better than they turned out to be when an audit was made. It uncovered information to the contrary of their thoughts. I have experienced that myself.

So I think it is a very vital step to be taken. I compliment the chairman on this.

I think, too, the Mayor did set a tone for the hearing by saying he thought that the District should be an example of a well-run city, economically sound for the rest of the Nation, at a time when we are concerned about New York City, other cities, and the Federal Government. Now is a very appropriate time to look into the finances of the District.

If this oversight shows that the city is in a sound financial condition then, of course, this will be known by everybody in the country and certainly will be well received. If there are areas that need attention, it will show that.

So, Mr. Chairman, I compliment you very much. I am looking forward to the hearings and all of the information that comes from them.

The CHAIRMAN. Thank you, Senator Bartlett, and Senator Mathias as well.

We will operate on the 10-minute budgeting system today so that everyone has a chance to ask questions. Somebody over here will have to keep the count of the 10 minutes.

Mr. Mayor, I have had handed to you a copy of a report by the District of Columbia Municipal Research Bureau, Inc., dated November 1975. It is very current.

Mr. Dearborn, the executive director of the research bureau will be a witness later on this afternoon. We will hear in detail not only this report but others that the District of Columbia Municipal Research Bureau has promulgated in the past year or so.

Senator BARTLETT. Would the chairman yield for a very short question?

The CHAIRMAN. Yes.

Senator BARTLETT. Will there be a witness representing the bond market?

The CHAIRMAN. No. There is no one that we have scheduled from any of these so-called bond houses. There is no one from Wall Street or the bond community.

Senator BARTLETT. Mr. Chairman, I think that might be advisable.



The CHAIRMAN. Depending on what we adduce from the other witnesses, I frankly do not think we will need one when the hearing concludes today. But if there is a need for it, we can expeditiously arrange someone from the bond market to be here.

Mayor, look at page 3 of table I of the Dearborn report.

When you compare cash receipts with obligations, according to the Dearborn figures, for fiscal 1975 the city had a deficit of \$45.5 million; for fiscal 1974 the deficit was \$3.5 million. Are the figures, as reflected in table I of the Dearborn report, in your opinion, accurate?

Mayor WASHINGTON. Mr. Coppie will speak to that.

Mr. COPPIE. Mr. Chairman, the answer is yes. In saying that, I would underscore that the figures are taken from the financial reports of the District of Columbia government.

The CHAIRMAN. Thus, his conclusions are only accurate insofar as the District of Columbia books and records are accurate?

Mr. COPPIE. That is correct.

The CHAIRMAN. We will get into their accuracy later on.

Going down, when you compare the cash disbursements with cash receipts, the deficit is computed by Mr. Dearborn at \$69.3 million. Is that correct?

Mr. COPPIE. That is correct.

The CHAIRMAN. Finally, on a basis of combined appropriated operating funds, the deficit on the next page is estimated at \$98.4 million. Are those figures accurate?

Mr. COPPIE. They are, Mr. Chairman.

The CHAIRMAN. So by any one of three computations—cash versus obligations, or it can also be called cash versus accrued liabilities, cash versus cash, or the combined appropriated funds basis—by any one of those three formulas used by Mr. Dearborn, the city is in a deficit posture?

Mr. COPPIE. Mr. Chairman, I think that does not properly state the situation. I think it represents an imbalance between the amount of cash that the city had coming in against the expenditures for the particular fiscal year that you have in mind.

The CHAIRMAN. This is an imbalance contrasting the money you had coming in versus the money you are paying out. Is that not a deficit?

Mr. COPPIE. Mr. Chairman, I think rather than belabor the point, I think it is important—and I quote from page 2 of Mr. Dearborn's written text. He says, "A 1-year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these fund imbalances or deficits cause no serious problems." I think that is an important statement.

I think to perhaps sharpen the issue in the context of what we are really here to discuss, and that is the proposed bond sale of the District of Columbia.

I have a communication from our financial adviser, dated December 1, 1975. I would like to have that communication provided for the record.

The CHAIRMAN. We will put it in the record.

[The communication referred to follows:]



## THE FIRST BOSTON CORPORATION

## INTER-OFFICE MEMORANDUM

December 1, 1975

TO: Comer S. Coppie  
Director, Office of Budget and  
Management Systems  
District of Columbia Government

FROM: Donald D. Kummerfeld *DDK*  
Vice President  
The First Boston Corporation

RE: District Plans for General Obligation Borrowing

In view of recent publicity regarding the District's fiscal year 1975 budget deficit as well as the recent unsettled conditions in the municipal bond market, a question has arisen regarding the ability of the District to market successfully the general obligation bonds authorized by Bill 1-162. As indicated in our letter of November 10, we do not believe that the impact of the New York City crisis on the municipal market will necessarily prevent the District Government from achieving a successful bond sale in the near future. Many issuers of municipal bonds have continued to come to market relatively unaffected by the New York City crisis, because they can easily differentiate themselves from New York City and have high bond ratings.

It is clear, however, that one consequence of the New York City situation will be a need for full disclosure in official statements of municipal tax-exempt issuers. The District will have the necessity but also the advantage of issuing a first class official statement. With an official statement adhering to good business and legal standards, including full disclosure of the District's fundamental strengths and weaknesses, District credit should be clearly differentiated from New York City's problems, particularly New York's very poor debt structure.

In addition, the District's bonds will enjoy certain unique security provisions which will, in our opinion, provide the basis for relatively high bond ratings and widespread market



acceptance. In particular, I refer to the sinking fund provisions which in effect allow the District to pledge the annual Federal Payment for payment of principal and interest on District bonds.

Regarding the fiscal 1975 District budget deficit, it should be noted that a one year imbalance between revenues and expenditures and a resulting budget deficit occur from time to time in other major cities. When the causes of this situation are promptly diagnosed and corrected, it has not prevented such cities from successfully marketing their bonds.

Both the State of Connecticut and the State of Delaware, for example, have had general fund deficits in recent years. Nevertheless each has been able to market significant amounts of general obligation bonds - \$90 million by Delaware and over \$300 million by Connecticut. The general fund deficit - a financial factor - was just one of many facts relevant to the security and marketability of these bonds taken into account by underwriters and investors. At the local level, Detroit, Michigan which in one recent year had a deficit of almost \$60 million borrowed a total of \$46 million in bonds and notes while the Detroit City School District borrowed \$18.5 million also after recent deficits. There are other examples of local governments which have had continuing market access while experiencing deficits.

Market access should continue as long as investors remain confident that appropriate measures are being taken to cope with general fund deficits. These steps are illustrated again by Connecticut where the deficit in the last fiscal year and the need to achieve a balance this year were addressed by increasing the sales tax, corporate business tax, capital gains tax and certain other revenue measures as well as reduction in various spending measures. A deficit is just one element in the broad question of financial management.

Thus, the market will be properly concerned about the 1975 District budget deficit and will require an adequate explanation of how it occurred and what steps are being taken to prevent a reoccurrence in subsequent years; but given reasonable assurance that the fiscal situation is now under control and will not result in persistent budget deficits, the District should not encounter significant market resistance to purchase its bonds.

In closing, I would like to reiterate our view that in order to accomplish a successful financing, the District must be prepared to demonstrate to the bond rating agencies, prospective bidders and the investment community that it is in sound financial condition and has taken specific actions to deal with its problems.



We are now working closely with your staff to complete the necessary studies and collect the relevant legal, financial, debt, revenue and expense data required. These tasks are proceeding on schedule and we expect that the District will be prepared to market its bonds within the next two to three months. In the event of a seriously worsening market situation, of course, we would recommend postponing the actual bond sale. However, neither we nor the majority of our colleagues in the financial community now anticipate such an occurrence.

/mm

Page -3-



The CHAIRMAN. Does this specifically refer to the deficit of the District of Columbia. That is the area of my inquiry.

Mr. COPPIE. Mr. Chairman, it does. I would like to quote from page 2 of the communication.

The CHAIRMAN. Who is the author?

Mr. COPPIE. The author is Mr. Donald Kummerfeld, vice president of the First Boston Corp.

The CHAIRMAN. Do you have a copy you can send up to us?

Mr. COPPIE. I do, Mr. Chairman.

Regarding the fiscal 1975 District budget deficit, it should be noted that a one year imbalance between revenues and expenditures and a resulting budget deficit occur from time to time in other major cities. When the causes of this situation are promptly diagnosed and corrected, it has not prevented such cities from successfully marketing their bonds. Both the State of Connecticut and the State of Delaware, for example, have had general fund deficits in recent years. Nevertheless, each has been able to market significant amounts of general obligation bonds—\$90 million by Delaware; and over \$300 million by Connecticut. The general fund deficit—a financial factor—was just one of many facts relevant to the security and marketability of these bonds taken into account by underwriters and investors. At the local level, Detroit, Michigan, which in one recent year, had a deficit of almost \$60 million, borrowed a total of \$46 million in bonds and notes, while the Detroit City School District borrowed \$18.5 million, also after recent deficits. There are other examples of local government which have had continuing market access while experiencing deficits.

Mr. Chairman, I think the real point here is that we are not trying to defend the 1975 situation. In part, that was something that we have planned for in our financial plan for the 1975 fiscal year. Moreover, we have properly diagnosed it. We do propose to address this both in the 1976 current year and the 1977 fiscal year.

The CHAIRMAN. What is your plan of deficit for fiscal 1976? You planned for 1975. What plans have you made for the red ink for 1976?

Mr. COPPIE. Mr. Chairman, the current budget that is pending before the Congress shows about a \$40 million shortfall between revenues of 1976 and proposed obligations for 1976.

The CHAIRMAN. So on an obligational basis, it would be about \$40 million?

Mr. COPPIE. But our current commitment—and it is my hope that we can realize that commitment—is to have an imbalance between cash and expenditures of approximately 2 percent of the appropriated budget of about \$20 million.

The CHAIRMAN. How much?

Mr. COPPIE. \$20 million. By the home rule charter, we are allowed to carry that much of an imbalance into the following fiscal year.

The CHAIRMAN. So you have a \$20 million cash imbalance for 1976?

Mr. COPPIE. That is our commitment, Mr. Chairman. I am not saying that we are going to realize that. Our budget is still pending before the Congress.

The CHAIRMAN. Well, you are planning for it. You planned for 1975. You are going to plan for a deficit for 1976. You are also going to plan for a deficit for 1977?

Mr. COPPIE. No. In 1977, it will allow us to fully resolve the problem. It is going to take in our case 2 fiscal years to properly address that problem and resolve it.

The CHAIRMAN. The quote you read from Mr. Dearborn's statement, you said that a 1-year deficit is not extraordinary—let me find it for you.



A one year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these fund imbalances or deficits cause no serious problems.

That was his statement. I think it is an accurate statement.

However, based on your own testimony here just a few minutes ago, you had an obligational deficit of \$3.5 million in fiscal 1974, \$45.5 million in fiscal 1975, and you are planning for a \$40 million obligational fund deficit for fiscal 1976. So for 3 years running, you will have operated at a deficit. Mr. Dearborn was talking about 1 year. And 1 year being unique. We will hear from him as to what his viewpoint is with respect to a city that runs a pattern of a 3-year deficit.

Mr. COPPIE. That does not properly state it, Mr. Chairman. What Mr. Dearborn is referring—

The CHAIRMAN. It states it from the figures from your own testimony.

Mr. COPPIE. No, it does not, Mr. Chairman.

Mr. Dearborn says: "A 1-year imbalance between revenues and expenditures \* \* \*". He is talking about revenue and expenditures, not obligations and revenues. The revenue expenditure we have had is a 1-year imbalance. In the 1974 fiscal year, we actually showed a cash balance of \$4½ million. In the 1975 fiscal year, we showed an imbalance of \$69 million. So we have had a 1-year imbalance.

The CHAIRMAN. For fiscal 1976, you are planning to show a \$20 million cash imbalance.

Mr. COPPIE. Let me develop that, Mr. Chairman. If we were a free agent in this budget and financial situation for the District of Columbia, we could move forward to address that problem a lot more quickly. But the problem is that we are not a free agent. Our budget for the 1976 fiscal year is now pending before the Congress. We do not know what the outcome of that will be. My commitment is to try and address this problem constructively in 1976, but to fully resolve it in the development of the financial plan for 1977.

Given the time frame for which this city has to do its business—and I say this with absolute respect to the process that we do business in—I think we are moving forward to address it in a constructive, rational, and prudent way given the time frame at which we have to do business.

The CHAIRMAN. One question here, and then I will yield.

The \$40 million planned obligational deficit for fiscal 1976, that you have mentioned, does that \$40 million planned obligational deficit include pay increases?

Mr. COPPIE. Mr. Chairman, that does not include the pay increases that are pending for District employees.

The CHAIRMAN. If those pay increases go forward, then the planned obligational deficit for fiscal 1976 will be all the higher?

Mr. COPPIE. Mr. Chairman, that is not correct. The Mayor has said in the beginning that any additional pay increases that are authorized by the city for the current fiscal year would require a funding measure. If we do commit ourselves as a jurisdiction to the salary increases, we would have to authorize additional funding to meet the cost associated with it.

Mayor WASHINGTON. Mr. Chairman, while you are mentioning that, you may recall that part of that imbalance grew out of the pay in-



creases which we have had a reserve for, and the Congress passed over our reserve a bill authorizing substantial increases.

It was you, Mr. Chairman, that took up our case at that time, and said that if the Congress passes these pay bills beyond what we had in reserve, they ought to pay for it. You were not successful, but you certainly made a lot of fuss about that in our favor and in our support. That was one of the items that is substantial here which I am sure you held hearings on and then went forward and said to me, "I do not think you ought to have to pay that, because you have a reserve and now we passed it." You know, you did quite a bit of work on that in our support.

That really is reflected—a great deal of it here, \$34 million.

The CHAIRMAN. You are negotiating salary terms with police, fire, and teachers at the present time?

Mayor WASHINGTON. Not teachers at this point.

The CHAIRMAN. Police and fire.

Mayor WASHINGTON. Police and fire, yes.

The CHAIRMAN. Mr. Coppie says any increased payments which might be negotiated would require additional local revenues to be raised to pay for those increases.

Mayor WASHINGTON. Yes, sir.

The CHAIRMAN. Senator Mathias.

Senator MATHIAS. Thank you, Mr. Chairman.

The discussion about the deficit—I recall the rule we used to work under before home rule. We talked about a formula for the District. I remember the rule of thumb for that formula was the difference between what the District had and what it spent. That was the most accurate kind of formula at which the Federal payment would be. That no longer may be the rule under the existing situation, but I think it clearly defines the Federal interest.

I am interested in the kind of decision we are going to have to make here—of what the long-term effect of this decision is going to be.

I must say, Mr. Chairman, that I approached the subject of municipal finance with some degree of humility when I see Lou Jennings standing at the back of the room who has dealt all his life with that subject.

But it seems to me that the District has two problems here: One is the chance to save the differential on interest between what you are now obliged to pay and what you might have to pay if you could sell bonds at a lower rate of interest; and second, the kind of credit rating—the rating on your bonds which is likely to be graded by experts which presumably would not be indelible, but which would probably be carried by the District of Columbia issues for a number of years. Is that right?

Mayor WASHINGTON. That is right.

Senator MATHIAS. Do you have any indication from the underwriters of what kind of rating the District would get?

Mayor WASHINGTON. Well, Comer may want to speak to that, but I am not certain that we have any. We have used Maryland's recent experience and Virginia's recent experience. They have come in at 5.3 and 5.6.

Senator MATHIAS. On what kind of a rating?

Mr. COPPIE. That is a triple A rating, Senator Mathias. We have not entered into formal discussions with the credit rating agencies at



this point; that would be Moody's and Standard & Poors, the two credit rating houses that we propose to receive ratings from.

However, in talking with our financial advisers, in talking with our bond counsel, in talking with potential underwriters, we have been encouraged to think that the city could qualify for perhaps a double A rating or perhaps an A rating. That is said without arrogance on our part, because we simply do not know. Obviously, there is going to be a great deal that enters into this, including the legislative history of the bond authorization act that is now before the Congress. It seems to me the ultimate consideration is going to be the quality of security that we can offer for the bonds. We think the quality will be high.

Mayor WASHINGTON. Mr. Chairman, the point that you are making is, I think, treated in the bill. We are at 8 $\frac{3}{8}$  of the Treasury now; and any one point on this issue would save \$400,000 on a 20-year maturity, I believe that is—well, on any maturity.

Two points, which are close to the experience in this area, would save \$800,000. If we got a flat 6, you would be saving about \$1 million a year. That, of course, is based on our projections in terms of what it is that is possible to save, if we are on the market. Now, we are in conjecture because we have not had an opportunity to go for an issue.

Senator MATHIAS. I understand that. I would be very enthusiastic about your saving \$1 million a year, or \$800,000, or \$400,000, because when I put on my other hat on the Appropriations Committee, that is money that we will not have to find there for the District of Columbia. I think it is important from everybody's point of view that we try to help you save that money.

What does concern me, and I think we will have to follow up Senator Bartlett's suggestion in consulting the underwriters—if not, Mr. Chairman, we can have a formal session or at least an informal one—is to know what kind of a rating they would give you, because I think that will hang around your neck for a long time. If we can help you to get the best rating, it will save—again, following the theme of saving—I think it will save you over the years, because the lower interest rate you can obtain in the bond market and the savings that you make on this relatively limited issue could be small by what it is going to cost you if you were not getting the right kind of treatment from the underwriters.

I think it is very important to have at least some indication of where you can go.

I am wondering if the Mayor feels that the current system for financial reporting provides a clear and readily comprehensible picture of the city's financial status? You mentioned in your statement that you were attempting to bring the whole accounting system in line with municipal standards.

Mayor WASHINGTON. As the home rule charter suggests, we are going into a personnel system that is out of the Federal system. As we go into all of the municipalities, and all of the aspects of a municipality, then our system moves.

Frankly, as I pointed out, and as GAO said in the statement I read, we have been checked and investigated basically in the federal system. That transfer is what we are all about. We have some reaction from our own bond counsel that certainly for those purposes they can identify it. It is not the true municipal system because we have never been in the true municipal system.



Senator MATHIAS. That is why I did not ask you whether you had a standard municipal system. I asked you whether it was a readily comprehensible picture.

Mayor WASHINGTON. Yes. We think it is a readily comprehensible picture and not a municipal system.

Comer, you might want to say something.

Mr. COPPIE. I may make one comment, Senator Mathias, because I think this is a very important area. By the home rule charter, we are authorized to come up with an annual financial report for the previous fiscal year by November of the following fiscal year. We came out with our financial report in 1975, on November 1. It was that report which Mr. Dearborn bases much of his report on.

On transmitting that report to the City Council, the Mayor acknowledged certain problems in our financial reporting area, because we have been so closely tied with the Federal Establishment, and now we are being more crucially closely scrutinized as a traditional municipal government.

He said that he was committed to moving forward to address this problem. We will have it in part substantially addressed by the next calendar year.

Senator MATHIAS. Mr. Chairman, I am over my time. The Comptroller General wrote to the Mayor on September 23. He said:

I have recently reviewed the status of your accounting system in the improvement effort. I am disappointed as I am sure you must be with the slow progress being made.

I do not raise that as any kind of a bar here, but it does concern me. Because with all due respect to what the chairman has said, and what Senator Bartlett has said about the value of an audit, a one-shot audit really is not going to help you very much.

Mayor WASHINGTON. Right.

Senator MATHIAS. It is the long-range, dependable accounting system which is going to be the bedrock on which the city's financial structure will continue for many years, long after all of us have passed from the scene. It seems to me that that ought to be the real goal of this whole proceeding.

Mayor WASHINGTON. It seems to me that we have reached that in this process. I do not know whether you have my reply to that letter, because you see a part of this again is certain Federal requirements. They, for instance, pointed out in an audit earlier that we ought to get into a different cash flow system so that we could take advantage of discounts. Well, we moved there. We are always moving.

Senator MATHIAS. Mayor, let me say that I am not trying to dump the load on your lap.

Mayor WASHINGTON. I know.

Senator MATHIAS. Here we are together in this room. We have a problem we have to work out.

Mayor WASHINGTON. We sure have. That partnership is what I came to seek, because I do not believe that we can address any of the problems relating to the city without the normal partnership that we have had even though we have, whatever we have, in self-determination.

Mr. COPPIE. Senator Mathias, I would just like to comment further and very specifically—and it points out, I think, the dilemma that we are faced with between meeting the requirements of the federal



system and at the same time moving toward the requirements for a municipality.

From the same letter in which you quote, the Comptroller General says, and I quote:

From our point of view, based on observing the accounting system developments in federal agencies, we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting system and subsystems used by District of Columbia organizations.

I think the key there is based on observing accounting system developments in Federal agencies.

We are not, as we all agree, just one more Federal agency. On the one hand, we do have a responsibility to meet the requirements of GAO; on the other, we do have a responsibility to move this city toward the financial reporting requirements for traditional municipality. That is our commitment.

The CHAIRMAN. Senator Bartlett.

Senator BARTLETT. Thank you, Mr. Chairman.

What obligation deficit was projected for fiscal 1975? There was a figure in the report of \$40.5 million. What was your projection?

Mr. COPPIE. Senator Bartlett, on an obligation basis it was pretty close to what the actual experience of the \$45 million.

Senator BARTLETT. You say it was \$45 million?

Mr. COPPIE. Yes, sir.

Senator BARTLETT. If it was close to it, could you tell me what it was?

Mr. COPPIE. The exact amount I will provide for the record. The \$45 million is substantially in line.

Senator BARTLETT. How about the excess deficiency receipts compared to disbursements?

Mr. COPPIE. On a cash basis, approximately \$24 million of that was actually planned. So that in terms of the—

Senator BARTLETT. So you missed that by some—

Mr. COPPIE. The large problem is that we—

Senator BARTLETT. I think we recognize that the estimates of revenue and obligations are all difficult. This is one of the reasons for our concern when what we see could be a pattern.

On your Federal payment on income, your increase there was approximately \$40 million which was 21 percent of your total cash receipts increase—no, wait a minute—which was a 21-percent increase. So that was a very substantial increase.

The non-Federal payment increase in receipts I find it only went up less than 1 percent. Do you recognize there that the Federal revenue-sharing receipts were down some \$5 million-plus. So your receipt picture does not appear to be one which was without additional revenues. It would indicate that you are not going to have much of an increase there unless it would be in the Federal payment. What Federal payment did you request of the Congress?

Mr. COPPIE. Senator Bartlett, for the previous fiscal year there was no tax increase in the District of Columbia government. The Federal payment request was at \$230 million and, as I recall, it was appropriated at \$225 million.



In the current year, we are requesting a \$254 million Federal payment. We have, for this year, increased taxes in the amount of \$45 million.

The ratio that we are maintaining here is one that was outlined in the legislative history of the home rule charter. The District general fund revenue should be 40 percent of the Federal payment. That is about where it is for the 1976 fiscal year.

Senator BARTLETT. Do you think that the obligations of the Federal Government on its shares would be a certain percentage of what you have spent?

Mr. COPPIE. Senator Bartlett, the authorization in the charter is not based on a formula. It is based on discussions that took place between this committee and the Congress during the legislative history of the home rule charter. The projections that are in the charter are essentially based on maintaining the ratio that I previously outlined—about 40 percent of local revenues to the Federal payment.

Senator BARTLETT. Without analyzing it thoroughly, it seems to me that the Federal payment being up 21 percent is more than its share of the obligations. The non-Federal increase is less than 1 percent and that is counting the reduction in revenues of some \$5 million-plus. It would not be much more than 1 percent if that was discounted.

Mr. COPPIE. That is the last fiscal year, Senator Bartlett.

Senator BARTLETT. I am comparing the two.

Mr. COPPIE. Right.

Senator BARTLETT. To compare the two again in cash disbursements, you see the main areas of increase are in public safety, \$208.4 million to \$233 million for about a 12-percent increase; education has gone up a tremendous amount, 26 percent for \$50 million.

It would seem to me that expenditures in those two areas would tend to become permanent, and that you are adding on permanent ongoing expenditures that would be very difficult to bring into balance unless you have additional taxation.

Could you give an explanation, or the Mayor, or anyone, for what went into the public safety increase and what went into the educational increase in the District?

Mr. COPPIE. Senator Bartlett, we will provide a complete breakdown for the record.

[The material referred to follows:]



46 DIRECT SERVICE POPULATION AND BUDGET PLAN CHANGES  
PROGRAM MEASURES METROPOLITAN POLICE DEPARTMENT

| Fiscal Year | Crime Index<br>Reported                         | Juvenile Contacts | Emergency Calls<br>Received | Budget<br>(Thousands)           | Positions                |          |
|-------------|-------------------------------------------------|-------------------|-----------------------------|---------------------------------|--------------------------|----------|
|             |                                                 |                   |                             |                                 | Uniform                  | Civilian |
| 1972        | 44,867                                          | 24,189            | 881,235                     | \$92,055.8                      | 5,100                    | 1,080    |
| 1973        | 49,015                                          | 25,561            | 1,183,050                   | 108,805.6                       | 5,100                    | 935      |
| 1974        | 52,530                                          | 28,783            | 988,126                     | 104,475.2                       | 5,100                    | 933      |
| 1975        | 58,402                                          | 33,417            | 1,077,057                   | 125,913.5                       | 4,750                    | 1,033    |
| 1976 est.   | 58,402                                          | 34,821            | 1,077,057                   | 126,386.8                       | 4,630                    | 1,005    |
| Fiscal Year | Traffic Accidents                               |                   |                             | Moving<br>Violations            | Non-Moving<br>Violations |          |
| 1972        | 41,028                                          |                   |                             | 207,154                         | 1,198,297                |          |
| 1973        | 37,588                                          |                   |                             | 231,615                         | 1,025,851                |          |
| 1974        | 29,279                                          |                   |                             | 187,787                         | 1,331,723                |          |
| 1975        | 22,000                                          |                   |                             | 132,526                         |                          |          |
| 1976 est.   | 22,000                                          |                   |                             | 145,779                         | 1,579,270                |          |
| Fiscal Year | Pensioners, Widows, Widowers<br>and Children 1/ |                   |                             | Retirement Portion<br>of Budget |                          |          |
| 1972        | 2,397                                           |                   |                             | \$21,266,400                    |                          |          |
| 1973        | 2,502                                           |                   |                             | 23,808,000                      |                          |          |
| 1974        | 2,617                                           |                   |                             | 29,602,400                      |                          |          |
| 1975        | 2,727                                           |                   |                             | 35,326,100                      |                          |          |
| 1976        | 2,843                                           |                   |                             | 38,680,000                      |                          |          |
| D-4         |                                                 |                   |                             |                                 |                          |          |

D-4



48 DIRECT SERVICE POPULATION AND BUDGET PLAN CHANGES  
PUBLIC SCHOOLS

| Fiscal Year | Student Population<br>(Thousands) |            |             |                           | Vocational <sup>2/</sup><br>High | Total <sup>3/</sup> |
|-------------|-----------------------------------|------------|-------------|---------------------------|----------------------------------|---------------------|
|             | Pre-K                             | Elementary | Junior High | Senior High <sup>1/</sup> |                                  |                     |
| 1965        | ...                               | 89.7       | 29.9        | 18.2                      | 2.9                              | 141.4               |
| 1968        | ...                               | 95.4       | 31.3        | 19.2                      | 2.9                              | 149.3               |
| 1969        | ...                               | 94.4       | 32.5        | 19.3                      | 3.0                              | 149.5               |
| 1970        | 1.1                               | 91.0       | 33.3        | 19.6                      | 2.8                              | 149.6               |
| 1971        | 2.3                               | 88.4       | 33.1        | 19.4                      | 2.8                              | 146.2               |
| 1972        | 2.0                               | 85.8       | 32.1        | 20.3                      | 2.8                              | 143.4               |
| 1973        | 1.9                               | 82.0       | 31.9        | 21.3                      | 2.8                              | 140.0               |
| 1974        | 2.0                               | 76.0       | 33.4        | 21.9                      | 2.9                              | 136.1               |
| 1975        | 2.0                               | 71.3       | 33.3        | 21.7                      | 2.9                              | 131.3               |
| 1976        | 2.3                               | 59.3       | 31.7        | 20.2                      | 2.5                              | 127.9               |

| Fiscal Year | Per-Pupil Expenditure |       | Federal Funds | All Funds |
|-------------|-----------------------|-------|---------------|-----------|
|             | D.C. Funds            |       |               |           |
| 1965        | \$ 492                | \$ 22 | \$            | \$ 514    |
| 1968        | 673                   | 101   |               | 774       |
| 1969        | 806                   | 117   |               | 923       |
| 1970        | 922                   | 120   |               | 1,042     |
| 1971        | 951                   | 159   |               | 1,110     |
| 1972        | 985                   | 213   |               | 1,198     |
| 1973        | 1,073                 | 184   |               | 1,257     |
| 1974        | 1,230                 | 217   |               | 1,447     |
| 1975        | 1,399                 | 229   |               | 1,628     |
| 1976        | 1,519                 | 227   |               | 1,746     |

<sup>1/</sup> Does include STAY School

<sup>2/</sup> Do not show career development student

<sup>3/</sup> Includes Capital Page and Americanization  
School students under 18. Does not include  
tuition grant students



**DIRECT SERVICE POPULATION AND BUDGET PLAN CHANGES**    49  
HIGHER EDUCATION

| Fiscal Year | Full Time Equivalent Students |                            |                                      |                        | Total<br>Positions  |
|-------------|-------------------------------|----------------------------|--------------------------------------|------------------------|---------------------|
|             | D. C.<br>Teachers<br>College  | Federal<br>City<br>College | Washington<br>Technical<br>Institute | Total<br>Budget        |                     |
| 1972        | 2,374                         | 5,500                      | 2,600                                | 29,857.0               | 1,579               |
| 1973        | 2,374                         | 5,500                      | 2,600                                | 33,130.2               | 1,571               |
| 1974        | 2,374                         | 5,500                      | 2,770                                | 32,433.9               | 1,614               |
| 1975        | 2,015                         | 5,500                      | 2,770                                | 34,641.2               | 1,670               |
| 1976        | 2,015                         | 5,298                      | 3,104                                | 39,221.3 <sup>1/</sup> | 1,706 <sup>1/</sup> |

<sup>1/</sup> These are proposed figures, awaiting final Congressional action.

In 1968, only the D. C. Teachers College was operating. Its population was 1,890 full time equivalent students.



Mr. COPPIE. I believe in the public safety area, and without belaboring you with our budget terminology, but what we are talking about is the public safety appropriation for the city. That includes the Police Department, the Fire Department, the Department of Corrections, and the court system as the primary or basic components.

One of the major growth factors in that appropriation is the pay-as-you-go requirement of the city for the police and fire retirement system. That increased rather sharply and that was an increase in the year that you have reference to.

An additional requirement was in the Department of Corrections where we have been moving forward to improve the Department of Corrections and to address certain problematic requirements in that area.

I believe a closer examination would show that we have not significantly increased the Police and Fire Department for other than the retirement costs that I have addressed. I think there was an increase in that particular year for the court system to meet the requirements imposed upon the city by the U.S. courts for the city to pick up the cost associated with indigent defense. That, I think, was about \$1 million for the 1975 fiscal year.

Now on the education appropriation, here we are talking about the school system and we are talking about the three public colleges that are in the District of Columbia. I think a major component of increase last year was for the Federal City College and the Washington Technical Institute which are the two newest institutions of public higher education in the city. There were increases for the public schools, particularly staffing requirements associated with school construction—new schools that were going to open.

The exact, Senator, I would want to provide for the record.

Senator BARTLETT. Could the committee have a breakdown and a thorough explanation of all of that in the education area, including the number of students in vocational, technical, high schools, grade schools, and so on, and the colleges?

What is the tuition situation at the college and university levels? Does it compare with the manner in which New York operates its colleges?

Mr. COPPIE. It is not a free tuition system for District residents. The charges are relatively low. I believe the tuition charge is \$35 a quarter, as I recall it. Then there are other charges. They are substantially higher for non-District residents, although there is not a large percentage of non-District residents. We have kept the fees at a relatively low level, so to speak, because we feel that that is consistent with maximizing our responsibility to see that students are not prevented from enrolling because of an inordinantly high fee schedule.

Senator BARTLETT. Do you consider if you doubled the fee there, that that would be inordinantly high?

Mr. COPPIE. Sir, I would think—

Senator BARTLETT. If you would look at some of the State universities across the country, I think you would find it inordinantly low.

Mr. COPPIE. Senator, I think that is really out of my area or perhaps our area of responsibility. We would look to the governing boards of the colleges for a recommendation in that area and work constructively to meet what we believe they consider to be the appropriate fee requirements for District residents.



Senator BARTLETT. Mr. Chairman, I realize my time is up. I just want to throw one thing in. I would think that if there is a philosophic question involved as to where the economic responsibility lies, where it is with the city or the governing boards, I think that should be resolved, as far as the operations of the colleges are concerned, because it would seem to me that the basic responsibility would have to lie with the city to approve or decide what would be the policy of tuition of the colleges, naturally based on recommendations coming from the governing boards. But reserving the final decision to the city officials.

Mayor WASHINGTON. Senator, I might say that just recently in the university bill passed by this Congress that independence, along with the council's action, was assured to the boards of higher education.

Senator BARTLETT. I would like some more information on that, because I think it is a very dangerous practice to have an entity that has full responsibility to include tremendous debts with no accounting to responsible parties which I consider to be the city's—

Mayor WASHINGTON. I object strenuously to the full use of procurement powers. I think we can furnish you with history on that, including Congressional action.



Tuition and Fee RatesPublic Higher Education Institutions

Public Law 89-791, dated November 7, 1966 vested the Board of Higher Education and the Board of Vocational Education with the authority to fix the tuition at the institutions of public higher education, and also the fees.

The Board of Higher Education is responsible for establishing tuition for Federal City College (FCC) and D. C. Teachers College (DCTC). The Board of Vocational Education is responsible for establishing tuition rates at Washington Technical Institute (WTI). The rates are as follows:

|                                           | <u>Resident</u>              | <u>Nonresident</u>           |
|-------------------------------------------|------------------------------|------------------------------|
| <u>FCC &amp; DCTC - (semester system)</u> |                              |                              |
| <u>Tuition:</u>                           |                              |                              |
| Undergraduate                             | \$52.00 per semester         | \$450.00 per semester        |
| * Graduate <u>1/</u>                      | \$15.00 per semester<br>hour | \$30.00 per semester<br>hour |
| <u>Fee</u>                                |                              |                              |
| Activity                                  | \$8.25 per semester          | \$8.25 per semester          |
| Athletic                                  | \$6.75 per semester          | \$6.75 per semester          |

WTI - (quarter system)

|                 |                     |                     |
|-----------------|---------------------|---------------------|
| <u>Tuition:</u> |                     |                     |
| Undergraduate   | \$25.00 per quarter | \$75.00 per quarter |
| <u>Fee</u>      |                     |                     |
| Activity        | \$5.00 per quarter  | \$5.00 per quarter  |

1/ FCC only.



The CHAIRMAN. Thank you, Senator Bartlett.

Mayor, so that you understand the thrust of my questions, I am going to take you through your prepared statement subchapter by subchapter. First we will complete the fiscal condition of the city; and go on to capital improvements program; then we go to retirement systems for D.C. employees; then we will go into the number of employees; the financial management and reporting; and then some comments with respect to New York City insofar as what it instructs us about Washington, D.C.

Before I do that, Senator Mathias has now returned, and I want to make a statement which bears on some of his observations, many of which I share.

The end goal that we are seeking to accomplish by the audit is to get the books and records of the District in shape so that they can be accredited as being kept by generally accepted accounting principles.

These generally accepted accounting principles are well known in the accounting marketplace. A vast number of cities utilize them on a day-to-day basis; indeed a vast number of cities have an annual audit pursuant to these generally accepted accounting procedures.

Municipal accountants tell me that the way to get to the procedure, the best way, the most thorough way, the most realistic way, to achieve that end result is to conduct an audit of the entity involved so as to lead them to the ultimate goal. These are individuals who have conducted audits in cities like Detroit, St. Louis, Houston, et cetera.

The audit is the indispensable forerunner insofar as good records and documents are concerned. If New York, for example, had been audited 10 or 12 years ago when they first started to go down the deficit road, the borrowing road, the high pension road, had New York been audited 10 or 12 years ago, the disaster we now know would be New York's would not have occurred. People in the accounting field tell me this.

Mayor WASHINGTON. Senator, could I comment on that? I think Senator Mathias was closer to what we see. I am just concerned about the kind of statement that seems without any real look at what we have to suggest that there is an imposition of some kind of an audit, that is, municipal. When all of us know that we are in a Federal line item budget. We are in a Federal budgeting process. We are in a Federal accounting process. We are in a Federal auditing process.

We just wonder if we are really together or doesn't that matter?

Senator MATHIAS. I think we are together. When I was the city attorney of Frederick, Md., they had a very simple financial problem. It was handled, as the chairman suggests, with standard municipal accounting procedures with regular audits.

I clearly understand the difference in your situation which is a different one. That was why I recalled the old role for the Federal formula.

Mayor WASHINGTON. I understand that.

Senator MATHIAS. The Federal payment would be determined by the difference between what you have and what you spend. That is a very unique situation. There is nothing like it.

Mayor WASHINGTON. There is nothing like it. That is all I am saying. There is nothing like it. To talk about Chicago or Detroit in the same sense with the years of operating under a Federal system and then we just—



Senator MATHIAS. But at the same time, I think the very uniqueness of your posture puts a greater responsibility on all of us to develop a kind of unique system to satisfy both the requirements of the Federal accounting and the municipal problem.

Mayor WASHINGTON. You see, Senator, I was perfectly along with you on the partnership, and then the chairman said this is a system that we are going for. We have had no ability to treat with the system. I have not—I think the word would be studied, or what have you, these long items, because studying an unfunded pension system is what I see auditing it—I can tell you an unfunded Federal system such as we have, there is nothing in it. It is a pay-as-you-go. What are you going to audit?

What we are talking about is studying it to see if we both can come to a corrective posture based on the fact that it has been here since 1916, nearly 60 years. I think at that point we are together. How are you going to come out of that with the Congress once again saying, "Here is what we are going to do." We are trying to say very hard that if there is a partnership, we ought to participate so that you at least have the benefit of what we have. We want some of those things that the Senator is talking about.

You see, once again, we find ourselves in the same situation. GAO says, "Now, you move from this to that." The Congress says, "Here is what you do. You take whatever money you have in the last pay increase and find it somewhere." Then you go off and get home rule. Here we are operating for 11 months. Once again, if I hear correctly, you are saying that this is what we are going to do.

I do not know where the partnership stopped. I think it has to be there. We have no problem with this. I am not fighting looking at the books. We are together. I said that to the Senator personally, and I said it otherwise, but I do have some problem with simply determining that this is what we are going to do, as if we have no role in the process. There is something wrong, I think.

Senator MATHIAS. I do not think the chairman or the committee has that view on it.

Mayor WASHINGTON. Maybe I did not hear correctly.

Senator MATHIAS. I think it would be wrong to say that that was the perception of the committee. What we are trying to do is to look at the situation, which you said was admittedly unique, to develop a system of accounting which gives the same kind of assurance for the taxpayers, to the bond market, and to those of us who have some constitutional responsibilities that a normal municipal accounting system would give. It does not mean it is the same system, but it has to give us the same degree of confidence. Is that not right, Mr. Chairman?

Mayor WASHINGTON. I do not think we have to have that kind of a problem of sitting down and determining what kind of system. All I am hearing is that here is where we are going. Maybe I am not hearing correctly.

The CHAIRMAN. We will move on to fiscal management and reporting which was to come later, but since we have reached that point, we will take it up.

Mr. Coppie, are you familiar with what are called the generally accepted accounting principles as recognized by the accounting profession?

Mr. COPPIE. Generally yes, Senator.



The CHAIRMAN. Are not the principles spelled out by the profession which apply to municipalities and other governmental entities as well?

Mr. COPPIE. That is correct.

The CHAIRMAN. Are your books and records kept in accordance with those generally accepted accounting principles?

Mr. COPPIE. Our books are kept in accordance with the Federal accounting system. The principles and standards have been approved by the Comptroller General.

The CHAIRMAN. Those controls and those matters are far less stringent, are they not, than the mandates of the generally accepted accounting principles?

Mr. COPPIE. I am not sure what you mean by "far less stringent," Senator Eagleton.

The CHAIRMAN. Let's put it this way: if your books and records were kept in accordance with generally accepted accounting principles, there is no doubt that they would comply with whatever Federal requirements the Treasury Department might have, for example?

Mr. COPPIE. Our books do comply with that.

The CHAIRMAN. Well, here are the documents: "Governmental Accounting Auditing and Financial Reporting," published by the National Committee on Governmental Accounting; "Audits of State and Local Governments," prepared by the Committee on Governmental Accounting and Audits—it is an arm of the American Institute of Certified Public Accountants.

If your books and records were kept in accordance with those rules and regulations, they would more than comply with any requirements of the Treasury Department. Is that not correct?

Mr. COPPIE. I would really want the Comptroller General to answer that question. I do not think the city government could handle it.

The CHAIRMAN. I will state for the record so that it is known, even to one who is not an accountant, that it would. It is generally well known to the country as a whole. It is known to anybody who wants to know it.

With respect to your books and records, we have moved to that point. I have with me the publication "Financial Reporting" by the District of Columbia Municipal Research Bureau. This was published in August of 1975. It is rather current. On the first 31½ pages of this report, Mr. Dearborn, the author of the report, who served in municipal financing in Cleveland, Ohio, and will be here with us this afternoon, points out that District of Columbia reporting needs need substantial improvements.

On page 2, he writes about the yearend report being inadequate. On page 2, he writes about the balance sheet being inadequate for each fund. Insofar as interim reports, monthly and quarterly, he points out the inaccuracy of the current system of the District of Columbia.

On page 3, he criticizes the monthly cash report. I will read into the record just two paragraphs or so from his report with respect to auditing.

In addition to the changes in existing reports discussed above and the new reports suggested for implementation, a vital part of good financial reporting is an annual independent audit of the city accounts. The auditor, as a result of such audit, will state whether the reports present fairly the City's financial position and the results of the financial operations, and whether the reports have been



prepared in accordance with generally accepted accounting principles. In preparing such an opinion, auditors will also determine the propriety, the legality and the mathematical accuracy of financial transactions, and whether they have been properly reported.

The role of an independent auditor, in performing such post-audit tasks is well defined in private organizations and for most city governments. Because the District's status has been more like a Federal agency, there traditionally has not been a city post-audit, with the accompanying certification of the District's financial reports.

With the City's new status, an annual post-auditing may now be desirable for several reasons. First, an independent auditor's opinion will provide credibility for the District's annual financial report. This is especially important at a time when the liability of unaudited city financial information has become an issue in the national bond market.

What Mr. Dearborn points out in his report, and in his concluding paragraph, is the need for an independent audit or a postaudit, which is not being performed by the city government at the present time, and for which, in his opinion, it would necessitate the hiring of an independent accounting firm with expertise in the field of municipal finance, as many of the large accounting firms have on a year-in and year-out basis.

Mr. COPPIE. I would like to comment, Senator. Let me say that I have respect for Phil Dearborn. I also have respect for that report. The report was shared with us in draft form. Our response to the report in its earlier draft can be supplied for the record.

[The information follows:]

JUNE 20, 1975.

Mr. PHILIP DEARBORN,  
*Executive Director, District of Columbia Municipal Research Bureau,*  
*Washington, D.C.*

DEAR PHIL: Thank you for your letter of June 12 and the copy of the draft report you prepared on financial reporting in the District Government.

I believe the report presents a balanced view of the District's financial reporting and contains many useful suggestions that we will try to put into effect soon. I do not expect, however, that our initial reports will be prepared on a monthly basis, as you have recommended.

In your report, you suggested that the District prepare a periodic report of the status of capital projects. We now prepare such a report on a quarterly basis, and I am enclosing the most recent report for your information.

I take exception to the statement in your letter that I consider financial reporting "somewhat trivial." The improvement efforts we have carried out in the past 2 years show that we are concerned with improving the timeliness and quality of our financial reporting. Our efforts have been aimed at providing District departments and agencies with more timely and more accurate information about their activities rather than at producing the types of reports you have recommended. We are also carrying out a major effort to change our entire financial management reporting system.

Largely as a result of the improvements we have already made, we are in a good position for preparing the year-end and monthly summaries that you have suggested.

I look forward to working with you to improve the city's financial report. Your suggestions are always welcome.

Sincerely yours,

COMER S. COPPIE,  
*Special Assistant to the Mayor.*

Mr. COPPIE. Let me say also that some of the reports that he called for are in that report the city is now providing.

With regard to the larger issue that you are making about the audit. I think that Mr. Dearborn will say this to you this afternoon. Yes; he supports an independent audit, but not an independent audit that is



under the jurisdiction of the Congress of the United States, but under the jurisdiction of the District of Columbia government.

If an independent audit could be undertaken by the city government reporting in the postaudit area, we support that. In fact, it is called for in the home rule charter by the city auditor. But at this particular time, the city auditor, I am sure, would say that he does not have sufficient staff to do the kind of audit that is suggested.

Given the resources by the Congress of the United States, the city will undertake under its jurisdiction the kind of audit that Mr. Dearborn has in mind.

The CHAIRMAN. Would it not be of great value to your department and the new city auditor to have the best talent in the country available to the District in analyzing what their books and records now are; and then very importantly, as Senator Mathias points out, lead the city in the direction of the ultimate achievement of generally accepted accounting principles?

Mr. COPPIE. Senator, we need all of the help we can get.

Mayor WASHINGTON. Senator, may I comment, too?

I do not think that we disagree on that. I think that the real problem that he stresses is that—and as you have in our discussions—in Detroit and St. Louis, it is the city government that makes the determination and not a superior body, or another body. I think we can agree in this transition and this transformation from the federal system to a local system that there is room.

I do not think there is another city in the country that would be treated that way.

The CHAIRMAN. Yes; there is one that I know of right off the top of my head, and that would be my home city of St. Louis.

Mayor WASHINGTON. They have nothing to do with our audit.

The CHAIRMAN. The State auditor of Missouri, a State-elected official, has hired three of the biggest accounting firms in the country to conduct an audit, a postaudit, of the city of St. Louis.

Mayor WASHINGTON. Senator, is that the example for us?

The CHAIRMAN. I am replying to the statement you made that there was no other city in the country "treated" this way.

Mayor WASHINGTON. That is right.

The CHAIRMAN. The State of New York is now going to impose more stringent auditing procedures on New York City.

Mayor WASHINGTON. We do not have a State. We are here in the Federal Establishment. All I am saying is that we think that we can produce this. There is some provision in the home rule charter—given the resources.

The CHAIRMAN. We are in agreement then that you need outside help?

Mayor WASHINGTON. I did not say that.

The CHAIRMAN. Mr. Coppie said you would accept all of the help you can get insofar as the independent audit is concerned.

Mr. COPPIE. But the emphasis there is on help.

The CHAIRMAN. Help. Professional and competent people.

I will yield at this time to Senator Mathias.

Senator MATHIAS. Mr. Chairman, I see we have a vote on. I will ask the Mayor before we go to that vote—I guess it goes back to the old wartime question: Is this trip necessary?



The Washington Star last Thursday carried a report that Mr. Barry, the chairman of the Committee on Finance and Revenue of the City Council, said that he would offer a resolution to kill the \$50 million bond issue.

I wonder what the Mayor's estimate of that was, because if that were going to be a development within the City Council, the entire discussion of auditing procedures and accounting procedures would all become pretty theoretical.

Mayor WASHINGTON. My view of that is that it was a mistake. I think we need to go forward and get our rating and get a determination based on the use of that authority.

Mr. Barry is here. He can speak to the point himself and is prepared to do so.

Senator MATHIAS. I understand he will testify later and I will ask him directly.

Mayor WASHINGTON. My view is that we should move forward with that authority. We should have a rate determined within the constraints which are set in the bill which is that we cannot go over 8 percent. We would be testing the market. Now, this is not without some advice from our counsel.

The CHAIRMAN. The committee will have a recess for 10 or 12 minutes so we can make a vote.

[Short recess taken.]

The CHAIRMAN. The committee will once again be in order. We will finish our session on today's hearings on the fiscal management reporting. We have gone out of turn.

I will introduce and place in the record, if it has not already been in the record, a letter from the General Accounting Office, dated September 23, 1975, and Mayor Washington's response thereto, dated October 21, 1975.

[The letters referred to follow:]





COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

E-140997

SEP 23 1975

The Honorable Walter E. Washington  
Mayor of the District of Columbia

Dear Mayor Washington:

I have recently reviewed the status of your accounting systems improvement effort and am disappointed, as I am sure you must be, at the slow progress being made.

When we approved your accounting principles and standards almost 3-1/2 years ago, we had high hopes that that was the beginning of a vigorous systems improvement effort in the District of Columbia.

I realize that following our report of March 13, 1972, on violations of the Anti-Deficiency Act, you were under pressure to do a lot of "dike-patching." I am also aware of the reorganization and strengthening of your financial management structure that has since taken place. Nevertheless, progress in developing systems which meet our requirements for approval appear minimal, as indicated in the enclosed summary which is to be included in our 1975 report to the Congress on our accounting system work.

From our point of view--based on observing accounting systems developments in federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations. This must be done to permit several designs to be prepared simultaneously, which is necessary if all of the District's numerous accounting systems are to be approved and operating within a reasonable period of time. This information is also necessary to determine whether the system which has been informally submitted for our evaluation meets our standards and is therefore approvable.

PCMSD-76-18



B-140997

We urge that you and your staff, as soon as possible, address this issue and the related issues of that level in the District organizations will be responsible for designing and operating the various systems and segments. Once these basic issues are settled, the design and documentation work can be planned and undertaken more effectively.

We are appealing to you again on this matter because we are very much interested in seeing that the District has an effective accounting and financial management system. You can count on our continued cooperation.

Sincerely yours,

SIGNED ELMER B. STAATS

Comptroller General  
of the United States

Enclosure





## THE DISTRICT OF COLUMBIA

WALTER E. WASHINGTON  
MAYOR

WASHINGTON, D. C. 20004

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OCT 21 1975

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Honorable Elmer B. Staats  
Comptroller General of the United States  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Staats:

Thank you for your letter of September 23, 1975, in which you expressed your concern regarding the District of Columbia's progress in improving its accounting systems. In my judgment, the District has been moving in a responsible and timely manner in that area, especially when the District's efforts are viewed in the context of its particular requirements as a municipal government.

In your letter you cite experiences with Federal departments and agencies in evaluating the District's efforts:

"From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations."

The District is subject to pressures that are different in many important ways from those being felt by Federal departments, however. The city must operate within stringent funding constraints, thus putting a premium on effective monitoring of obligations and revenues. In addition, city officials and managers need highly detailed program and financial data to respond to the public's demands for accountability by those officials.

In response to the city's special requirements and the overall requirements of sound financial management, we are carrying out concurrently a number of systems development projects, including the work that you have suggested defining the various systems and subsystems in the District.



As the attachment to your letter points out, the city is planning to put in operation by October 1, 1976, a new appropriation-allotment system. That system will improve the timeliness, availability, and accuracy of information on obligations and financial plans at the agency level and at the central level. It will also provide for better safeguards against over-obligations. A more detailed description of the planned system is included in the attachment to this letter.

At the same time, we are planning to make major improvements in personnel management and position control by October 1, 1976. The personnel management system will provide for better information and control.

Preliminary meetings have been held on the development of a new revenue accounting system.

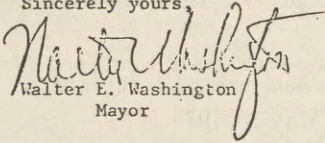
We are also working to identify and define all accounting subsystems in the District, as called for by your letter.

I strongly believe that it is essential that these various improvement efforts be carried out concurrently. The planned improvements in obligation and personnel control are vital to responsible financial management in the District Government and cannot be delayed until all accounting subsystems have been identified and defined. Because of the complexity of the programming and systems design required, it will be difficult to achieve the planned starting date of October 1, 1976, for the systems. Any delay would push the starting date back to Fiscal Year 1978 or later. I believe that such a delay should be avoided if at all possible.

I am hopeful that the concurrent work on the inventory and systems definition will provide the necessary information for the development of the new system. Agencies will be better able to assess their needs as a result of their experience with the design of the new obligation and personnel systems. They will also gain a better understanding of how the new system will meet their needs if they see the system itself under development rather than the design documents for the system.

While we may not agree on the specific steps to be taken in the development of the new system, I am confident that we share the same goal of significantly improving the District's financial management system. I appreciate the ongoing assistance provided by your office in this effort.

Sincerely yours,

  
Walter E. Washington  
Mayor

Attachment



The CHAIRMAN. Senator Mathias, I believe, read one excerpt from the letter. I will read another. It is the second paragraph:

When we approved your accounting principles and standards almost 3½ years ago, we had high hopes that that was the beginning of a vigorous systems improvement effort in the District of Columbia.

Then it goes on to say that those hopes were not fulfilled: "Nevertheless, progress in the developing systems which meet our requirements for approval appear minimal"—that is, the progress appears minimal—"as indicated in the enclosed summary which is to be included in our 1975 report to the Congress on our accounting system work."

I think Senator Mathias' point is well taken. He expressed to me in going over to vote that it may well be that with proper accounting procedures, proper books and records, and proper substantiation the District of Columbia can receive a higher bond rating than it might otherwise receive with inadequate accounting systems; that is, the improved accounting system may bring forth a more preferential bond rating than a system that is inadequate. This is pointed out by the GAO and it is pointed out in the Dearborn report.

Now, this question of rating. I am not terribly sanguine about bond ratings either from Moody's or Standard & Poors. I will just read into the record some excerpts from the Moody ratings of New York City during the past year when the city was rapidly sliding into the financial trouble.

Here is what they said on April 8, 1975, when they continued to give New York City an A rating:

The strong legal backing of the city's obligations and the city's unique position in the American economy provided a considerable amount of assurance to the creditor. These assets, managed by political leaders of even average competence, would represent adequate backing for any city securities. In the case of New York City, its securities become a good buy for investors seeking yield and willing to withstand adverse and often irrelevant publicity.

A good buy says Moody; I think Mr. Moody meant goodby.

Then in April of 1975, again it continued the A rating for New York.

The long-term problems of New York City may not be as much a problem for the city as it is sometimes made out to be.

That was May 23, 1975.

Then their final coup was a September 5, 1975, letter when they wrote: "We will continue to rate New York City's bond as A." In fact, it was not until October of 1975, that Moody saw it fit to downgrade New York City bonds from an A rating. I am not terribly enthusiastic about ratings.

Now, the question of going to the bond market. Mr. Mayor, are you aware of any municipality in the United States which has gone to the bond market in the last 6 months for as much as \$50 million in general obligation bonds?

MAYOR WASHINGTON. A city—

The CHAIRMAN. Any city in the United States that has gone to the general bond market for general obligation bonds in the amount of \$50 million or more?

MAYOR WASHINGTON. We will check, Mr. Chairman.



The CHAIRMAN. I am not trying to tantalize you. The answer is one—Philadelphia. Philadelphia went to the bond market several months ago on a 25-year bond issue in the amount of \$60 million. In order to peddle it, the tax-free interest rate came in at 8.83 percent.

Then on another day, on November 26, Philadelphia—rated A, by the way—on a bond expiring in the year 2001, again a 25-year bond, went to the market for \$25 million. The composite rate that came in on the Philadelphia bond was 9.4 percent.

Buffalo, N.Y., with a Baa rating, one below A, on October 1, 1975, went to the bond market in the amount of around \$15 million. There was not even one bid submitted at any price for Buffalo.

Mayor WASHINGTON. Mr. Chairman, I might—

The CHAIRMAN. A \$50 million bond in this municipal market for a city that has no bond record, for a city whose books are not kept in accordance with generally accepted accounting principles, for a city that has a deficit, for a city that has a swollen payroll, a city going to the market in this market under these conditions is just asking for trouble.

Mayor WASHINGTON. Mr. Chairman, you realize that we have a built-in control at 8 percent in this situation.

The CHAIRMAN. That is not completely true. That 8 percent on face value—the bonds can be discounted. If the bonds are discounted, then the effective rate could come in as high as 10 percent, if they are sold on a discounted basis as they probably would be if sold.

Mayor WASHINGTON. Do you not think that that is the authority you gave us to deal with so that we could try? Now, you are talking about some matters of swollen payrolls. We do not believe they are swollen. We believe that—and what we have had is again a budget that has been carefully dealt with by both Houses of this Congress. Each of those items have been authorized. Each of those, for instance, are once again before the committee.

Now, I have said and you have said 40,000—excuse me, we said our goal is 35,000 based on attrition and delivery of services. You know, what we are in is opinions. I do not have a better opinion. That is why we wanted to test it. That is what we were authorized to do.

The CHAIRMAN. It goes with the test and the approval of the Congress. If we did not act to exercise our rescission authority, we would be testing the issue.

I will now send out to you, Mayor, and to Mr. Coppie excerpts from the Washington, D.C., document, chapter 4 thereof called "Impact of the Economy on the Budget." It has two charts and is almost two pages.

Mayor WASHINGTON. Is that part of a document or just an excerpt?

The CHAIRMAN. I have the front page, if you want that too. I am not trying to hide it from you.

Mayor WASHINGTON. No. It is not a matter of hiding it.

Mr. COPPIE. Senator, I believe this is a report prepared by my office.

The CHAIRMAN. It is a report prepared by Mr. Coppie.

Mayor WASHINGTON. That is what I was asking.

The CHAIRMAN. If you will look on page 40, it gives optimistic, moderate, and pessimistic projections of the District of Columbia outlay and revenue programs.



First, let's take the most optimistic ones which your office prepared. The most optimistic shows that with the new revenue program, in the year 1976, where the chart begins, optimistically speaking, your accounts would be in balance. Is that correct?

Mr. COPPIE. That is correct, Mr. Chairman.

The CHAIRMAN. Then if we fan out to the year 1980, 4 fiscal years from now, the gap between outlays and revenues widens considerably even on the most optimistic of estimates. Is that not correct?

Mr. COPPIE. That is correct, Mr. Chairman.

The CHAIRMAN. Your most optimistic estimates insofar as revenue is concerned comes to what appears to me to be about \$1.2 billion or thereabouts on that optimistic chart?

Mr. COPPIE. I believe that is correct.

The CHAIRMAN. The outlays on the most optimistic chart come in at what appears to be \$1.5 billion to \$1.6 billion, somewhere in that range. Is that not correct?

Mr. COPPIE. That is correct.

The CHAIRMAN. So even in the most optimistic of circumstances, by the year 1980 the deficit would be about \$400 million.

Mr. COPPIE. Well, I do not like the word "deficit." That is the gap.

The CHAIRMAN. All right, the gap. So henceforth we will just use the word "gap." The gap between the expenses and receipts under the most optimistic of circumstances—per your own projections—would be in the neighborhood of \$300 million.

Mr. COPPIE. That is correct.

The CHAIRMAN. Let's take the moderate estimate. The gap between outlays and receipts would be something in the neighborhood of about \$400 million on the moderate one. The gap on the optimistic one should have been \$275 million. Is that right?

Mr. COPPIE. That is correct, Mr. Chairman.

The CHAIRMAN. So the gap on the moderate one goes up to \$400 million.

Now, the most pessimistic projection, again going up to 1980, again the outlays versus receipts, the gap on the most pessimistic one gets up to \$500 million.

Mr. COPPIE. Yes.

The CHAIRMAN. Any way you slice it, be one an optimist or be one a pessimist, the revenue gap would be anywhere from \$275 million to \$500 million by the time you reach 1980?

Mr. COPPIE. Mr. Chairman, I would like to develop it from our perspective. I think the first point I would make is what we are talking about is a projected gap that has to be closed.

Parenthetically, I would point out that the city budget increased by more than 100 percent in a period of about 10 years. The kind of projections we are talking about now are not necessarily new to the city. They are something that we have been living with as part of the so-called urban fiscal crisis for quite some period of time.

I think, however, the real point is that on the one hand—it has not been suggested here, but it certainly has been suggested by others—that State and local jurisdictions have been less than candid about financial disclosure in the area we are talking about.

The whole purpose of the report that this is excerpted from was to properly project the condition of the city and the budget area as it exists and as it appears to be developing over the next several years,



and identify various alternatives that are going to have to be taken in order to address that problem.

In short, we have not been sitting on our hands. We know where we have come from. We know where we are. We know where we are going. We know that certain things are going to have to be done in order to close this gap.

Mr. Chairman, this problem is not unique to the District of Columbia. What perhaps is unique to the District of Columbia is that we are properly disclosing our position.

The CHAIRMAN. Mr. Coppie, I was not criticizing you for the disclosure. I commend you for it. I will place in the record at this time the charts which were prepared by your office. I commend you for preparing such a report. I think it is fitting and proper that potential investors in the District securities be apprised of what the future revenue projections are for the city, vis-a-vis how it operates. I give you nothing but praise for it. I was not criticizing it.

[The report referred to appears in the appendix. See appendix.]

Mr. COPPIE. Bringing it back to the purpose for which we are here this morning, the disclosure of this kind of information, in our judgment, enhances our ability to properly market our bonds.

The CHAIRMAN. All right.

Mayor WASHINGTON. Mr. Chairman, there are some—further in the report—alternatives, I think. That is what I was addressing myself to of whether or not we just got the bare excerpt without some projection of what we are doing once we have analyzed and once we have identified the problem.

The CHAIRMAN. The gap ranges from \$275 million to \$500 million. It indicates that magnitude of additional funding that you are going to need from whatever source.

Mayor WASHINGTON. If you go this way. The whole purpose of the exercise is to identify growing gaps. This is really what we are talking about in the urban crisis. This is what the cities are facing. Obviously, once you recognize it and project it, then you deal with it.

The CHAIRMAN. I will move on now to the capital improvements program, the next item on the Mayor's prepared statement.

What was the District of Columbia's debt proposed for fiscal 1975?

Mr. COPPIE. About \$1,030 million of long-term debt. We had an outstanding short-term advance from the U.S. Treasury of \$40 million.

The CHAIRMAN. All right. So the long-term debt was \$1.030 billion, and a short-term advance from the Treasury of \$40 million for a total debt on long term and short term of about \$170 million.

Mayor WASHINGTON. No.

The CHAIRMAN. I beg your pardon, \$1.070 billion.

I will state for the record—I think this figure is accurate—in fiscal 1968, 7 years ago, the debt of the city was \$177 million. So between fiscal 1968 and fiscal 1978, the debt increased from \$177 million to \$1.070 billion. The estimated debt by the end of fiscal year 1980, according to page 4 of the Mayor's statement, will be something in the area of \$1.900 billion. Is that correct?

Mayor WASHINGTON. Six, was it not?

The CHAIRMAN. Well, it is \$1,600 million for the properties you currently have underway, and another \$300 million—

Mayor WASHINGTON. Six years.



The CHAIRMAN. Your capital planning program calls for new projects with a total cost of less than \$300 million; \$1 billion, plus \$600 million, plus \$300 million is \$1.9 billion.

Mr. COPPIE. That is correct.

The CHAIRMAN. Again, going back to 1968, compared with 1980, a 12-year period, the deficit of the city will have increased about 10 or 11 times over the 12 years.

Insofar as debt service is concerned, and these figures are drawn from your records, for fiscal 1970, 5 years ago, the debt service was a rather minor amount of \$7.1 million. The debt service computed as a percentage of revenue was 1.3 percent back in 1970. By 1975, the debt service climbed to \$49.1 million. That constituted 5.7 percent of revenues.

By 1980, according to your projections, the debt will climb to \$160 million and will comprise about 13.34 percent of revenue. Are those figures appropriate?

Mr. COPPIE. They are, Mr. Chairman.

The CHAIRMAN. So then the period from 1970 to 1980, one 10-year period, the debt will have climbed from \$7 million to \$160 million. As a percent of revenue, it will have climbed from 1.3 percent of revenue to 13.34 percent of revenue.

Another way of analyzing debt is to analyze it as a percentage of true taxable value. Mr. Dearborn mentions this yardstick in his report. In 1974, the District of Columbia debt as a percentage of true taxable value was 11.7 percent. By 1980, the debt as a percentage of true taxable value was 17.8 percent. The 20th Century Fund report says: "A debt to full market value ratio of 10 percent suggests an unsatisfactory credit loan in the absence of unusual strength in other credit areas." We have already achieved a level in excess of 10 percent, and are heading toward 17.8 percent by 1980.

Yet another method of computing debt and relating it to the city involved is to compute debt based on population—per capita debt. Again, I draw from the Dearborn report dated November 1974. Table 2 of that report lists about the 30 largest cities in the United States in terms of debt per capita, starting with New York at the top of the list, with St. Louis and Phoenix at the bottom of the list. This is as of June 30, 1974. It is not prospective. This reflects the current picture.

The District of Columbia, on a per capita debt basis, ranked third in the United States among the big cities; New York was first at \$1,280; next came San Francisco with \$1,086; next came the District of Columbia at \$1,051. The bottom of the list was St. Louis at \$310 per person, and Phoenix at \$303 per person. That speaks for itself.

Mayor WASHINGTON. Mr. Chairman, it does not quite speak for itself, but we will get a chance, I guess, to explain it.

The CHAIRMAN. The final barometer or measuring instrument insofar as debt is concerned is to compute the amount of retired debt in any year as a percentage of the total debt. The most fiscally prosperous cities in the United States retire their debt earlier on and in greater amounts than do the cities that are less fiscally advantageous.

For instance, three of the most fiscally prosperous big cities in the United States are Minneapolis, Milwaukee, and Dallas. They rank the list. Minneapolis retires on an annual basis—this goes back a few



years—12.8 percent of its debt, Milwaukee 11 percent of its debt, and Dallas 11 percent of its debt.

Ranking absolutely last in the Nation among the 30 largest cities in the country, absolutely last with nobody remotely close to the last place ranking, is the District of Columbia, which in 1971 and 1972 retired 0.9 percent of its debt. That is less than 1 percent of its debt. Every other city in the country retired at least 2, most of them 3, some of then 4, and some 5, and 6, 9, and on up the line to the 11's and 12.

I read those into the record, not that statistics are terribly exciting, but insofar as debt analysis, they can be very relevant in trying to see what the debt picture of a given governmental entity is and what that debt picture will be in the years ahead. Debt is directly related to the issues before us with bonds, because bonds are an issue of debt. These are refinancing bonds, but bonds that would be coming forward next year, if this were going into effect. There would be additional borrowing bonds for capital improvements.

Mr. Coppie and the Mayor, you may comment on those things.

Mr. COPPIE. Mr. Chairman, I think that the analysis tends to distort the District in the comparisons that you have used. I think perhaps the first observation of what we are talking about is debt and costs. You have not touched on benefits. For every dollar that we borrow, we are showing one of the major inner-city capital improvement programs in the United States. That is highlighted by new schools in neighborhoods, improved schools in neighborhoods, improved recreational facilities in neighborhoods and, of course, District-wide projects such as the new D.C. detention center and the Metro if, in fact, that is completed and becomes a reality. It is going to bring one of the most progressive transportation systems in the Nation to this city and this region.

I think it is one thing to talk about the cost and debt; it is quite another thing to talk about what we have on the other side as a return for that.

You have mentioned the debt in relationship to property tax value. That is a valid comparison, Mr. Chairman, if you are comparing our city with other cities where they rely substantially on the property tax as a principal source of revenue.

We have a balanced tax program in the District of Columbia. The property tax is about one quarter of our total local tax base. We have a State structured income tax. We have a sales tax and, of course, we have a Federal payment.

So the property tax analogy is perhaps valid if we are comparing Los Angeles with San Francisco, but it is not valid for comparing the District of Columbia with another city for the reason that I have mentioned.

With regard to the per capita debt, we do not challenge those figures. We do point out, however, that much of that debt for other jurisdictions was created in an earlier period when building costs were substantially lower than what they are now. Our building program is a more current one and, therefore, it is a more costly one. So therefore the debt is going to be higher.

I think again, Mr. Chairman, I hasten to point out here that we must talk about cost-benefits. We are talking about an inner-city



dilemma in this Nation. This city, in partnership with the Congress, has attempted to do something about it.

The CHAIRMAN. I am sorry to have to cut you off. We will take a brief recess now for a vote.

[Recess taken.]

The CHAIRMAN. Mr. Coppie, you may continue where you left off.

Mr. COPPIE. Mr. Chairman, at the break I was pointing out the cost-benefit in relationship to the per capita debt point that you made. The Mayor in a moment will speak more to the benefit side.

Let me point out that some of our debt is being serviced by Maryland and Virginia, for example, the Blue Plains facility. When we finally get into an actual measurement of our debt and the debt that we have to service, that will be netted out, that is, that Maryland and Virginia participation.

Let me say also that the comparisons with other jurisdictions, a breakdown on another point, that is, you are comparing all of our debt with other cities. The information that is reported and the context in which you use it does not include overlapping debt for other jurisdictions such as water and sewer debt that would be in a separate revenue authority—a water and sewer authority—and what have you.

Your point, Mr. Chairman, about ability to retire principal: With regard to our retirement of principal, there are some very specific substantive points I want to make, but I think it is important to observe that most of our debt is recent debt. So therefore our ability to substantially retire principal has not been with us. But that is not the real point. I think the real point is that before the home rule charter, we were required by public law and by the U.S. Treasury Department to have level debt service so that we could not retire principal at a more rapid rate than might otherwise be desirable.

Moreover, the home rule charter specifically requires us to have level debt service. So our ability to retire principal at a greater rate than is now the case is simply not currently authorized by public law.

I might say that that is something that we will be glad to look at in cooperation with you and your staff.

Finally on this point, Mr. Chairman, I think it is not clear to me whether you are saying that there is perhaps some correlation between our ability to market the bonds, between our ability to get a favorable credit rating, and our ability to retire principal more quickly. I think there is little or no correlation.

I think the best example I can point to is Philadelphia which has a record of retiring principal rather quickly. Its rating was recently increased from Baa to A. There is one current national publication that points out that Philadelphia is having serious problems in the bond area now.

I think the point about our ability to retire principal is valid on the one hand, but I do not think it should be put in a negative context for this particular city as it moves forward to hopefully attempt to sell its bonds.

Mayor WASHINGTON. Mr. Chairman, I would just like to say a word about the benefit side. I want to have this introduced in the record, if you will. Mr. Coppie has spoken to the specific comparisons. But I think it is ludicrous really to have come in in the late 1960's and found a fiscal plan in a condition like this one for the Nation's Capital, for



the capital of the free world, which has caused us, in the interest of our citizens, to have to—just in schools, \$300 million, Mr. Chairman, 10 new elementary schools, 12 elementary school replacements which will be coming forward in the next 12 months, 23 elementary school modernizations, 3 junior high schools, 2 new and I mentioned the shameful Shaw replacement, 13 high school replacements and modernization.

Now, this is just in schools, Mr. Chairman. You and I have talked from time to time about this system—this miserable plan which we found here 10 years ago where for generations there was hardly anything happening. They were overcrowded. Kids were all over the place, in cafeterias, trying to read in basements in schools. Now, to have taken a city with that kind of a situation—libraries—the Martin Luther King Library, seven libraries—take our police stations, old No. 10, old No. 11—disgraceful. We have put seven new district stations in just to modernize your public safety so that people would not have to even be apprehended and put into places that were as obsolete as those. Five obsolete fire stations have been modernized or rebuilt.

\$30 million went to the Department of Human Resources in trying to renovate D.C. General Hospital which is in this piece. The D.C. Morgue is outmoded. The morgue—we had to build a new one. Nobody wanted to. Somebody said, “Well, those are dead people.” That is the way you can look at it.

Forest Haven, the corrections department, we have nearly \$100 million in a new replacement of the 103-year-old jail, and a proposed \$55 million for the renovation of Lorton.

A D.C. court building, a \$45 million court building.

I call your attention to one of our shares in Metro, \$275 million. The highways are another \$30 million.

Now, the regional, we serve at Blue Plains, the entire water resource for Maryland and Virginia at this point. I did not have anything to do with that. We have it. It is under a compact which was set years ago. That is at \$69 million at this point. All of that is upgrading the physical plan. It seems to me that if I was on the other side I would be saying, you know, this is getting your physical plan in shape where people can live decently, study decently, and have adequate resources. I am not happy about those other years. I do not want to appear to be overjoyed about a debt.

But I am pleased to say to you, Mr. Chairman, that we have come to grips with this problem of a city with obsolescence. Just look at those numbers that you have had to go to—\$300 million in schools, in order to upgrade the plan. Now, I do not want to go back. We have had a problem. I do not want to go back into the years before 1964 and suggest that maybe something happened. That is not the point.

The point is that what we found in 1967 and 1968 was a plan that was virtually obsolete from one end to the other, and we have dealt with it.

I would hope that anybody looking at the bonding area would say, “Well, good; they at least got a fiscal plan that is in shape, and now they can go forward with their programing.”

I think that is something that I would very much like to have. I have summarized it. All of these projects are out there where you can see them, or they are in design, or under construction. This is not financing a debt or a payroll. It is financing construction that was vitally needed



in all parts of this city in every area from public safety, schools, to human resources, to corrections, to transportation, and environmental services.

It seems to me that we have a plan now that is nearing the point where we all can be proud of it. I certainly was not and I do not think anybody in this room was proud of it 10 years ago.

[The following material was supplied for the record:]



Capital Program Questions & Answers  
Continued

3. What are the benefits of the expedited building program?

The expedited capital program will provide 255 capital improvements for the City:

- 60 projects have been completed
- 76 projects are under construction
- 47 projects are under design
- 25 projects are proposed in FY 1976
- 47 projects are proposed beyond FY 1976

In order to provide a general prospective of the scope of the capital program I have summarized below the key highlights within individual program areas:

Public Schools:

The \$300 million building program will complete 61 facility projects. The building program includes:

- 10 new elementary schools
- 12 elementary school replacements
- 23 elementary school modernizations & additions\*
- 3 junior high schools (2 new and the Shaw Replacement)
- 13 high school replacements or modernizations (including the Dunbar Senior High School Replacement)

Higher Education:

The Higher Education capital program includes the construction of permanent campuses for WTI and FCC at a total cost of \$250 million. The first stage of WTI (\$19 million) is currently being occupied and the second stage (\$55 million) is under design. The final stage will require additional review prior to proceeding in FY 1979 or 1980.

The Federal City College Permanent Campus is currently under design, and approximately \$35 million will be required in FY 1977 in order to initiate construction.

\* Includes three site expansions.



Public Library:

The library building program has included the completion of the Martin Luther King Library, the Daniels Branch Library (W2) and the Chevy Chase Branch Library (W3). The current program includes the construction of the Deanewood (W7), Chillum (W5) and Wilkinson (W8) branches.

Recreation:

The recreation capital program includes 24 projects totaling \$27 million. Although 7 projects have been completed, the majority of the program is in the design/construction phase. Once completed the City will have:

- 11 new recreation center complexes
- 5 new swimming pools\*
- 4 new outdoor site developments
- 4 special purpose recreation facilities

Police:

The capital program for police is a \$21 million program for 7 District Station Houses. Four station houses are complete (Wards 3,4,5,8) two are under design (Wards 7 and 2) and one is under construction (Ward 1).

Fire:

The Fire Department building program includes the replacement of five obsolete fire stations and the modernization of ten fire facilities. The program also includes the innovative voice alarm system. The total Fire program is \$15 million.

Human Resources:

The \$30 million capital program for the Department of Human Resources will provide for the renovation of D.C. General Hospital, the replacement of the obsolete Glenn Dale Facility, the replacement of the D.C. Morgue; new therapy and dining facilities at Forest Haven; development of a new health and psychiatric center and improvements to D.C. Village.

Corrections:

The corrections capital program includes the \$30 million replacement of the D.C. Jail and a proposed \$55 million renovation at the Lorton Complex.

D.C. Courts:

The construction of the \$45 million court house is currently in process.

General Services:

The Department of General Services has an ongoing \$20 million program to upgrade the condition of existing facilities.

\* Five additional swimming pools are being provided in conjunction with public school projects.



Transportation:

The City's share of the METRO rail system is \$275 million. Additionally the District has contributed \$19 million for the purchase of the bus system and an additional \$7 million for capital bus improvements.

The Highway program in the City includes more than \$30 million in local street improvements. A major highlight has been the halting of several freeway projects, and the subsequent conversion of funds for mass transit.

Environmental Services:

In addition to ongoing improvements to the water and sewage system the Environmental Services and Washington Aqueduct programs include the District's share of the Water Pollution Control Plant (\$69 million), the proposed Resource Recovery Center, the Conversion of Incinerators to Transfer Stations, projects to eliminate flooding in the Oxon Run area of Anacostia and an emergency pumping facility at Great Falls.



The CHAIRMAN. Mr. Mayor, the discussion is not one of relative values of any given project that has been constructed or might some time in the future be constructed. The question here before us this day is debt and debt financing. It is a question of what the District of Columbia can afford.

In a few years the debt of the District of Columbia has leaped from \$500 million roughly to \$1 billion. It has leaped 10 times in a relatively short period of time.

Here are your own plans for the future. I have taken this from the District's multiyear financial plan. Here is what you intend to borrow year-by-year the next 6 fiscal years—a mix, by the way, of bond borrowing and borrowing from the Treasury. You plan to borrow \$233 million in 1976; \$189 million in 1977; \$202 million in 1978; \$194 million in 1979; \$136 million in 1980; \$109 million in 1981; so for the next 6 fiscal years you plan to borrow \$1,063 million. You superimpose that borrowing on the debt that already exists of a billion dollars plus.

What I am saying to you Mayor is that there is just no way, regardless of what you think is good for the city in terms of a new library, or a new court house, or a new school, or a new wing on a hospital, or improvements in a penitentiary system or what have you; all of this would be commendable. There is no way that the District can borrow this kind of money and be considered to be fiscally solvent.

New York City, Mayor, has had to totally scrap its entire capital improvements program. It is a sad disaster for New York City. I am not jumping for joy that they have to do this. I do not revel in Mayor Beame's agony. He is a decent man. He has had a fine public career. Yet the whole house of cards has fallen apart. New York City for years has lived extravagantly beyond its identifiable fiscal means.

What we are trying to do with these hearings is not travel the same roads as New York. If New York had hearings like this 10 years ago, if it had had an independent public audit of its books and records 10 years ago, I can say without a doubt that New York would not have traveled down this horrible, lonesome, disastrous road. It got to the bottom of the pit. Then everybody says, "What happened to us?" The bankers said, "Well, we knew there were gimmicks with the books, but we thought we had to take the certification of the mayor and the comptroller."

The investment people said, "We knew they were borrowing a lot, but we always thought they would be able to pay it back." Everybody kept quiet. Everybody let them go down this road deeper and deeper with the roof falling in. We do not want this to happen with the District.

Mayor WASHINGTON. Mr. Chairman, I could not agree with you more. That is why I am saying that we have prudently moved into areas to upgrade our plan. We do not have that before us like a lot of cities. We think that we can manage. We have managed. What you have on the other side is a deteriorating city where everybody—you with your responsibility, and me, and the council with their responsibility.

I can tell you that if you had been sitting through these hearings on the appropriations side day after day, night after night, as we have gone through them over the years, Mr. Chairman, on that side you would have seen just exactly what we have had to deal with.



The New York problem is infinitely different. What you have said are indices. There are indices in every city. What we have done is not borrow on payroll. What we have done is borrow on a long time priority basis and put the facilities out there where people need them. Sure, you cannot go forever. We know we are peaking. We know we are peaking at this point.

Do you know what the Appropriation Committee set as a limit, and we have been under that, \$250 million a year. That is the limit that they have set.

Mr. COPPIE. \$150 million.

Mayor WASHINGTON. \$150 million. We have only varied where you have a project like higher education, the WTI, which had to be done on a fast track, or the jail and Lorton all at one time. Those have all come through with careful analysis.

You know, it is not like we are just coming out with them. This has been year by year in an effort to try to put a fiscal plan together and we think we have done it in a way that keeps us sound, and we believe we are sound.

The CHAIRMAN. Mayor, I guess we are talking from different vantage points and we are not meeting eye-to-eye on the problem. I am not disputing that it would be good to have a better hospital, or a better school, or a better public facility of some kind. Any city, including my home city of St. Louis, wants new facilities. My own city is very cautious in its borrowing practices. As I mentioned to you earlier, it ranks next to the bottom of per capita debt.

But Mayor, take my word for it, if you go ahead with this borrowing program, and the Senate and House Appropriations Committees give you the right to borrow these amounts that I just mentioned, \$1 billion over the next 6 years—

Mayor WASHINGTON. We did not say that, Mr. Chairman. We were just talking about a projection. We do not live by projections.

The CHAIRMAN. Your own projections, Mayor, are \$900 million and you are \$1 billion in debt. You are going to borrow \$600 million to finish jobs now underway and you want to borrow \$300 million for new projects. Your testimony—

Mayor WASHINGTON. The testimony is a projection. That is what we have disclosed. We think that we are within our prudent ability to take care of that based on a projection.

The CHAIRMAN. That is what you would like to borrow; what you hope to borrow; what you expect to borrow in the next 6 years. That is your testimony right there.

Mayor WASHINGTON. We are talking about how you do it on a long time return.

The CHAIRMAN. You can either go to the bond market or the U.S. Treasury. There are only two ways to go.

Mayor WASHINGTON. Yes. We think with this route we can save money.

The CHAIRMAN. Mayor, you are getting the District of Columbia grossly over its head with this kind of a borrowing program. It could fall like the house of cards fell on New York.

Mayor WASHINGTON. Mr. Chairman, I disagree with you.

The CHAIRMAN. Again in the Dearborn report, and Mr. Coppie already testified to this, in order to meet the payroll this year you—

Mayor WASHINGTON. That was a cash flow of \$40 million.



The CHAIRMAN. You call it a cash flow. I call it a deficit. Let's have all of those words mean the same thing, because they do. Mr. Coppie likes gap, you like cash flow, and I like deficit. We will call it deficit-cash flow-gap.

Mayor WASHINGTON. All right.

The CHAIRMAN. You borrowed \$40 million this year from the U.S. Treasury. Is that correct, Mr. Coppie?

Mr. COPPIE. Yes.

Mayor WASHINGTON. Yes; that is correct, because of cash flow problems.

The CHAIRMAN. You needed an extra \$40 million, right?

Mr. COPPIE. That is correct.

The CHAIRMAN. Is that the maximum you could borrow from the U.S. Treasury under those circumstances?

Mr. COPPIE. Mr. Chairman, a maximum by whose standards?

The CHAIRMAN. By the law. Does the law restrict you for the purposes of cash advances of \$40 million?

Mr. COPPIE. It does not.

The CHAIRMAN. Is there unlimited borrowing capacity from the Treasury?

Mr. COPPIE. Mr. Chairman, there is no restriction in the law. The amount that the city has limited itself to in consultation with the Treasury Department and the Office of Management and Budget is \$40 million.

The CHAIRMAN. All right. In order to get that \$40 million advance to assist in your cash flow problem, did you not have to capitalize the \$25 million in operating expenses and transfer that to the capital account?

Mr. COPPIE. We did not.

The CHAIRMAN. I will read into the record—and Mr. Dearborn is here to testify—

Mr. COPPIE. I would like to say—

The CHAIRMAN. Let me put this in the record: "The cash shortfall"—Dearborn likes shortfall, so we have gap, cash flow, shortfall, and deficit, "was offset in fiscal 1975 by using the cash balances at the beginning of the year, and by borrowing the maximum \$40 million cash advance permitted by law in 1 year from the U.S. Treasury. This \$40 million advance was in addition to outstanding advances of \$25 million borrowed in prior years. During fiscal 1975, the city converted the outstanding \$25 million operating advance to a long-term Treasury loan to be repaid over 30 years."

Mr. COPPIE. I would like to explain exactly what is involved. I think first, Mr. Chairman, in terms of time frame, the \$25 million was converted to a long-term debt before the \$40 million issue even developed. They are totally unrelated. So the \$65 million figure that is referred to is just not relevant to this discussion.

The CHAIRMAN. Based on what you have read and studied about New York City, did they not, from time to time, convert operating expenses into the capital account?

Mr. COPPIE. We have done just the opposite.

The CHAIRMAN. You did transfer the \$25 million in current obligations into 30-year long-term borrowing.

Mr. COPPIE. I would like to explain exactly what is involved. We completed the 1974 fiscal year, as I recall it, with a \$25 million out-



standing short-term debt to the U.S. Treasury. I was concerned about that. What I did was to go back and do an analysis of why that, in fact, happened.

What I discovered, Mr. Chairman, was that in an earlier period, in the early 1960's, the city had been given loan authority by the Congress for capital outlay expenditures which it did not properly and prudently use. Instead what it did was to use the cash advance from the U.S. Treasury as the method of financing the capital outlay program.

So what I did and justifiably did, and I might say in complete consultation with the Office of Management and Budget and with the U.S. Treasury, and in accordance with public law, was to convert \$25 million to a long-term debt which, in fact, should have been a long-term debt in an earlier period of time.

The \$40 million outstanding advance that we had at the 1975 fiscal year we have spoken to very candidly here this morning is an imbalance between our expenditures and our cash flow. We are looking forward to properly addressing that problem. I think we said that.

The CHAIRMAN. Let me read into the record at this point an excerpt from Mr. Reischauer's testimony. He will testify this afternoon. He is Special Assistant to the Director of the Congressional Budget Office. He is the gentleman who prepared the Congressional Budget Office analysis in the New York City fiscal crisis, which most everyone on the Hill who has dealt with that crisis says is the best single report prepared on the subject matter thus far.

I will quote you page 2 of his testimony. I will give you all a chance to comment on it. "Outlays for existing and planned programs are projected to grow by some 12.6 percent per year over the 1976 to 1980 period, while revenues from current authority are expected to rise by only 5 percent per year, attached is a table." He goes on to say, "If this scenario is laid out, a gap"—he likes to use the word "gap"—"a gap between anticipated expenditures and revenues of \$509 million would exist in 1980." That ties in, obviously, with your projection, or one of the projections that you made from your official documents.

"The tremendous magnitude of this gap is best illustrated by noting that to close it would require a hike of 64 percent in the anticipated 1980 revenues that are controlled by the city or a reduction of 31 percent in expected city expenditures." Now, for the final sentence. By the way, the man who wrote the New York report now makes this one.

"Or to put it another way. The source gap extrapolated to New York City's population would be roughly \$5 billion as compared to the actual gap of \$800 million that faced New York City this year."

Do you care to comment on that, Mr. Coppie?

Mr. COPPIE. Mr. Chairman, I would. Let me say Mr. Harris shared with us a copy of Mr. Reischauer's statement. We have read it and did a brief analysis of it. I think it is well prepared and shows a high degree of sensitivity for the issues that we are talking about.

The projection that he is talking about there for the city, of course, is taken from the city's report, as you have pointed out. We had this discussion a few moments ago concerning the gap. I pointed out to you that in an earlier period the city budget increased by about 100 percent in a period of less than 10 years. In each of those years, we were managing it. We propose to manage this gap in the next period in a prudent and responsible way.



Mr. Chairman, I think it also needs to be pointed out here that we are talking about a fluid situation in terms of the ability of cities to close this kind of gap.

The revenue-sharing program, which is now pending before the Congress—hopefully that is going to be reaffirmed in terms of a program and that there will be a substantial increase in terms of the appropriations associated with revenue sharing.

There is also the anticyclical legislation pending before the Congress which would bring relief to cities in terms of additional funding.

There is also the potential possibility in the not distant future, we hope, that there is going to be the nationalization of public assistance in medicaid.

So I think we are talking about a fluid area in terms of—well, there could be some very significant changes here that could favorably improve the climate for cities in relationship of their ability to finance their situations.

The CHAIRMAN. Well, if those favorable things that you recited come into being, would not that be all the more reason to wait on the bonds until they are a reality and thus could buttress your support in the bond market?

Mr. COPPIE. Obviously, Mr. Chairman, our answer to that is: No. We feel we can save money by going to the municipal bond market. One of the ways we can close this gap, not substantially close it perhaps, but we can close it in part by saving money through our bond financing, in our judgment. I realize that is not your judgment.

The CHAIRMAN. What happens, Mr. Coppie, if your hopes are not fulfilled? What happens if the Congress does not nationalize welfare? Bear in mind, Governor Rockefeller of New York recommended this 12 years ago. He has been hoping for 12 long years.

Bear in mind that the Congress had before it for 10 years a bill called National Health Insurance. It has not reached legislative fruition. Parenthetically, I do not support it.

Bear in mind that the revenue sharing bill is more likely to be extended on its present basis than on some broader basis. If it is more supportive for big cities, I will support the big city amendment, because I think there is a compelling need there.

What if all of your hopes and expectations for either a Federal take-over of certain responsibilities in funding and revenues do not come to pass? Where are we with the gap?

Mr. COPPIE. I am not holding out the point that I just made as the absolute way in which we are going to close the gap. I am saying that we are in a fluid situation. I think the real point is that we are prepared to manage our problem.

The CHAIRMAN. It is fluid. I will agree with you that it is fluid.

Mr. COPPIE. By way of a close review of the record, we have managed it pretty well over the period of the last 8 to 10 years when our budget increased by more than 100 percent.

The CHAIRMAN. Yes. The Federal payment increased in each of those years or every other year to a very sizable amount. I was here in the early years with that. Just as Senator Mathias said, we tried to figure out how much the city was going to collect; then we asked how much the city thought it was going to spend; then we appropriated a Federal payment to bridge the two.



There are some outer limits on spending even insofar as the Federal payment is concerned. That is locked in by congressional action. That is locked into your home rule authorization at a maximum of \$300 million 2 years from now.

I will repeat, because some people think I am just raising the New York thing as an idle specter. I will repeat Mr. Reischauer's final sentence. "Or to put it another way, the source gap extrapolated to New York City's population would be roughly \$5 billion as compared to the actual gap of \$800 million that faced New York City this year."

That is the gap, the cash flow, the deficit. The shortfall of New York City this year was about \$800 million. To make it comparable to the anticipated spending rates of the District of Columbia would have it up in the neighborhood of \$5 billion.

Mr. COPPIE. Again, I have to underscore this. To extrapolate and to use that example is really unfair. We are not going to have that gap in 1980. We have to manage it on a year-to-year basis by the balanced budget requirements.

The CHAIRMAN. It absolutely must be, Mr. Coppie. The time is now. The time is not 2 years from now. The time is not 10 years from now, but the time is now to manage the deficit.

Mayor WASHINGTON. That is precisely what we are doing.

The CHAIRMAN. Your projection of this year's deficit on an obligational basis will be \$40 million. Is that right?

Mr. COPPIE. On a cash basis, our commitment is to have an imbalance of about \$20 million.

The CHAIRMAN. Well, I will make you a little friendly wager that I hope I lose. I am willing to bet you a lunch in the downstairs dining room that your debt exceeds \$40 million for this fiscal year. We will see who is right.

Now, we move on to retirement. The mayor very aptly pointed out that this was not of his making. You did not invent it. You inherit it as the elected mayor. As the appointed mayor, your administration did approve during that tenure certain increases and additional benefits that were not covered.

Mayor WASHINGTON. I do not recall that. The last modification of it was in 1957. Is that what you mean?

The CHAIRMAN. The one modification that came up during my tenure.

Mayor WASHINGTON. That was the aggravation clause which you must be talking about.

The CHAIRMAN. That is probably a good clause for this hearing. Some statistics on the amount of this, again, inherited by your administration. Police and fire are totally unfunded. They are on a pay-as-you-go basis. What meager employee contributions there are go into the city's general fund. They are not set aside or earmarked for any kind of retirement fund. There is absolutely no reserve.

Benefits paid out under this system last year amounted to \$48.3 million and have doubled over 5 years. Benefits earned but not paid out concerning police and fire was \$1,050 million. By the year 2007, pension payments for police and fire will exceed the salaries of active employees.

Again, I will make a little prediction on my own that you will arrive at that date far before the year 2007, because the actuarial base upon



which these projections for police and fire retirement were made dates from 1921, which is 54 years ago, and the life expectancy of policemen and firemen—and indeed as with all Americans—has considerably increased in that half century.

Now, one other statistic, a case history, again from Mr. Coppie's report. The average fireman retires after 21 years of service. If he enters the Fire Department at the age of 24, he can retire when he is 45, and a substantial number of them so do. Then they take other jobs.

The total gross salary during that 21 years of service would be \$107,000. His total pension would be \$715,555. The total pension of one fireman would be \$715,555. Toward that pension, he will have made an employee contribution of \$13,100. In his 21 years of service, he would have contributed \$13,100 or about \$600 a year. The pension cost of the city for the net difference would be \$702,455 per fireman.

Well, we will look through teachers and judges and then we will have a couple of questions. The teachers do make a contribution to their retirement fund. That fund now has a value of \$59 million. Its accrued liabilities are \$550 million or at an unfunded liability of about \$490 million.

The judges' system is very tiny. There is \$940,000 in the fund. The accrued liability is \$10 million. The unfunded liability therefore is \$9 million.

So if you add up the \$1,050 million unfunded liability of the police and fire, the \$480 million of the teachers, and the \$9 million of the judges, it comes to an unfunded liability of \$1,539 million—lots of money.

The time is at hand. The time was at hand many years ago before you were ever Mayor of the District of Columbia. Time should have been at hand then to analyze this enormously escalating debt and this enormously escalating responsibility of the District of Columbia to begin to do something about it then. Unfortunately, that was not done. It should have been done very early in my tenure as chairman of the District of Columbia Committee. It was not done.

But—belatedly as it may appear—the time is now to do something about it. You have submitted three proposals in 1974. Your prepared testimony very properly mentioned this. You submitted to Congress in 1974 three proposals with respect to the pension fund.

The primary effort, I think the record will show, was to try to seek passage from the House of Representatives before coming to the Senate. You could have come here as your initial forum.

In those proposals, and they vary as to methodology and input, but they are in a sense—would it be fair to say, Mr. Coppie—sort of point ventures. Those three proposals, just to try to simplify it, some Federal payments and some District of Columbia payments.

Mr. COPPIE. That is correct.

The CHAIRMAN. You tried to get this on a well-funded basis, say, about 20 or 25 years from now. Is that what the projection called for—in that neighborhood?

Mr. COPPIE. Could you repeat that?

The CHAIRMAN. The thrust of your proposals is, by joint payments of both the Federal Government and the District of Columbia Government, to get these programs funded over about a 20- or 25-year period. We are not going to try to fund them in 1 year.



Mr. COPPIE. That is right. It is over a 30-year period.

The CHAIRMAN. A 30-year period.

I assure you this committee is going to give attention to those proposals and to others. We definitely need an update on the actuarial base. We will get some assistance, I know, from your office on that. We will get some from the GAO. We will get it from wherever we can to get the actuarial projections as accurate and as current as we can get.

Mr. COPPIE. Mr. Chairman, I do not know where the 1922 figure came from. The actuarial projections are based on information that was developed in the period 1966 to 1971.

The CHAIRMAN. At least in part, the actuarial base dated back for 50 years; maybe it has been upgraded in some respects. But we do want an accurate actuarial base. All of us need that.

Mr. COPPIE. We will see that you are provided that.

The CHAIRMAN. Mayor?

Mayor WASHINGTON. What are we going to do with it?

The CHAIRMAN. I want to explore this with you. Do you think it is time to take a hard look at the pension systems and consider cutting back from the pension systems? That is, renegotiating by law, if necessary, the benefits that are to be paid out under this system. For instance, the typical fireman that I mentioned who will have benefits of \$715,000 per fireman? Is that not an enormous pension paid out?

Mayor WASHINGTON. Our problem is that time after time, including the home rule bill, we have grandfathered all of these rights in. I do not know how you are going to deal with them.

The CHAIRMAN. From a legal point of view, you can "grandfather them out." These are not like the pensions of New York City. The pensions of New York City are vested under a very unique, bizarre provision of the New York State Constitution. It vests, as a matter of right, any participant in the system who is either receiving retired benefits or has only been in the system 1 day. He becomes vested.

That is not the law with respect to an unfunded pension fund. The only thing you cannot take away from the individual is the \$13,100 the individual contributed to the system.

Mayor WASHINGTON. All rights and benefits were grandfathered in and not out.

The CHAIRMAN. Would you consider mandatory legislation by the District of Columbia Council, or consider recommending it to the Congress, to amend and adjust the benefit payouts of the pension system downward?

Mayor WASHINGTON. I cannot say that I could at this point. It discriminates against someone who has this right.

The CHAIRMAN. Well, if it is determined to be legal?

Mayor WASHINGTON. I think it is more than legal—it is a question of whether it is right.

The CHAIRMAN. All right.

Mayor WASHINGTON. I think what we are talking about is total compensation.

The CHAIRMAN. Let's assume that it is legal then and pass that. You think that a fireman with 21 years of service is entitled as a matter of right, as you view it, to retirement benefits of \$715,000 over his life expectancy?

Mayor WASHINGTON. If the law allowed it. I am not dealing with that.



The CHAIRMAN. If the present law allows it and——

Mayor WASHINGTON. It is an existing right, and I do not know how you can take it away from him.

The CHAIRMAN. The present pension system allows a payout of \$715,000 for a fireman retiring at 21 years of service. This comes from your own report.

Mayor WASHINGTON. I am not disputing the figures. I am talking to the point of whether or not——

The CHAIRMAN. I am trying to talk precisely in dollars and cents. Just so we have it in the record, you do not favor cutting back the \$715,000 in pension benefits?

Mayor WASHINGTON. Let me just say what I do have in mind.

The CHAIRMAN. Can you answer that first?

Mayor WASHINGTON. Let me answer it the way I would like to answer it, Senator. You have a specific figure and I——

The CHAIRMAN. A specific figure from your report.

Do you consider the payout excessive?

Mayor WASHINGTON. I have to deal with a fireman. I am talking about the system. If the law—and we sat here for the home rule bill—you said “grandfathered it out,” and I thought we grandfathered it in with all rights and privileges.

The CHAIRMAN. I say that which can be “grandfathered in” can be “grandfathered out.” That is possible.

Mayor WASHINGTON. If you are asking——

The CHAIRMAN. If it were not for that provision of the New York State Constitution—that may even later be tested in court—the pension benefits in New York City would have been amended downward.

Mayor WASHINGTON. Yes.

The CHAIRMAN. I am asking you this. I think we are entitled to know your thinking, Mayor, because we all are trying to work together.

Mayor WASHINGTON. My thinking is that I would not favor discriminating against anyone who has a current right.

The CHAIRMAN. If the fireman has the current right to the \$715,000, you would not seek to change that in any way to a lower level?

Mayor WASHINGTON. That is my position at this point. I have not studied it.

The CHAIRMAN. So we leave the benefits as they are, and then we have to work out some methodology to pay for these benefits for the next 30 or 40 years?

Mayor WASHINGTON. That has been before us for years and years.

The CHAIRMAN. I thought we were going to reason together on the costs affecting the District of Columbia government. All I have heard from you today is with respect to capital spending programs; with respect to operating the budget; now with respect to the pensions. You do not want to retrench one bit?

Mayor WASHINGTON. That is not so.

The CHAIRMAN. You want to go full steam ahead on the capital spending programs; do you want to go full speed ahead on your retirement system?

Mayor WASHINGTON. What we are saying is that we are managing the improvements.

The CHAIRMAN. You are managing what?

Mayor WASHINGTON. We believe we are managing the improvements.



The CHAIRMAN. You are managing the \$715,000 for each fireman—

Mayor WASHINGTON. Based on what the legal requirements are.

Mr. COPPIE. They are paid every month.

Mayor WASHINGTON. They are paid every month. We have not missed a payment. We paid them every month.

The CHAIRMAN. But the operating revenue—

Mayor WASHINGTON. That is the system that you set up. I did not.

The CHAIRMAN. Do we not want to change it, Mayor?

Mayor WASHINGTON. I am not sure that that is the case. I think what we ought to be talking about is total compensation.

Mr. COPPIE. And the future.

Mayor WASHINGTON. And in the future.

The CHAIRMAN. You do not want to change this pension system?

Mayor WASHINGTON. All I am saying is that based on the current rights of the people, I do not see discriminating as against anyone any more than the Federal Government with \$201 billion is prepared to do it.

The CHAIRMAN. There is going to have to be a lot of attention paid to that. That is a separate thing.

Mayor WASHINGTON. That is not a separate thing, because we are in it.

The CHAIRMAN. I am trying to draw some attention to that all along.

Mayor WASHINGTON. Senator, this matter has been up here in 1972, 1973, 1974, and then you turn to me and—

The CHAIRMAN. You do not want to change the benefits? You want to keep them as they are.

Mr. COPPIE. I think what the Mayor is saying—

Mayor WASHINGTON. In going back into a point where it discriminates, I think we are looking forward, just as we are looking forward with the whole system, and then you talk about something else.

The CHAIRMAN. What about one who is in the system and you—

Mayor WASHINGTON. I do not know if you can even do it.

The CHAIRMAN. We will assume for the moment.

Mayor WASHINGTON. You have an assumption with a law.

The CHAIRMAN. Here is a memo. We will make it a part of the record at this time—it is from the U.S. Senate Office of the Legislative Counsel—attesting to the legal efficacy of amending the pension system.

[The memorandum referred to follows:]



UNITED STATES SENATE  
OFFICE OF THE LEGISLATIVE COUNSEL

MEMORANDUM FOR SENATOR EAGLETON

This memorandum is transmitted pursuant to the request of Mr. Robert Harris, Staff Director, Senate District of Columbia Committee, for the views of this office on the question of the authority of Congress to amend the District of Columbia Police and Firemen's Salary Act of 1953, as amended, (D.C. Code, sec. 4-518), and the Police and Firemen's Retirement and Disability Act so as to eliminate or modify those provisions which provide for the recomputation of pension relief allowances or retirement compensation, received by individuals retired under the Policemen and Firemen's Retirement and Disability Act, on the basis of salary increases which such individuals would receive if they were in active service.

It is the opinion of this office that the Congress has the authority to so amend any such Act of Congress to provide that any recomputation on and after the effective date of any such amendment be made on some basis other than increases in the salary of active service personnel, or to provide for the elimination of recomputations thereafter.

As you know, prior to 1958, Federal law provided that the rates of pay of retired pay for military personnel were to be computed on the basis of rates of pay for active duty personnel and were to be recomputed whenever there



UNITED STATES SENATE  
OFFICE OF THE LEGISLATIVE COUNSEL

was a change in the rates of pay for active duty military personnel. (Actually, the practice of recomputing on the basis of active duty pay was discontinued in 1958, but was not made permanent until 1963.) The Act of October 2, 1963, amended title 10, United States Code, by providing for a new system of recomputing the pay of retired military personnel by providing that such pay, on and after October 1, 1963, was to be recomputed on the basis of changes in the Consumer Price Index (so-called cost-of-living), the method which is currently used for recomputing such retired pay. (See *Martin Akerson, et al. v. The United States*, and *Charles L. Andrews, Jr., et al. v. The United States*, both decided In the United States Court of Claims on May 13, 1966, upholding the provisions of the Act of October 2, 1963.)

If this office may be of any further assistance to you regarding this or any other matter, please call.

10-29-75

Respectfully submitted,

*Robert C. Louthian, Jr.*

Robert C. Louthian, Jr.  
Senior Counsel



The CHAIRMAN. I thought that you somehow and some way wanted to reduce this incredible burden that is on the city and is going to expand year after year after year.

Mayor WASHINGTON. Senator, we have spoken to that. I have tried to say to you in connection with the indebtedness which we believe is a long-term manageable indebtedness based on upgrading our own facilities here. We have a plan.

The CHAIRMAN. All right.

Mayor WASHINGTON. Now, what the future may hold is something else. That is what I said to you earlier and you were talking about projections.

As to this one, it seems to me the employees have a right, which neither you nor I had anything to do with, which was put in there. We ought to be talking prospectively and not backwards in terms of discriminating against people who have a current right.

Now, you want to assume when you have a law which has apparently given them this. We dealt with this at the home rule bill just months ago when we certainly knew all of this at that time.

We have brought before the Congress alternatives to deal with it. The Senate did not even look at it. The House did.

The CHAIRMAN. You are not willing to look at it today, Mayor.

Mayor WASHINGTON. I am talking about going back into something which you have already put into being.

The CHAIRMAN. You are looking at it today and telling me not to change it.

Mayor WASHINGTON. I am looking at it the same way you are going to look at it and anyone else up there who is going to have to deal with it and is going to look at it in terms of those rights which exist.

The CHAIRMAN. You have spoken with respect to current retirees who are drawing benefits. What about someone who has been in the fire department for 10 years and has another 10 or 11 to go before retirement. Would you consider changing at this time his retirement benefits?

Mayor WASHINGTON. I think that is something to look at.

The CHAIRMAN. You would look at that?

Mayor WASHINGTON. Yes.

The CHAIRMAN. What about someone who is not even in the fire department services?

Mayor WASHINGTON. We were talking about prospectively that we ought to look at it. I said that.

The CHAIRMAN. This is the third example. The first example was a retiree. You did not want to look at that.

The second example was one who was on the payroll at the Fire Department and is employed there and will retire in  $x$  number of years hence. You would look at that.

Mayor WASHINGTON. Yes.

The CHAIRMAN. The third one is——

Mayor WASHINGTON. What you have to realize is that we also, Senator, have a collective bargaining situation. When I say I will look at it, I will look at it.

The CHAIRMAN. You are in collective bargaining; are you not?

Mayor WASHINGTON. Sure. That is one of the rights that you have just given them.



The CHAIRMAN. As part of the bargaining process, do you expect that pensions and pension benefits will be part of the give and take of the bargaining?

Mayor WASHINGTON. No. Congress has seen fit to eliminate that except for the fact that we are talking total compensation where you can use it. As a consideration, you cannot deal with it, according to our lawyers.

The CHAIRMAN. Forgetting the retiree, you said you would look at current employees and future employees. You would look at that insofar as the bargaining process is concerned with a view to revising downward the pension benefits.

Mayor WASHINGTON. I cannot get into that, because Congress has already given us a process.

The CHAIRMAN. Yes; but we turned it over to you.

Mayor WASHINGTON. Yes; you sure did. You ought to know what is in it then. What you have done with it is said that it can be considered.

The CHAIRMAN. That is a part of home rule.

Mayor WASHINGTON. What is part of home rule? I am talking about whether or not you can negotiate that in collective bargaining. I think our lawyer here, Frank, can tell his opinion on that.

The CHAIRMAN. As to future employees, I think the District of Columbia could change that, if it desired to, or could succeed in arm's length negotiations.

Mayor WASHINGTON. See, the only thing, Senator, selectively, you want us to take some things that have been out here all this time. You know and I know that neither of us had anything to do with this. Selectively you want us to deal with them. Why do you not let us deal with the whole process since we have had it for 11 months?

This is what I am trying to get you to talk about in terms of what the format is going to be. Now, selectively, you have one here that you know is a hornet's nest. You are going to give me that one. Now, any of the rest that come down with—

The CHAIRMAN. I am not giving that to you.

Mayor WASHINGTON. You did not give it to us really.

The CHAIRMAN. You came with three recommendations, or Mr. Coppie did. It was very proper bringing it to the Congress in 1974. Those were three methods of funding the pension system.

Mayor WASHINGTON. I could not even get a hearing.

The CHAIRMAN. We will await any recommendation you make with respect to modifying the pension plan so as to reduce costs, which is a nice way of saying reduce benefits.

Mayor WASHINGTON. I think, Senator, you are going to have to look at that legally. I do not want to adversely affect or discriminate against anybody who is there. We are perfectly willing to talk effectively, as I said, about what we are doing. But if we are going to get into one, let's get into all of them. I mean, ultimately this home rule government falls on our own situation.

Here is one that you have. You know how bad this is. One Senator has said to me, "I do not know why we even raise it because we are not going to do anything about it."

The CHAIRMAN. The pension drain on the city is now very substantial. By the year 2000 it will be gigantic. It is a matter that all of us have to look at.



Mayor WASHINGTON. Yes; you are going to look at it. We have been looking at it all along and nothing has happened.

The CHAIRMAN. Mayor, you have to come to us with a recommendation as to how to save on the cost and reduce it downward. We will consider this recommendation. I will personally attempt to act on it.

Mayor WASHINGTON. I want you to be in a position to do that on all of the items that we have.

The CHAIRMAN. We will attempt, Mayor, to look at all of the items. I do not think we can live in this dreamy world of paying out pension benefits in the amount of \$715,000 per person.

Mayor WASHINGTON. Senator, how long have you known that?

The CHAIRMAN. There is no way a pension system can operate on that basis.

Mayor WASHINGTON. How long have you known that?

The CHAIRMAN. How long have I known that?

Mayor WASHINGTON. Yes.

The CHAIRMAN. In the specifics of this figure, just very recently. I will confess that I should have been on this sooner. Now that we are on it, Mayor, you have to deal with it.

Mayor WASHINGTON. Yes; but you have to deal with it within the rights and the benefits of the people.

The CHAIRMAN. If you do not have legal authority, of course we are not going to have it in an illegal way.

Mayor WASHINGTON. Then I do not think we need to deal with assumptions. Once we have that, that is why I said we will look at it. I want to do it just as I want you to look at it, but I do not want to sit here and bring one out of the clouds because we have been looking at it and say, "Here is someone with a legal right. We are going to take it away from him." You know where you are going to be. I do not think you are going to get this Congress to act on it in that fashion.

The CHAIRMAN. You do not want us to even try, do you?

Mayor WASHINGTON. I said prospectively where it does not discriminate people. The fact is, Senator, here is \$201 billion you could deal with.

The CHAIRMAN. That is right. Congress is going to have to deal with it.

Mayor WASHINGTON. Yes. They are going to have to, but there it is. The GAO report tells you exactly what it is.

The CHAIRMAN. By the year 2000 it will be excess of \$40 billion.

Mayor WASHINGTON. Well, they have it here. Even with the cost of living, it is \$2.1 billion addition annually. Now, you are going to tell me that they are going to pick out the District and deal with us, and there is \$201 billion that nobody is going to deal with.

The CHAIRMAN. This committee has jurisdiction over the District. I look forward to the date when Congress deals with the whole thing.

Mayor WASHINGTON. I think we are in the ball park when we are talking about a partnership and mutually looking at things. That was what I came in here with, the idea that we ought to be looking together and we ought to take account of what these local officials—elected as they are—have in participating in the process. I just do not want the stick one. I know that is a hornet's nest and you do too.

That is why I said in the home rule bill that the rights and privileges pertaining to the employees that exist and grandfather them in and not out.



The CHAIRMAN. All right. We will move now, Mayor, to the last item.

Mr. COPPIE. Mr. Chairman?

The CHAIRMAN. Yes.

Mr. COPPIE. Earlier you were calling attention to the uniqueness of our pay-as-you go police and fire retirement systems. I have 11 other cities that have pay-as-you-go retirement systems. Nine of them are specifically in the police and fire area. I would like that to be provided to the record to support what I observed in the earlier discussions.

The CHAIRMAN. It will be made a part of the record.

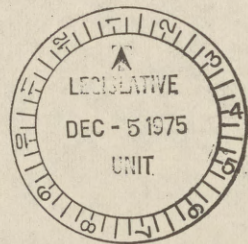
[The material referred to follows:]



## MAJOR CITIES WITH PAY-AS-YOU-GO PENSION FINANCING

| City               | Retirement System                     |
|--------------------|---------------------------------------|
| Boston             | Police and Fire                       |
| Denver             | Police                                |
| Indianapolis       | Police and Fire                       |
| Nashville-Davidson | Police and Fire                       |
| Newark             | General Employees                     |
| New Haven          | Police                                |
| New Orleans        | Fire                                  |
| Pittsburgh         | Police and Fire;<br>General Employees |
| Portland           | Police and Fire                       |
| Seattle            | Police and Fire                       |

Source: Finances of Employee-Retirement Systems of State and Local Governments in 1973-1974. U.S. Department of Commerce, June 1975 .





The CHAIRMAN. On this point, I will read into the record this statement. Insofar as the Federal Government is concerned, the accrued liabilities for retirement and disability benefits are as follows, as of 1974: Civil Service \$108 billion; military \$80 billion; veterans \$110 billion. These accrued benefits are rising, except for veterans. Civil service and the military are rising in excess of or close to \$10 billion a year.

I agree with you, Mayor, the Federal Government has some very real problems with respect to pension payouts.

Now, on to employees. How many full-time city employees are on the payroll at the present time or on any date for which you may have records?

Mr. COPPIE. Mr. Chairman, those positions that are paid for from appropriated funds, the number would be approximately 36,500. In addition to that, we qualified for Federal grants the same way any other jurisdiction does. So that would inflate the figure. But in terms of appropriated budget, it is about 36,500.

The CHAIRMAN. Full-time employees are 36,500. Is that right?

Mr. COPPIE. Paid for from appropriated funds.

The CHAIRMAN. From appropriated funds. All right.

Now, what is the number for the part-time employees at the same point in time? Can you convert those part-time employees to full-time employees?

Mr. COPPIE. Mr. Chairman, the full-time temporary in terms of the record that I had is about—

The CHAIRMAN. All right. Full-time temporary is what?

Mr. COPPIE. As of October 1, it is 158.

The CHAIRMAN. Not many of those. All right. How many part-time employees?

Mr. COPPIE. I have part-time permanent positions approved by Congress—

The CHAIRMAN. All right. Let me write that down. Part-time permanent. What is that figure?

Mr. COPPIE. 1,114.

The CHAIRMAN. 1,114, OK.

Is there something called part-time temporary?

Mr. COPPIE. Part-time temporary is 74.

The CHAIRMAN. All right, 74.

Mr. COPPIE. I do not have that equated to full time.

The CHAIRMAN. Before going to your Federal grant employment, you have covered all types of employment for appropriated funds. Those are four categories. I have full-time employees; full-time temporary; part-time permanent, and part-time temporary.

Mr. COPPIE. Mr. Chairman, we are also showing a category of full-time positions that are paid for from reimbursement or paid for from the revolving trust funds of the city.

The CHAIRMAN. All right.

Mr. COPPIE. That would run about 2,000 additional.

The CHAIRMAN. How are they paid?

Mr. COPPIE. They are paid for from reimbursements or from the revolving trust funds.

The CHAIRMAN. OK.



Mr. COPPIE. I want to separate those out from the Federal grants. Some of those would be paid for from appropriated funds and some would not.

The CHAIRMAN. Give me an example of what kind of employee would come under this heading as a full-time employee paid for from reimbursements or a revolving trust fund?

Mr. COPPIE. One example that you will identify with immediately is the Capitol Page School where the city teaches the students enrolled at the Capitol Page School and is reimbursed by the Congress for that cost.

The CHAIRMAN. What was your figure for the number of positions?

Mr. COPPIE. 755 positions.

The CHAIRMAN. Would those be the number of employees for appropriated funds, plus this reimbursement and revolving?

Mr. COPPIE. That is correct.

The CHAIRMAN. Do you have any figures as to the number of District of Columbia employees who were paid for out of Federal grant funds, conceivably something like the Elementary and Secondary Education Act or the Comprehensive Employee Training Act?

Mr. COPPIE. Mr. Chairman, the number that I have would be about 7,200 positions.

The CHAIRMAN. 7,200.

Are there any other categories of employees, or have we covered everything?

Mr. COPPIE. I think we have substantially covered them, Mr. Chairman. The bottom line on my chart is 49,684 positions.

The CHAIRMAN. 49,684, did you say?

Mr. COPPIE. Yes, sir.

The CHAIRMAN. Could you put in the record the document from which you are reading, if it is a routinely kept document?

Mr. COPPIE. Yes, sir.

[The document follows:]



## D. C. GOVERNMENT POSITIONS

As of September 23, 1975

|                                                                                           |         |
|-------------------------------------------------------------------------------------------|---------|
| Full-time authorized permanent appropriated positions approved by Congress .....          | 42,040  |
| Full-time authorized permanent appropriated positions approved by Congress (Filled) ..... | 36,800* |

## Filled Positions:

|                                                                                                             |               |              |
|-------------------------------------------------------------------------------------------------------------|---------------|--------------|
| Full-time permanent positions approved by Congress -                                                        |               |              |
| Split positions .....                                                                                       | 256           |              |
| Part-time permanent positions approved by Congress .....                                                    | 1,114         |              |
| Full-time temporary positions approved by Congress .....                                                    | 43            |              |
| Funds approved by Congress without positions .....                                                          | 1,604         |              |
| Full-time temporary positions approved by OBMS - financed by appropriated and/or capital outlay funds ..... | 158           |              |
| Part-time temporary positions approved by OBMS - financed by appropriated and/or capital outlay funds ..... | 74            | <u>3,249</u> |
| Grants:                                                                                                     |               |              |
| Full-time positions 100 percent grant funds .....                                                           | 5,912         |              |
| Part-time positions 100 percent grant funds .....                                                           | 666           |              |
| Full-time positions less than 100 percent grant funds .....                                                 | 619           |              |
| Part-time positions less than 100 percent grant funds .....                                                 | 18            |              |
| Funds approved by grants without positions .....                                                            | 335           | <u>7,550</u> |
| Other:                                                                                                      |               |              |
| Positions funded 100 percent from reimbursements to agencies appropriations .....                           | 755           |              |
| Positions funded less than 100 percent from reimbursements to agencies appropriations .....                 | 34            |              |
| Positions funded 100 percent from revolving and trust funds .....                                           | 1,106         |              |
| Funding from reimbursements, revolving funds, trust funds, without positions .....                          | 171           |              |
| Other .....                                                                                                 | 19            | <u>2,085</u> |
| Subtotal .....                                                                                              | <u>12,884</u> |              |
| GRAND TOTAL - Filled .....                                                                                  | <u>49,684</u> |              |

\*Includes approximately 900 school teachers and higher education faculty not receiving pay checks for this period.



## AUTHORIZED PERMANENT APPROPRIATED POSITIONS

There were 42,040 permanent authorized appropriated positions approved in Fiscal Year 1975, of which 3,010 have been recommended to be abolished, leaving a base amount of 39,030 positions. To this base, the City recommends 1,224 new positions for Fiscal Year 1976.

There are currently 35,959 filled. An additional 850 - 900 school teachers and higher education faculty will be added to the City filled position rolls next pay period. Therefore, there are approximately 36,800 filled positions at this time.

Final budget action of the Council of the District of Columbia for the Fiscal Year 1976 Budget Request to Congress, calls for a reduction in the number of filled permanent authorized positions down to 35,000 by June 30, 1976. The reduction in personnel is to be achieved from attrition. In order to reduce filled positions to 35,000 in Fiscal Year 1976, the City must have an attrition of 3,024 positions. This is derived by taking the current filled positions (36,800) adding the new positions requested in Fiscal Year 1976 (1,224) and subtracting the desired level to be achieved by June 30, 1976 (35,000). The difference is 3,024 positions that will need to be vacated prior to June 30, 1976.



The CHAIRMAN. Mayor, I will read a quote from your testimony this morning:

That does not mean that we are not also concerned about the level of city employment. We have started a program of performance measurement and productivity improvement to help ensure that current employees are providing a high level of services for the dollars spent and to make certain that staffing levels can be justified. Since 1971, the city has abolished approximately 6,000 positions. Current plans call for a reduction in the number of city employees on the payroll to about 35,000 by the end of the current fiscal year to help finance recent employee pay raises.

Do I take it to mean that 14,684 positions will not be filled at the July 1—

Mayor WASHINGTON. No. We were talking in the appropriated area.

The CHAIRMAN. The appropriated area. So full-time appropriated is 36,500?

Mayor WASHINGTON. That is right.

The CHAIRMAN. You hope to get that down to 35,000.

Mayor WASHINGTON. 35,000.

The CHAIRMAN. By the end of this fiscal year.

Mayor WASHINGTON. It is a reduction of 3,000.

The CHAIRMAN. According to my figures it would be 1,500.

Mr. COPPIE. From where we started in July.

The CHAIRMAN. Do you have any planned reduction in any of these other categories that add up to 49,684?

Mr. COPPIE. Mr. Chairman, there is a direct correlation between our ability to get a Federal grant or a continuation of a Federal grant and the level of staffing that is part of that grant. If a grant expires, then the positions are abolished with it.

On the full-time temporary positions, normally we establish a full-time temporary position, if it is requested in the budget on a permanent basis. If it is approved in the budget on a permanent basis, then it is converted to a permanent position. If it is denied, then it is abolished.

But the primary concern we have is with those positions that are paid for from appropriated funds.

The CHAIRMAN. Thomas Muller of the Urban Institute will be with us this afternoon. He will testify as follows based on statistics that he has assembled.

As of October 1974, according to the U.S. Census Bureau, there were 55,178 employees, including transit workers, part-time employees converted to full-time equivalents. These are the statistics he is going to give us this afternoon.

Mayor WASHINGTON. Transit workers did you say?

The CHAIRMAN. That includes the transit workers.

How many transit workers are there? About 4,000 or 5,000?

Mr. COPPIE. I do not know.

The CHAIRMAN. So you add about 4,000 or 5,000 to 49,000, you are getting up fairly close to 55,000. This means that about one in 13 residents of the District of Columbia are on the District of Columbia payroll.

Further from the Bureau of the Census and the Bureau of Labor Statistics: If you eliminate young people under 18 and elderly people over 65 who are not in the labor force, 1 in 8 District of Columbia residents that are in the labor force are on the District of Columbia payroll.



Such figures as I have just recited, do they give you any cause for concern?

MAYOR WASHINGTON. Mr. Chairman, if they had not, we would not have been working on the problem. In the appropriated areas particularly we have been dealing with this consistently. It is not just starting. If we had no concern, we would not have been dealing with the problem.

THE CHAIRMAN. I will finish up with this, Mayor. I know I have kept you long enough.

To conclude, I will make reference to a table that this same Dr. Tom Muller of the Urban Institute will put in the record this afternoon. He compares the employees of the District of Columbia with the employees of other cities, including county employees doing similar service in other cities and State employees doing a similar service.

Here is the comparison. Number of employees per 1,000 residents—he compares 1, 2, 3, 4, 5, 6, 7, 8 of the larger metropolitan areas of the country and the District of Columbia ranks the list—76.3 employees per 1,000 residents.

Then he goes to New York City. He has city employees. He also has county employees and State employees for services similar to the District. This is as of October 1974. They are 61.8. In the light of recent events that figure, I suspect, would be downward appreciably.

San Francisco, 57.0. It is interesting how New York City, San Francisco and the District of Columbia track throughout these hearings. They track in terms of employees. They track in terms of per-capita debt. It is interesting how you see those three cities frequently side by side in the various lists.

Next down the line is Boston, including Suffolk County, 56 per 1,000; Philadelphia 50.5 per 1,000; Baltimore 55.5; St. Louis 52.3; and the average of U.S. metropolitan areas is 47.5. So the District of Columbia is about 50 percent above the national average and considerably in excess of the city that is in second place, New York, and these are old New York figures.

MR. COPPIE. Mr. Chairman, I think the point that the mayor made is perhaps the most important. We have been concerned about the size of the employment base in the various appearances that we have made before this committee and before the Congress. We have properly observed that city governments tend to be very labor intensive, because they are on the direct line as far as service delivery is concerned.

I do not quarrel with Dr. Muller's ratio of 76 to 1,000. Ours is 65 to 1,000. I guess we get to the 65 on the basis of subtracting out the transit workers. I would assume that that is it.

THE CHAIRMAN. He includes the transit workers. That includes transit, by the way, in all seven or eight cities.

MR. COPPIE. I said that I do not quarrel with it.

THE CHAIRMAN. We are comparing apples and apples.

These are comparably based employees in all eight cities or whatever it is doing comparable work regardless of what payroll they are on; Federal grant, temporary, county or what have you.

MR. COPPIE. All of the studies that we have done, and we have done very extensive studies, and I might say in cooperation with the Census Bureau, too, have been provided to the committee. We will provide it for the record of this hearing.

[The material follows:]



DETAILED BUDGET FOR SELECTED CITIES 57  
SUMMARY

(Dollar Amounts in Thousands)

| CITY                       | TOTAL    |             | % Increase     |             | One Seventh of<br>Previous Column |                | % Increase         |        | Employment 1/ |  |
|----------------------------|----------|-------------|----------------|-------------|-----------------------------------|----------------|--------------------|--------|---------------|--|
|                            | 1965     | 1972        | 1972 over 1973 | 1973        | 1965 - 1972 (%)                   | 1973 over 1972 | 1973 over 1972 (%) | 1973   | 1974          |  |
| District of Columbia ..... | 9409,643 | \$1,161,549 | 183.5          | \$1,272,829 | 26.2                              | 9.5            |                    | 49,273 | 50,082        |  |
| Atlanta .....              | 76,989   | 202,123     | 162.5          | 214,707     | 23.2                              | 6.2            |                    | 7,467  | 7,810         |  |
| Baltimore .....            | 298,658  | 770,668     | 158.0          | 770,249     | 22.5                              | - .5           |                    | 37,538 | 38,103        |  |
| Boston .....               | 291,656  | 529,852     | 81.6           | 597,411     | 11.6                              | 12.7           |                    | 23,673 | 23,373        |  |
| Buffalo .....              | 114,734  | 258,254     | 125.1          | 262,418     | 17.8                              | 1.6            |                    | 12,865 | 13,218        |  |
| Cleveland .....            | 167,838  | 228,009     | 35.8           | 238,403     | 5.1                               | 4.5            |                    | 13,084 | 13,260        |  |
| Milwaukee .....            | 127,411  | 191,043     | 49.9           | 205,959     | 7.1                               | 7.8            |                    | 9,140  | 9,699         |  |
| San Francisco .....        | 273,882  | 622,264     | 127.2          | 658,566     | 18.1                              | 5.8            |                    | 21,046 | 21,482        |  |
| St. Louis .....            | 116,713  | 203,863     | 74.6           | 210,554     | 10.6                              | 3.2            |                    | 14,066 | 13,497        |  |

SECTION E

1/ Full Time Equivalent - All type funding

Source: City Government Finances 1964/65 - 1971/72 - 1972/73 and Employment Statistics 1973 and 1974 (Bureau of the Census Publications)  
Office of Budget and Management Systems - September 1975

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58 CITY GOVERNMENT EMPLOYMENT AND EXPENDITURES, DISTRICT OF COLUMBIA  
AND SELECTED CITIES WITH POPULATION OF 500,000 AND OVER  
(STUDIES BASED ON BUREAU OF THE CENSUS DATA)  
SELECTED SPECIFIC FUNCTIONS  
1973 PERCENT OF TOTAL EXPENDITURES

(Dollar amounts in millions)

| City Government<br>Employment<br>Full Time Equivalent<br>FY 1974 | Total<br>Expenditures<br>FY 1973<br>(Thousands) | City                 | 1973<br>Population<br>(Thousands) | Percent Distribution of Expenditures - FY 1973 |      |          |           |         |           | Other<br>Health |
|------------------------------------------------------------------|-------------------------------------------------|----------------------|-----------------------------------|------------------------------------------------|------|----------|-----------|---------|-----------|-----------------|
|                                                                  |                                                 |                      |                                   | Police                                         | Fire | Highways | Education | Welfare | Hospitals |                 |
| 50,082                                                           | \$1,272,829                                     | District of Columbia | 733.8                             | 7.0                                            | 2.0  | 4.1      | 19.8      | 15.7    | 7.8       | 3.1             |
| 7,810                                                            | 214,707                                         | Atlanta              | 451.1                             | 8.7                                            | 4.6  | 4.7      | 2.5       | ...     | ...       | ..2             |
| 38,103                                                           | 770,249                                         | Baltimore            | 877.8                             | 7.4                                            | 3.9  | 7.2      | 29.2      | 18.5    | 4.0       | 2.5             |
| 23,373                                                           | 597,411                                         | Boston               | 618.3                             | 8.5                                            | 5.3  | 2.3      | 26.4      | 1.3     | 12.2      | ..8             |
| 13,218                                                           | 262,418                                         | Buffalo              | 425.1                             | 17.1                                           | 8.7  | 4.9      | 42.2      | ...     | ...       | ...             |
| 13,668                                                           | 282,418                                         | Cleveland            | 425.1                             | 17.1                                           | 8.7  | 4.9      | 42.2      | ...     | ...       | ...             |
| 9,669                                                            | 205,959                                         | Milwaukee            | 690.7                             | 18.8                                           | 7.7  | 9.2      | ..4       | ...     | ...       | ...             |
| 21,482                                                           | 658,566                                         | San Francisco        | 687.5                             | 6.3                                            | 4.3  | 3.0      | ..2       | 23.8    | 7.3       | 2.8             |
| 13,497                                                           | 210,254                                         | St. Louis            | 558.0                             | 17.0                                           | 6.3  | 5.7      | ..1       | 1.2     | 17.8      | 4.1             |

SIGNIFICANCE OF FUNCTION IN CITY'S BUDGET

| Local Government         |                                |
|--------------------------|--------------------------------|
| Employment               |                                |
| Full Time Equivalent     |                                |
| FY 1974                  |                                |
| (13 Major Functions      |                                |
| of All Functions)        |                                |
| City                     | All Local                      |
| Government <sup>1/</sup> | Government Units <sup>1/</sup> |
| 43,930                   | 44,104                         |
| 35,828                   | 36,170                         |
| 35,265                   | 46,125                         |
| 22,443                   | 29,464                         |
| 2/                       | 2/                             |
| 9,476                    | 30,764                         |
| 15,996                   | 37,314                         |
| 12,538                   | 28,493                         |

| Value<br>Points | City                 | Police | Fire | Highways | Education | Welfare | Hospitals | Other<br>Health |
|-----------------|----------------------|--------|------|----------|-----------|---------|-----------|-----------------|
|                 |                      | VS     | VS   | VS       | VS        | VS      | VS        | VS              |
| 14              | District of Columbia | S      | S    | S        | S         | S       | ...       | ...             |
| 8               | Atlanta              | S      | S    | S        | S         | S       | ...       | ...             |
| 6               | Baltimore            | S      | VS   | S        | VS        | S       | ...       | ...             |
| 6               | Boston               | S      | VS   | S        | VS        | S       | ...       | ...             |
| 4               | Buffalo              | S      | VS   | S        | VS        | ...     | ...       | ...             |
| 4               | Cleveland            | S      | VS   | S        | VS        | ...     | ...       | ...             |
| 8               | Milwaukee            | S      | VS   | S        | ...       | VS      | S         | S               |
| 5               | San Francisco        | S      | S    | S        | ...       | ...     | S         | S               |
| 5               | St. Louis            | S      | S    | S        | ...       | ...     | S         | S               |

NOTES: - Source - All data are from the U. S. Bureau of the Census and the U. S. Department of Commerce. The District performs more than almost any other city. Value points assigned above show for 7 major functions (in the Bureau of Census classification scheme) the significance of these functions in the budget of the 9 cities listed. Significance ratings (1 for "vs" significant and 2 for "vs" - very significant) are assigned primarily on the basis of dollar expenditures per capita. Additional consideration was given to quantity and quality of services.

F.T.E. - Full-Time Equivalent - Employees on part-time employment are converted to full-time value. Thus 3 part-time recreation workers are counted as 1.5 full-time workers.

Column marked 1/ are from a special study made by the D. C. Government using the Bureau of Census data bank.

2/ Buffalo was not included in the special study.



## DETAILED BUDGET DATA FOR DISTRICT OF COLUMBIA 59

|                                                              | (Dollar Amounts in Thousands) |             |             |       |       | EXPENDITURES            |                                    |                                                      | EMPLOYMENT                         |        |        |
|--------------------------------------------------------------|-------------------------------|-------------|-------------|-------|-------|-------------------------|------------------------------------|------------------------------------------------------|------------------------------------|--------|--------|
|                                                              |                               |             |             |       |       | Percent<br>Distribution | Percent Increase<br>1972 over 1965 | One Seventh of<br>Previous Column<br>1965 - 1972 (%) | Percent Increase<br>1973 over 1972 | 1973   | 1974   |
|                                                              | 1965                          | 1972        | 1973        |       |       |                         |                                    |                                                      |                                    |        |        |
| <b>GENERAL EXPENDITURES</b>                                  |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Common Functions                                             |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Police.....                                                  | \$ 27,404                     | \$ 76,438   | \$ 89,685   | 6.5   | 7.0   |                         | 178.9                              | 25.5                                                 | 15.3                               | 6,064  | 5,913  |
| Fire.....                                                    | 13,758                        | 21,970      | 25,330      | 1.9   | 2.0   |                         | 59.6                               | 8.5                                                  | 16.2                               | 1,448  | 1,479  |
| Severage.....                                                | 18,125                        | 36,317      | 50,412      | 3.1   | 4.0   |                         | 100.3                              | 14.3                                                 | 38.8                               | 643    | 669    |
| Sanitation other than sewerage.....                          | 8,945                         | 17,161      | 33,338      | 1.5   | 2.6   |                         | 91.8                               | 13.1                                                 | 94.3                               | 2,107  | 2,068  |
| Parks and Recreation.....                                    | 12,590                        | 16,276      | 18,272      | 1.4   | 1.4   |                         | 29.2                               | 4.1                                                  | 12.2                               | 930    | 902    |
| Type B:                                                      |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Financial Administration and                                 | 16,192                        | 51,268      | 48,251      | 4.4   | 3.8   |                         | 216.6                              | 30.9                                                 | -5.8                               | #      | #      |
| General Control.....                                         | 47,716                        | 70,578      | 52,038      | 6.1   | 4.1   |                         | 47.9                               | 6.8                                                  | -26.2                              | 1,318  | 1,388  |
| Highways.....                                                | 144,730                       | 290,098     | 317,546     | 25.0  | 24.9  |                         | 100.3                              | 14.3                                                 | 9.4                                | 12,510 | 12,549 |
| Total, Common Functions.....                                 |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Variable Functions                                           |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Education.....                                               | 82,829                        | 246,237     | 252,249     | 21.4  | 19.8  |                         | 189.7                              | 28.5                                                 | 1.6                                | 15,233 | 15,423 |
| Public Welfare.....                                          | 31,401                        | 145,362     | 199,239     | 12.5  | 15.7  |                         | 335.1                              | 47.8                                                 | 37.0                               | 7,500  | 7,500  |
| Hospitals.....                                               | 47,249                        | 92,844      | 99,899      | 8.0   | 7.8   |                         | 96.4                               | 13.7                                                 | 7.5                                | ...    | ...    |
| Health other than Hospitals.....                             | 9,562                         | 47,128      | 39,155      | 4.1   | 3.1   |                         | 392.8                              | 56.1                                                 | -16.9                              | ...    | ...    |
| Housing & Urban Development.....                             | 9,365                         | 56,543      | 58,119      | 4.9   | 4.6   |                         | 503.7                              | 71.9                                                 | 2.2                                | ...    | ...    |
| Total, Variable Functions.....                               | 182,400                       | 590,094     | 648,761     | 50.8  | 51.0  |                         | 223.5                              | 31.9                                                 | 9.9                                | 15,233 | 15,423 |
| Other General Expenditures not<br>elsewhere detailed //..... | 38,264                        | 198,657     | 210,178     | 17.1  | 16.5  |                         | 419.1                              | 59.8                                                 | 5.7                                | 20,946 | 21,509 |
| Total, General Expenditures.....                             | 365,394                       | 1,078,759   | 1,176,485   | 92.8  | 92.4  |                         | 195.2                              | 27.8                                                 | 9.0                                | 48,689 | 49,481 |
| <b>UTILITY EXPENDITURES</b>                                  |                               |             |             |       |       |                         |                                    |                                                      |                                    |        |        |
| Water Supply.....                                            | 11,095                        | 14,936      | 15,115      | 1.3   | 1.2   |                         | 34.6                               | 4.9                                                  | 1.1                                | 584    | 601    |
| Other.....                                                   | ...                           | ...         | ...         | ...   | ...   |                         | ...                                | ...                                                  | ...                                | ...    | ...    |
| Total, Utility Expenditures.....                             | 11,095                        | 14,936      | 15,115      | 1.3   | 1.2   |                         | 34.6                               | 4.9                                                  | 1.1                                | 584    | 601    |
| Employee Retirement.....                                     | 18,598                        | 45,397      | 55,723      | 3.9   | 4.4   |                         | 145.1                              | 20.7                                                 | 22.2                               | ...    | ...    |
| INTEREST ON GENERAL DEBT.....                                | 4,959                         | 22,257      | 25,506      | 1.9   | 2.0   |                         | 348.8                              | 49.8                                                 | 14.5                               | ...    | ...    |
| Total, ALL EXPENDITURES.....                                 | \$409,643                     | \$1,161,549 | \$1,272,829 | 100.0 | 100.0 |                         | 183.5                              | 26.2                                                 | 9.5                                | ...    | ...    |
| Total, EMPLOYMENT.....                                       |                               |             |             |       |       |                         |                                    |                                                      |                                    | 49,273 | 50,082 |

\* Includes \$9,597 thousand unemployment compensation benefits.

\*\* Includes \$18,959 thousand unemployment compensation benefits.

\*\*\* Includes \$25,102 thousand unemployment compensation benefits.

1/ Includes General Public Buildings, Libraries, and "Other"

# Included in Other General Expenditures not elsewhere included.

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## 60 DETAILED BUDGET DATA FOR ATLANTA

(Dollar Amounts in Thousands)

|                                                              | EXPENDITURES |           |           |       | Percent Distribution<br>1972 - 1973 | Percent Increase<br>1972 over 1965 | One Seventh of<br>Percent Increase<br>1965 - 1972 (%) | EMPLOYMENT<br>(FTE) |       |
|--------------------------------------------------------------|--------------|-----------|-----------|-------|-------------------------------------|------------------------------------|-------------------------------------------------------|---------------------|-------|
|                                                              | 1965         | 1972      | 1973      | 1973  |                                     |                                    |                                                       | 1973                | 1974  |
| GENERAL EXPENDITURES                                         |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Common Functions                                             |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Type A:                                                      |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Police.....                                                  | \$ 6,012     | \$16,324  | \$18,643  | 8.0   | 8.7                                 | 171.6                              | 24.5                                                  | 1,657               | 1,860 |
| Fire.....                                                    | 4,831        | 9,788     | 9,922     | 4.8   | 4.6                                 | 126.8                              | 24.5                                                  | 1,283               | 1,413 |
| Sewerage.....                                                | 4,173        | 13,143    | 24,363    | 5.5   | 11.3                                | 214.9                              | 30.7                                                  | 85.3                | 526   |
| Sanitation other than sewerage.....                          | 5,256        | 11,083    | 9,482     | 5.5   | 4.4                                 | 110.8                              | 15.8                                                  | 962                 | 777   |
| Parks and Recreation.....                                    | 13,087       | 21,607    | 19,794    | 10.7  | 9.2                                 | 65.1                               | 9.3                                                   | 600                 | 676   |
| Type B:                                                      |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Financial Administration and<br>General Control.....         | 2,195        | 6,562     | 6,979     | 3.3   | 3.3                                 | 198.9                              | 28.4                                                  | 6.3                 | #     |
| Highways.....                                                | 8,541        | 13,871    | 10,143    | 6.9   | 4.7                                 | 112.0                              | 16.0                                                  | -26.8               | 551   |
| Total, Common Functions.....                                 | 42,095       | 92,388    | 99,326    | 45.7  | 46.2                                | 119.4                              | 17.0                                                  | 7.5                 | 5,263 |
| Variable Functions                                           |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Education.....                                               | 35           | 6,337     | 5,333     | 3.1   | 2.5                                 | 8,105.7                            | 1,157.9                                               | 15.8                | ...   |
| Public Welfare.....                                          | 34           | 171       | 146       | ...   | ...                                 | 402.9                              | 57.5                                                  | -14.6               | ...   |
| Hospitals.....                                               | ...          | ...       | ...       | ...   | ...                                 | ...                                | ...                                                   | ...                 | ...   |
| Health other than Hospitals.....                             | 242          | 264       | 200       | 1.1   | .2                                  | 9.0                                | 1.2                                                   | -24.2               | ...   |
| Housing & Urban Development.....                             | 44           | 150       | 48        | .1    | ...                                 | 240.9                              | 34.4                                                  | -58.0               | ...   |
| Total, Variable Functions.....                               | 355          | 6,922     | 5,727     | 3.4   | 2.7                                 | 1,849.8                            | 135.6                                                 | -17.2               | ...   |
| Other General Expenditures not<br>elsewhere detailed 1/..... |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Total, General Expenditures.....                             | 18,970       | 58,759    | 57,569    | 29.1  | 26.8                                | 209.7                              | 29.9                                                  | -2.0                | 1,511 |
|                                                              | 61,420       | 158,069   | 162,622   | 78.2  | 75.7                                | 157.3                              | 22.4                                                  | 2.8                 | 6,774 |
| UTILITY EXPENDITURES                                         |              |           |           |       |                                     |                                    |                                                       |                     |       |
| Water Supply.....                                            | 7,540        | 16,638    | 22,022    | 8.2   | 10.3                                | 120.6                              | 17.2                                                  | 32.3                | 693   |
| Other.....                                                   | ...          | ...       | ...       | ...   | ...                                 | ...                                | ...                                                   | ...                 | 742   |
| Total, Utility Expenditures.....                             | 7,540        | 16,638    | 22,022    | 8.2   | 10.3                                | 120.6                              | 17.2                                                  | 32.3                | 693   |
| Employee Retirement.....                                     | 4,485        | 8,691     | 9,775     | 4.3   | 4.6                                 | 931/                               | 13.3                                                  | 12.4                | ...   |
| INTEREST ON GENERAL DEBT.....                                | 3,544        | 18,725    | 20,288    | 9.3   | 9.4                                 | 428.3                              | 61.1                                                  | 8.3                 | ...   |
| Total, ALL EXPENDITURES.....                                 | \$76,989     | \$202,123 | \$214,707 | 100.0 | 100.0                               | 162.5                              | 23.2                                                  | 6.2                 | ...   |
| Total, EMPLOYMENT.....                                       |              |           |           |       |                                     |                                    |                                                       | 7,467               | 7,810 |

1/ Includes General Public Buildings, Libraries, and "Other"  
# Included in Other General Expenditures not elsewhere included.

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## DETAILED BUDGET DATA FOR BALTIMORE

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|                                                                  | (Dollar Amounts in Thousands) |          |          |       |       | EXPENDITURES         |                                 |                                                | EMPLOYMENT                          |        |        |
|------------------------------------------------------------------|-------------------------------|----------|----------|-------|-------|----------------------|---------------------------------|------------------------------------------------|-------------------------------------|--------|--------|
|                                                                  |                               |          |          |       |       | Percent Distribution | Percent Increase 1972 over 1965 | One Seventh of Previous Column 1965 - 1972 (%) | Percent Increase 1973 over 1972 (%) |        |        |
|                                                                  | 1965                          | 1972     | 1973     |       |       | 1972                 | 1973                            |                                                | 1973                                | 1974   |        |
| <b>GENERAL EXPENDITURES</b>                                      |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| <b>Common Functions</b>                                          |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Type A.....                                                      |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Police.....                                                      | \$25,152                      | \$53,487 | \$56,638 | 6.9   | 7.4   |                      | 112.6                           | 16.0                                           |                                     |        |        |
| Fire.....                                                        | 15,558                        | 28,108   | 30,237   | 3.6   | 3.9   |                      | 80.6                            | 11.5                                           | 5.8                                 | 4,569  |        |
| Sewerage.....                                                    | 4,769                         | 19,015   | 13,158   | 2.5   | 1.7   |                      | 298.7                           | 42.6                                           | 7.5                                 | 2,270  |        |
| Sanitation other than sewerage.....                              | 6,174                         | 14,667   | 17,145   | 1.9   | 2.2   |                      | 153.7                           | 21.9                                           | 69.1                                | 811    | 531    |
| Parks and Recreation.....                                        | 7,150                         | 19,956   | 21,726   | 2.6   | 2.8   |                      | 179.1                           | 25.5                                           | 16.8                                | 1,279  | 1,369  |
| Type B.....                                                      |                               |          |          |       |       |                      |                                 |                                                | 8.8                                 | 1,437  | 1,554  |
| Financial Administration and General Control.....                | 8,202                         | 21,789   | 24,322   | 2.8   | 3.2   |                      | 165.6                           | 23.6                                           | 11.6                                |        |        |
| Highways.....                                                    | 16,997                        | 42,128   | 55,678   | 5.5   | 7.2   |                      | 147.8                           | 31.3                                           | 32.1                                |        |        |
| Total, Common Functions.....                                     | 84,002                        | 199,150  | 218,904  | 25.8  | 28.4  |                      | 137.0                           | 19.5                                           | 9.9                                 | 11,396 | 11,180 |
| <b>Variable Functions</b>                                        |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Education.....                                                   | 84,291                        | 221,103  | 225,190  | 28.7  | 29.2  |                      | 160.3                           | 22.9                                           | 1.8                                 | 13,189 | 15,547 |
| Public Welfare.....                                              | 14,569                        | 15,584   | 15,584   | 17.2  | 18.5  |                      | 208.7                           | 29.2                                           | 7.6                                 |        |        |
| Hospitals.....                                                   | 14,185                        | 28,362   | 30,542   | 2.4   | 2.5   |                      | 246.3                           | 49.9                                           | 7.8                                 |        |        |
| Health other than Hospitals.....                                 | 4,207                         | 18,903   | 19,037   | 2.4   | 2.5   |                      | 246.3                           | 49.9                                           | 7.8                                 |        |        |
| Housing and Urban Development.....                               | 7,852                         | 65,875   | 32,133   | 8.5   | 4.2   |                      | 738.9                           | 105.5                                          | -51.2                               |        |        |
| Total, Variable Functions.....                                   | 154,615                       | 466,637  | 449,445  | 60.5  | 58.4  |                      | 201.8                           | 28.8                                           | -3.6                                | 15,189 | 15,547 |
| <b>Other General Expenditures not elsewhere detailed 1/.....</b> |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Total, General Expenditures.....                                 | 21,169                        | 40,114   | 44,825   | 5.2   | 5.8   |                      | 89.4                            | 12.7                                           | 11.7                                | 10,105 | 10,974 |
| 259,786                                                          | 705,901                       | 713,174  | 91.6     | 92.6  |       | 171.7                | 24.5                            | 1.0                                            |                                     | 36,690 | 37,701 |
| <b>UTILITY EXPENDITURES</b>                                      |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Water Supply.....                                                | 16,027                        | 17,445   | 16,420   | 2.3   | 2.1   |                      | 8.8                             | 1.2                                            | -5.8                                | 848    | 402    |
| Other.....                                                       |                               |          |          |       |       |                      |                                 |                                                |                                     |        |        |
| Total, Utility Expenditures.....                                 | 16,027                        | 17,445   | 16,420   | 2.3   | 2.1   |                      | 8.8                             | 1.2                                            | -5.8                                | 848    | 402    |
| Employee Retirement.....                                         | 14,259                        | 28,928   | 23,661   | 3.8   | 3.1   |                      | 102.8                           | 14.6                                           | -18.2                               |        |        |
| INTEREST ON GENERAL DEBT.....                                    | 8,586                         | 18,394   | 16,994   | 2.4   | 2.2   |                      | 116.2                           | 16.3                                           | -7.6                                |        |        |
| Total, ALL EXPENDITURES.....                                     | 298,658                       | 770,668  | 770,249  | 100.0 | 100.0 |                      | 158.0                           | 22.5                                           | -7.5                                |        |        |
| Total, EMPLOYMENT.....                                           |                               |          |          |       |       |                      |                                 |                                                |                                     | 37,358 | 38,103 |

1/ Includes General Public Buildings, Libraries, and "Other"

# Included in Other General Expenditures not elsewhere included.

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## 62 DETAILED BUDGET DATA FOR BOSTON

(Dollar Amounts in Thousands)

|                                                                  | EXPENDITURES   |                |                |                                  | EMPLOYMENT (FTE)                |                                                |                                 |
|------------------------------------------------------------------|----------------|----------------|----------------|----------------------------------|---------------------------------|------------------------------------------------|---------------------------------|
|                                                                  | 1965           | 1972           | 1973           | Percent Distribution 1972 - 1973 | Percent Increase 1972 over 1965 | One Seventh of Previous Column 1965 - 1972 (%) | Percent Increase 1973 over 1972 |
|                                                                  |                |                |                |                                  |                                 |                                                |                                 |
| <b>GENERAL EXPENDITURES</b>                                      | <b>1965</b>    | <b>1972</b>    | <b>1973</b>    |                                  |                                 |                                                |                                 |
| <b>Common Functions</b>                                          |                |                |                |                                  |                                 |                                                |                                 |
| Type A:                                                          |                |                |                |                                  |                                 |                                                |                                 |
| Police.....                                                      | \$19,563       | \$45,793       | \$51,039       | 8.6                              | 8.5                             | 19.1                                           | 11.4                            |
| Fire.....                                                        | 31,782         | 72,793         | 81,000         | 5.9                              | 3.8                             | 12.1                                           | 2,566                           |
| Sanitation.....                                                  | 2,689          | 5,003          | 4,692          | 2.0                              | 2.0                             | 12.2                                           | 2,120                           |
| Sanitation other than sewerage.....                              | 5,154          | 10,740         | 11,672         | 2.0                              | 2.0                             | 15.4                                           | 102                             |
| Parks and Recreation.....                                        | 9,950          | 17,483         | 16,673         | 3.2                              | 2.8                             | 10.8                                           | 219                             |
| Type B:                                                          |                |                |                |                                  |                                 |                                                |                                 |
| Financial Administration and                                     | 10,272         | 15,921         | 18,636         | 3.0                              | 3.1                             | 7.8                                            | 17.0                            |
| General Control.....                                             | 8,464          | 17,344         | 14,035         | 3.2                              | 2.3                             | 14.9                                           | 494                             |
| Highways.....                                                    |                |                |                |                                  |                                 |                                                |                                 |
| Total, Common Functions.....                                     | 70,767         | 139,581        | 148,405        | 26.3                             | 24.8                            | 13.8                                           | 6.3                             |
| <b>Variable Functions</b>                                        |                |                |                |                                  |                                 |                                                |                                 |
| Education.....                                                   | 48,085         | 139,933        | 157,879        | 26.4                             | 26.4                            | 191.0                                          | 12.8                            |
| Public Welfare.....                                              | 56,630         | 7,790          | 7,650          | 1.4                              | 1.3                             | -86.2                                          | -1.7                            |
| Hospitals.....                                                   | 24,481         | 57,997         | 72,700         | 10.9                             | 12.2                            | 136.9                                          | 25.3                            |
| Health other than Hospitals.....                                 | 1,111          | 4,407          | 5,703          | 3.5                              | 3.8                             | 84.5                                           | 28.6                            |
| Housing & Urban Development.....                                 | 18,411         | 18,892         | 22,735         | 3.5                              | 3.8                             | 2.6                                            | 20.2                            |
| Total, Variable Functions.....                                   | 149,821        | 228,661        | 266,165        | 43.2                             | 44.6                            | 52.6                                           | 16.4                            |
| <b>Other General Expenditures not elsewhere detailed 1/.....</b> | <b>44,260</b>  | <b>107,836</b> | <b>114,903</b> | <b>20.4</b>                      | <b>19.2</b>                     | <b>20.5</b>                                    | <b>6.5</b>                      |
| <b>Total, General Expenditures.....</b>                          | <b>264,848</b> | <b>476,078</b> | <b>529,473</b> | <b>89.9</b>                      | <b>88.6</b>                     | <b>75.7</b>                                    | <b>11.2</b>                     |
| <b>UTILITY EXPENDITURES</b>                                      |                |                |                |                                  |                                 |                                                |                                 |
| Water Supply.....                                                | 3,998          | 7,445          | 10,124         | 1.4                              | 1.7                             | 86.2                                           | 35.9                            |
| Other.....                                                       | ...            | ...            | ...            | ...                              | ...                             | ...                                            | ...                             |
| Total, Utility Expenditures.....                                 | 3,998          | 7,445          | 10,124         | 1.4                              | 1.7                             | 86.2                                           | 35.9                            |
| <b>Employee Retirement.....</b>                                  | <b>16,570</b>  | <b>29,175</b>  | <b>37,433</b>  | <b>5.5</b>                       | <b>6.3</b>                      | <b>76.0</b>                                    | <b>28.3</b>                     |
| <b>INTEREST ON GENERAL DEBT.....</b>                             | <b>6,240</b>   | <b>17,154</b>  | <b>20,381</b>  | <b>3.2</b>                       | <b>3.4</b>                      | <b>174.9</b>                                   | <b>18.8</b>                     |
| <b>Total, ALL EXPENDITURES.....</b>                              | <b>291,656</b> | <b>529,852</b> | <b>597,411</b> | <b>100.0</b>                     | <b>100.0</b>                    | <b>81.6</b>                                    | <b>12.7</b>                     |
| <b>Total, EMPLOYMENT.....</b>                                    |                |                |                |                                  |                                 | <b>11.6</b>                                    | <b>23.673</b>                   |
|                                                                  |                |                |                |                                  |                                 |                                                | <b>23,373</b>                   |

1/ Includes General Public Buildings, Libraries, and "Other" included in Other General Expenditures not elsewhere included.



## DETAILED BUDGET DATA FOR BUFFALO 63

|                                                           | (Dollar amounts in Thousands) |           |           |                                  |                                 | EMPLOYMENT                                     |                                 |               |
|-----------------------------------------------------------|-------------------------------|-----------|-----------|----------------------------------|---------------------------------|------------------------------------------------|---------------------------------|---------------|
|                                                           | EXPENDITURES                  |           |           |                                  |                                 | (FTE)                                          |                                 |               |
|                                                           | 1965                          | 1972      | 1973      | Percent Distribution 1972 - 1973 | Percent Increase 1972 over 1965 | One Seventh of Previous Column 1965 - 1972 (%) | Percent Increase 1973 over 1972 | 1973 1974     |
| <b>GENERAL EXPENDITURES</b>                               |                               |           |           |                                  |                                 |                                                |                                 |               |
| Common Functions                                          |                               |           |           |                                  |                                 |                                                |                                 |               |
| Type A:                                                   |                               |           |           |                                  |                                 |                                                |                                 |               |
| Police.....                                               | \$ 10,884                     | \$ 20,784 | \$ 21,762 | 8.0                              | 8.3                             | 13.0                                           | 4.7                             | 1,722 1,753   |
| Fire.....                                                 | 9,353                         | 15,858    | 16,061    | 6.1                              | 6.1                             | 9.9                                            | 1.3                             | 1,199 1,158   |
| Sanitation.....                                           | 4,087                         | 6,411     | 9,534     | 2.5                              | 3.6                             | 56.7                                           | 48.7                            | 264 269       |
| Severance.....                                            | 6,187                         | 9,713     | 8,406     | 3.8                              | 3.2                             | 8.1                                            | -1.3                            | 803 567       |
| Sanitation other than sewerage.....                       | 5,784                         | 10,892    | 8,946     | 4.2                              | 3.4                             | 12.7                                           | -1.8                            | 367 379       |
| Parks and Recreation.....                                 |                               |           |           |                                  |                                 |                                                |                                 |               |
| Type B:                                                   |                               |           |           |                                  |                                 |                                                |                                 |               |
| Financial Administration and                              | 3,231                         | 6,637     | 8,064     | 2.6                              | 3.1                             | 13.1                                           | 21.5                            | # #           |
| General Control.....                                      | 5,207                         | 6,768     | 7,764     | 2.6                              | 3.0                             | 4.2                                            | 14.7                            | 109 74        |
| Highways.....                                             |                               |           |           |                                  |                                 |                                                |                                 |               |
| Total, Common Functions.....                              | 44,703                        | 77,063    | 80,519    | 29.8                             | 30.7                            | 72.4                                           | 4.5                             | 4,464 4,200   |
| Variable Functions                                        |                               |           |           |                                  |                                 |                                                |                                 |               |
| Education.....                                            | 43,022                        | 116,426   | 111,956   | 45.1                             | 42.7                            | 170.6                                          | -3.8                            | 6,550 6,261   |
| Public Welfare.....                                       | 32                            | 50        | 45        | ...                              | ...                             | 56.3                                           | ...                             | ...           |
| Hospitals.....                                            | ...                           | ...       | ...       | ...                              | ...                             | 8.0                                            | ...                             | ...           |
| Health other than Hospitals.....                          | 54                            | 175       | ...       | ...                              | ...                             | 224.1                                          | -44.6                           | ...           |
| Housing & Urban Development.....                          | 6,274                         | 16,512    | 17,312    | 6.4                              | 6.6                             | 32.0                                           | 4.8                             | ...           |
| Total, Variable Functions.....                            | 49,482                        | 133,163   | 129,410   | 51.6                             | 49.3                            | 163.2                                          | -2.8                            | 6,550 6,261   |
| Other General Expenditures not elsewhere detailed 1/..... |                               |           |           |                                  |                                 |                                                |                                 |               |
|                                                           | 9,893                         | 29,576    | 35,634    | 11.5                             | 13.6                            | 198.9                                          | 20.4                            | 453 1,961     |
| Total, General Expenditures.....                          | 101,978                       | 239,802   | 245,563   | 92.9                             | 93.6                            | 130.6                                          | 20.5                            | 12,518 12,983 |
| <b>UTILITY EXPENDITURES</b>                               |                               |           |           |                                  |                                 |                                                |                                 |               |
| Water Supply.....                                         | 6,290                         | 7,587     | 5,618     | 2.9                              | 2.2                             | 20.6                                           | -26.0                           | 267 235       |
| Other.....                                                | ...                           | ...       | ...       | ...                              | ...                             | ...                                            | ...                             | ...           |
| Total, Utility Expenditures.....                          | 6,290                         | 7,587     | 5,618     | 2.9                              | 2.2                             | 20.6                                           | -26.0                           | 267 235       |
| Employee Retirement.....                                  |                               |           |           |                                  |                                 |                                                |                                 |               |
|                                                           | ...                           | 1,737     | 1,678     | .7                               | .6                              | ...                                            | -33.9                           | ...           |
| INTEREST ON GENERAL DEBT.....                             |                               |           |           |                                  |                                 |                                                |                                 |               |
|                                                           | 4,466                         | 9,128     | 9,559     | 3.5                              | 3.6                             | 104.4                                          | 4.7                             | ...           |
| Total, ALL EXPENDITURES.....                              | \$114,734                     | \$258,254 | \$262,418 | 100.0                            | 100.0                           | 125.1                                          | 1.6                             | ...           |
| Total, EMPLOYMENT.....                                    |                               |           |           |                                  |                                 |                                                |                                 | 12,865 13,218 |

1/ Includes General Public Buildings, Libraries, and "Other"

# Includes in Other General Expenditures not elsewhere included.



## 64 DETAILED BUDGET DATA FOR CLEVELAND

(Dollar Amounts in Thousands)

| GENERAL EXPENDITURES                                      | EXPENDITURES |           |           |                                   |                                    | EMPLOYMENT (FTE)                                     |                                    |        |        |
|-----------------------------------------------------------|--------------|-----------|-----------|-----------------------------------|------------------------------------|------------------------------------------------------|------------------------------------|--------|--------|
|                                                           | 1965         | 1972      | 1973      | Percent Distribution<br>1972 1973 | Percent Increase<br>1972 over 1965 | One Seventh of<br>Previous Column<br>1965 - 1972 (%) | Percent Increase<br>1973 over 1972 | 1973   | 1974   |
|                                                           |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Common Functions                                          |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Type A:                                                   |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Police.....                                               | \$ 17,048    | \$ 38,552 | \$ 40,718 | 16.9                              | 17.1                               | 126.1                                                | 18.0                               | 2,864  | 2,938  |
| Fire.....                                                 | 10,486       | 20,637    | 20,820    | 9.1                               | 8.7                                | 96.8                                                 | 13.8                               | 1,360  | 1,303  |
| Sanitation.....                                           | 7,650        | 17,419    | 18,456    | 7.6                               | 7.7                                | 127.6                                                | 18.2                               | 822    | 741    |
| Sanitation other than sewerage.....                       | 8,624        | 10,954    | 10,878    | 4.8                               | 4.6                                | 27.0                                                 | 3.8                                | 872    | 771    |
| Parks and Recreation.....                                 | 9,962        | 7,195     | 8,601     | 3.2                               | 3.6                                | -27.7                                                | -3.9                               | 621    | 604    |
| Type B:                                                   |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Financial Administration and General Control.....         | 13,938       | 7,560     | 8,058     | 3.3                               | 3.4                                | -45.7                                                | -6.5                               | 586    | 594    |
| Highways.....                                             | 13,561       | 12,492    | 10,728    | 5.5                               | 4.5                                | -7.8                                                 | -1.1                               | 586    | 594    |
| Total, Common Functions.....                              | 81,269       | 114,809   | 118,259   | 50.4                              | 49.6                               | 41.2                                                 | 5.8                                | 6,653  | 6,358  |
| Variable Functions                                        |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Education.....                                            | 21           | 78        | 69        | .3                                | .2                                 | 271.4                                                | 38.7                               | ...    | ...    |
| Public Welfare.....                                       | 2,110        | 4         | 5         | ...                               | ...                                | -99.8                                                | -14.2                              | ...    | ...    |
| Hospitals.....                                            | 2,372        | 4,496     | 5,396     | 1.9                               | 2.3                                | 89.5                                                 | 12.7                               | ...    | ...    |
| Health other than Hospitals.....                          | 12,202       | 5,459     | 3,866     | 2.3                               | 1.6                                | -35.2                                                | -7.8                               | ...    | ...    |
| Housing & Urban Development.....                          | 16,705       | 10,037    | 9,336     | 4.5                               | 4.0                                | -39.9                                                | -6.9                               | ...    | ...    |
| Total, Variable Functions.....                            |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Other General Expenditures not elsewhere detailed 1/..... |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Total, General Expenditures.....                          | 12,377       | 23,332    | 37,803    | 10.2                              | 15.9                               | 88.5                                                 | 12.6                               | 62.0   | 5,112  |
|                                                           | 110,351      | 148,178   | 165,398   | 65.1                              | 15.9                               | 34.2                                                 | 4.8                                | 11,765 | 11,932 |
| UTILITY EXPENDITURES                                      |              |           |           |                                   |                                    |                                                      |                                    |        |        |
| Water Supply.....                                         | 16,754       | 25,280    | 24,471    | 11.1                              | 10.2                               | 50.8                                                 | 7.2                                | 1,919  | 1,328  |
| Other.....                                                | 32,290       | 42,329    | 38,643    | 18.6                              | 18.0                               | 31.7                                                 | 4.5                                | ...    | ...    |
| Total, Utility Expenditures.....                          | 49,044       | 67,609    | 62,514    | 29.7                              | 26.2                               | 38.2                                                 | 5.4                                | 1,919  | 1,328  |
| Employee Retirement.....                                  | 3,854        | 408       | 394       | .2                                | .1                                 | -89.4                                                | -12.7                              | ...    | ...    |
| INTEREST ON GENERAL DEBT.....                             | 4,589        | 11,614    | 10,097    | 5.0                               | 4.2                                | 153.0                                                | 21.8                               | ...    | ...    |
| Total, ALL EXPENDITURES.....                              | 167,838      | 228,009   | 238,403   | 100.0                             | 100.0                              | 35.8                                                 | 5.1                                | ...    | ...    |
| Total, EMPLOYMENT.....                                    |              |           |           |                                   |                                    |                                                      |                                    | 13,084 | 13,260 |

1/ Includes General Public Buildings, Libraries, and "Other"

# Included in Other General Expenditures not elsewhere included.



# DETAILED BUDGET DATA FOR MILWAUKEE 65

(Dollar Amounts in Thousands)

| EXPENDITURES                                              |  |  |  | EMPLOYMENT (FTE)                                      |  |  |  |
|-----------------------------------------------------------|--|--|--|-------------------------------------------------------|--|--|--|
| GENERAL EXPENDITURES                                      |  |  |  | Percent Increase<br>1973 over 1972                    |  |  |  |
| Common Functions                                          |  |  |  | Percent Increase<br>1972 over 1965                    |  |  |  |
| Type A:                                                   |  |  |  | One Seventh of<br>Percent Increase<br>1965 - 1972 (%) |  |  |  |
| Police.....                                               |  |  |  | 12.8                                                  |  |  |  |
| Fire.....                                                 |  |  |  | 29.6                                                  |  |  |  |
| Sewerage.....                                             |  |  |  | 2,395                                                 |  |  |  |
| Sanitation other than sewerage.....                       |  |  |  | 1,115                                                 |  |  |  |
| Parks and Recreation.....                                 |  |  |  | 1,087                                                 |  |  |  |
| Type B:                                                   |  |  |  | 362                                                   |  |  |  |
| Financial Administration and General Control.....         |  |  |  | 1,560                                                 |  |  |  |
| Highways.....                                             |  |  |  | 55.6                                                  |  |  |  |
| Total, Common Functions.....                              |  |  |  | 203                                                   |  |  |  |
| Variable Functions                                        |  |  |  | 51.0                                                  |  |  |  |
| Education.....                                            |  |  |  | 5                                                     |  |  |  |
| Public Welfare.....                                       |  |  |  | 3.6                                                   |  |  |  |
| Hospitals.....                                            |  |  |  | 8.1                                                   |  |  |  |
| Health other than Hospitals.....                          |  |  |  | -37.2                                                 |  |  |  |
| Housing & Urban Development.....                          |  |  |  | 47.6                                                  |  |  |  |
| Total, Variable Functions.....                            |  |  |  | ...                                                   |  |  |  |
| Other General Expenditures not elsewhere detailed 1/..... |  |  |  | ...                                                   |  |  |  |
| Total, General Expenditures.....                          |  |  |  | 2,262                                                 |  |  |  |
| UTILITY EXPENDITURES                                      |  |  |  | 8,664                                                 |  |  |  |
| Water Supply.....                                         |  |  |  | 476                                                   |  |  |  |
| Other.....                                                |  |  |  | ...                                                   |  |  |  |
| Total, Utility Expenditures.....                          |  |  |  | 473                                                   |  |  |  |
| Employee Retirement.....                                  |  |  |  | ...                                                   |  |  |  |
| INTEREST ON GENERAL DEBT.....                             |  |  |  | ...                                                   |  |  |  |
| Total, ALL EXPENDITURES.....                              |  |  |  | ...                                                   |  |  |  |
| Total, EMPLOYMENT.....                                    |  |  |  | 9,140                                                 |  |  |  |

1/ Includes General Public Buildings, libraries, and "Other"  
# Included in Other General Expenditures not elsewhere included.

1/ Includes General Public Buildings, Libraries, and "Other"

# Included in Other General Expenditures not elsewhere included.



66 DETAILED BUDGET DATA FOR SAN FRANCISCO

(Dollar Amounts in Thousands)

| GENERAL EXPENDITURES                                      | EXPENDITURES |          |           |                                   | EMPLOYMENT (FTE)                   |                                                      |                                    |        |
|-----------------------------------------------------------|--------------|----------|-----------|-----------------------------------|------------------------------------|------------------------------------------------------|------------------------------------|--------|
|                                                           | 1965         | 1972     | 1973      | Percent Distribution<br>1972 1973 | Percent Increase<br>1972 over 1965 | One Seventh of<br>Previous Column<br>1965 - 1972 (%) | Percent Increase<br>1973 over 1972 |        |
|                                                           |              |          |           |                                   |                                    |                                                      | 1973                               | 1974   |
| Common Functions                                          |              |          |           |                                   |                                    |                                                      |                                    |        |
| Type A:                                                   |              |          |           |                                   |                                    |                                                      |                                    |        |
| Police.....                                               | \$ 19,516    | \$39,270 | \$ 41,425 | 6.2                               | 6.3                                | 101.2                                                | 5.4                                | 2,661  |
| Fire.....                                                 | 17,382       | 29,457   | 28,633    | 4.7                               | 4.3                                | 69.4                                                 | -2.7                               | 1,654  |
| Fire.....                                                 | 7,079        | 13,895   | 12,951    | 2.2                               | 2.0                                | 96.2                                                 | -6.7                               | 259    |
| Sewerage.....                                             | 2,785        | 3,835    | 3,959     | 6.6                               | 6                                  | 37.7                                                 | 3.2                                | 302    |
| Sanitation other than sewerage.....                       | 17,760       | 21,097   | 24,271    | 3.3                               | 3.7                                | 18.7                                                 | 15.0                               | 1,041  |
| Parks and Recreation.....                                 |              |          |           |                                   |                                    |                                                      |                                    | 1,114  |
| Type B:                                                   |              |          |           |                                   |                                    |                                                      |                                    |        |
| Financial Administration and General Control.....         | 13,700       | 25,576   | 26,735    | 4.1                               | 4.1                                | 86.6                                                 | 4.5                                | 0      |
| Highways.....                                             | 9,535        | 17,800   | 19,574    | 2.8                               | 3.0                                | 86.6                                                 | 9.9                                | 345    |
| Total, Common Functions.....                              | 87,757       | 150,930  | 157,548   | 23.9                              | 24.0                               | 71.9                                                 | 4.3                                | 6,242  |
| Total, Common Functions.....                              |              |          |           |                                   |                                    |                                                      |                                    |        |
| Variable Functions                                        |              |          |           |                                   |                                    |                                                      |                                    |        |
| Police.....                                               | 2,075        | 994      | 1,010     | 1.5                               | 2                                  | -53.7                                                | 1.6                                | ...    |
| Public Works.....                                         | 50,345       | 151,516  | 156,569   | 24.0                              | 23.8                               | 200.8                                                | 3.7                                | ...    |
| Hospitals.....                                            | 20,887       | 47,745   | 48,111    | 7.6                               | 7.3                                | 128.5                                                | ...                                | ...    |
| Health other than Hospitals.....                          | 5,646        | 15,847   | 18,537    | 2.5                               | 2.8                                | 180.6                                                | 16.9                               | ...    |
| Housing & Urban Development.....                          | 2,011        | 32,506   | 23,937    | 5.1                               | 3.6                                | 1,516.4                                              | -26.3                              | ...    |
| Total, Variable Functions.....                            | 80,976       | 239,608  | 248,144   | 39.4                              | 37.7                               | 195.9                                                | 3.5                                | ...    |
| Total, Variable Functions.....                            |              |          |           |                                   |                                    |                                                      |                                    |        |
| Other General Expenditures not elsewhere detailed 1/..... |              |          |           |                                   |                                    |                                                      |                                    |        |
| Police.....                                               | 29,715       | 105,776  | 120,999   | 16.6                              | 18.3                               | 255.9                                                | 14.3                               | 13,914 |
| Total, General Expenditures.....                          | 198,448      | 496,314  | 526,691   | 80.0                              | 80.0                               | 150.0                                                | 6.1                                | 20,156 |
| Total, General Expenditures.....                          |              |          |           |                                   |                                    |                                                      |                                    |        |
| UTILITY EXPENDITURES                                      |              |          |           |                                   |                                    |                                                      |                                    |        |
| Water Supply.....                                         | 26,549       | 26,568   | 29,067    | 4.2                               | 4.4                                | ...                                                  | 99.4                               | 890    |
| Other.....                                                | 26,135       | 50,353   | 46,116    | 8.0                               | 7.0                                | 92.6                                                 | -8.4                               | ...    |
| Total, Utility Expenditures.....                          | 52,684       | 76,921   | 75,183    | 12.2                              | 11.4                               | 46.0                                                 | -1.4                               | 890    |
| Total, Utility Expenditures.....                          |              |          |           |                                   |                                    |                                                      |                                    |        |
| Employee Retirement.....                                  | 19,040       | 36,042   | 45,709    | 5.7                               | 6.9                                | 89.2                                                 | 12.7                               | ...    |
| INTEREST ON GENERAL DEBT.....                             | 3,710        | 12,987   | 10,983    | 2.1                               | 1.7                                | 230.0                                                | -15.4                              | ...    |
| Total, ALL EXPENDITURES.....                              | 273,882      | 622,264  | 658,566   | 100.0                             | 100.0                              | 127.2                                                | 5.8                                | ...    |
| Total, ALL EXPENDITURES.....                              |              |          |           |                                   |                                    |                                                      |                                    |        |
| Total, EMPLOYMENT.....                                    |              |          |           |                                   |                                    |                                                      |                                    |        |
|                                                           |              |          |           |                                   |                                    |                                                      | 21,046                             | 21,482 |

1/ Includes General Public Buildings, Libraries, and "Other" included in Other General Expenditures elsewhere detailed.



## DETAILED BUDGET DATA FOR ST. LOUIS 67

(Dollar Amounts in Thousands)

| GENERAL EXPENDITURES                                      | EXPENDITURES |           |           |                                   | EMPLOYMENT (FTE)                   |                                                      |                                    |       |       |        |        |
|-----------------------------------------------------------|--------------|-----------|-----------|-----------------------------------|------------------------------------|------------------------------------------------------|------------------------------------|-------|-------|--------|--------|
|                                                           | 1965         | 1972      | 1973      | Percent Distribution<br>1972 1973 | Percent Increase<br>1972 over 1965 | One Seventh of<br>Previous Column<br>1965 - 1972 (%) | Percent Increase<br>1973 over 1972 | 1973  | 1974  |        |        |
|                                                           |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Common Functions                                          |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Type A:                                                   |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Police.....                                               | \$ 19,381    | \$32,735  | \$35,832  | 16.1                              | 17.0                               |                                                      | 69.0                               | 9.8   | 9.4   | 3,024  | 3,052  |
| Fire.....                                                 | 8,565        | 11,270    | 13,280    | 5.3                               | 6.3                                |                                                      | 53.0                               | 8.8   | 17.8  | 1,129  | 1,023  |
| Sanitation.....                                           | 2,000        | 2,000     | 2,000     | 1.0                               | 1.0                                |                                                      | 0.0                                | 0.0   | 0.0   | ...    | ...    |
| Sanitation other than sewerage.....                       | 3,049        | 5,528     | 4,418     | 2.7                               | 2.1                                |                                                      | 46.7                               | 12.3  | -20.0 | 437    | 349    |
| Public Works.....                                         | 11,227       | 11,215    | 7,850     | 5.5                               | 3.7                                |                                                      | 81.3                               | 11.6  | 30.0  | 1,016  | 873    |
| Type B:                                                   |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Financial Administration and General Control.....         | 7,724        | 11,838    | 12,427    | 5.8                               | 6.0                                |                                                      | 53.2                               | 7.6   | 4.9   | 8      | 8      |
| Highways.....                                             | 9,417        | 12,683    | 12,042    | 6.2                               | 5.7                                |                                                      | 34.6                               | 4.9   | -5.0  | 533    | 402    |
| Total, Common Functions.....                              | 60,307       | 85,394    | 85,949    | 41.9                              | 40.8                               |                                                      | 41.6                               | 5.9   | -69.0 | 6,039  | 5,699  |
| Variable Functions                                        |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Police.....                                               | 128          | 183       | 216       | .1                                | .1                                 |                                                      | 43.0                               | 6.1   | 18.0  | ...    | ...    |
| Public Welfare.....                                       | 993          | 2,667     | 2,503     | 1.3                               | 1.2                                |                                                      | 168.6                              | 24.0  | -6.1  | ...    | ...    |
| Hospitals.....                                            | 19,079       | 35,444    | 37,535    | 17.4                              | 17.8                               |                                                      | 85.7                               | 8.9   | 5.8   | ...    | ...    |
| Health other than Hospitals.....                          | 2,773        | 8,008     | 8,661     | 3.9                               | 4.1                                |                                                      | 188.7                              | 26.9  | 8.1   | ...    | ...    |
| Housing & Urban Development.....                          | 2,000        | 138       | 149       | .1                                | .1                                 |                                                      | -93.1                              | -13.3 | 7.9   | ...    | ...    |
| Total, Variable Functions.....                            | 24,973       | 46,440    | 49,064    | 22.8                              | 23.3                               |                                                      | 85.9                               | 12.2  | 5.6   | ...    | ...    |
| Other General Expenditures not elsewhere detailed 1/..... |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
|                                                           | 18,006       | 42,821    | 51,561    | 21.0                              | 24.5                               |                                                      | 137.8                              | 19.6  | 20.4  | 7,521  | 7,295  |
| Total, General Expenditures.....                          | 103,286      | 174,655   | 186,574   | 85.7                              | 88.6                               |                                                      | 69.0                               | 9.8   | 6.8   | 13,560 | 12,994 |
| UTILITY EXPENDITURES                                      |              |           |           |                                   |                                    |                                                      |                                    |       |       |        |        |
| Nator Supply.....                                         | 6,294        | 16,729    | 10,702    | 8.2                               | 5.1                                |                                                      | 165.7                              | 23.6  | -36.0 | 506    | 503    |
| Other.....                                                | ...          | ...       | ...       | ...                               | ...                                |                                                      | ...                                | ...   | ...   | ...    | ...    |
| Total, Utility Expenditures.....                          | 6,294        | 16,729    | 10,702    | 8.2                               | 5.1                                |                                                      | 165.7                              | 23.6  | -36.0 | 506    | 503    |
| Employee Retirement.....                                  | 3,687        | 6,357     | 7,018     | 3.1                               | 3.3                                |                                                      | 72.4                               | 10.3  | 10.3  | ...    | ...    |
| INTEREST ON GENERAL DEBT.....                             | 3,446        | 6,122     | 6,260     | 3.0                               | 3.0                                |                                                      | 77.6                               | 11.0  | 2.2   | ...    | ...    |
| Total, ALL EXPENDITURES.....                              | \$116,713    | \$203,863 | \$210,554 | 100.0                             | 100.0                              |                                                      | 74.6                               | 10.6  | 3.2   | ...    | ...    |
| Total, EMPLOYMENT.....                                    |              |           |           |                                   |                                    |                                                      |                                    |       |       | 14,066 | 13,497 |

1/ Includes General Public Buildings, Libraries, and "Other"  
 # Included in Other General Expenditures elsewhere detailed.



The District Government believes that there can be useful results from making more intensive comparisons between cities as to local government services, social and economic conditions, and the various interrelations between the two. We have done this for sometime and now expect to expand our work. A small common list of cities is used for making these standard "intelligent" comparisons with the District of Columbia. This data development will be of vital importance in the response the Mayor makes to the language of "Home Rule" legislation which states in Section 501 "one of the duties of the Mayor is to make available to the Council and OMB a study of intercity expenditures and revenue comparisons based on data supplied by the Bureau of the Census". In the future we will be doing a more detailed study as to the tax base and revenue programs of other cities. Immediately we are concentrating on employment comparisons.

We asked the Bureau of Census to prepare a study to help us on this. The results of this study follow. The tables on pages E17 and E18 show for selected local government functions the number of employees (full time equivalent) of the city government and of all government agencies (including the state if it does a local function).

This detail comes from the reports submitted by local governments on employment by function. The definitions of the columnar headings "city" and "total" are the familiar ones developed by the Bureau: "City" - all city employees perform defined local government functions and "Total" - all government employees working for city, special district, county or state governments performing defined local government functions.

The relationship is developed between both classification of employees and city population. This is shown on pages E14, 15, & 16. We do not expect that the resulting data give more than the start of a comparative analysis. However the city is committed to the development of any useful knowledge that will be helpful for the development of a more effective city government.

The final pages of this report show the organization units that provide the "non-city" employment for the various functions.



CITY EMPLOYMENT AND TOTAL GOVERNMENT EMPLOYMENT  
FOR SELECTED LOCAL GOVERNMENTAL FUNCTIONS AS OF OCTOBER 1972  
EMPLOYEES PER 1,000 POPULATION  
(FULL-TIME EQUIVALENT)

| FUNCTION                                            | Dist. of Columbia |       | Atlanta |       | Baltimore |       | Detroit |       |
|-----------------------------------------------------|-------------------|-------|---------|-------|-----------|-------|---------|-------|
|                                                     | City              | Total | City    | Total | City      | Total | City    | Total |
| <b>COMMON VARIABLE</b>                              |                   |       |         |       |           |       |         |       |
| Police                                              | 8.2               | 8.2   | 2.8     | 3.3   | 5.2       | 5.6   | 4.2     | 4.6   |
| Fire                                                | 2.0               | 2.0   | 2.0     | 2.0   | 2.5       | 2.5   | 1.3     | 1.3   |
| Sewerage                                            | 0.4               | 0.4   | 1.1     | 1.2   | 0.7       | 0.7   | 0.1     | 0.1   |
| Sanitation other than Sewerage                      | 2.4               | 2.4   | 2.0     | 2.2   | 1.7       | 1.7   | 1.4     | 1.4   |
| Parks & Recreation                                  | 1.3               | 1.3   | 1.5     | 1.5   | 1.5       | 1.5   | 1.2     | 1.3   |
| Highways                                            | 1.8               | 1.8   | 1.1     | 3.3   | 1.1       | 2.2   | 0.8     | 1.9   |
| Water Supply                                        | 1.2               | 1.2   | 1.5     | 1.5   | 0.9       | 0.9   | 1.1     | 1.1   |
| General Control & Financial Admin.                  | 3.4               | 3.4   | 1.2     | 2.9   | 1.6       | 2.7   | 1.0     | 2.2   |
| Total, Common                                       | 20.7              | 20.7  | 13.1    | 18.0  | 15.1      | 17.9  | 11.1    | 14.0  |
| <b>VARIABLE</b>                                     |                   |       |         |       |           |       |         |       |
| Welfare                                             | 3.8               | 3.8   | --      | 1.1   | 1.9       | 2.1   | --      | 1.0   |
| Corrections                                         | 2.4               | 2.4   | 0.1     | 0.8   | 0.3       | 1.4   | 0.1     | 0.8   |
| Health                                              | 6.9               | 6.9   | --      | 0.9   | 1.5       | 2.1   | 0.6     | 0.9   |
| Hospitals                                           | 3.9               | 3.9   | --      | 10.7  | 2.4       | 5.3   | 1.4     | 4.3   |
| Housing & Urban Renewal                             | 0.8               | 1.0   | --      | 1.8   | 0.8       | 0.8   | 0.5     | 0.5   |
| Public Schools                                      | 16.8              | 16.8  | --      | 16.4  | 16.4      | 16.4  | --      | 14.6  |
| Colleges                                            | 2.7               | 2.7   | --      | 4.1   | 0.5       | 5.0   | --      | 4.7   |
| Total, Variable                                     | 37.4              | 37.6  | 0.1     | 35.9  | 23.8      | 33.1  | 2.6     | 26.7  |
| Total - Selected, Common & Variable                 | 58.0              | 58.3  | 13.2    | 53.9  | 38.9      | 51.0  | 13.7    | 40.7  |
| <b>OTHER</b>                                        |                   |       |         |       |           |       |         |       |
| Total                                               | 7.1               | 7.2   | 1.7     | 4.3   | 3.2       | 5.2   | 3.8     | 5.2   |
| All Functions                                       | 65.2              | 65.5  | 14.9    | 58.2  | 42.1      | 56.1  | 17.6    | 45.9  |
| POPULATION (000)                                    | 757               | 757   | 497     | 497   | 906       | 906   | 1514    | 1514  |
| No. employees per 1,000 Common & Variable Functions | 58.0              | 58.3  | 13.2    | 53.3  | 38.9      | 50.9  | 13.7    | 40.7  |
| No. employees per 1,000 All Functions               | 65.2              | 65.5  | 14.9    | 58.1  | 42.1      | 56.1  | 17.6    | 45.9  |



## 70 THE BUREAU OF CENSUS STUDY - CONTINUED

CITY EMPLOYMENT AND TOTAL GOVERNMENT EMPLOYMENT  
FOR SELECTED LOCAL GOVERNMENTAL FUNCTIONS AS OF OCTOBER 1972  
EMPLOYEES PER 1,000 POPULATION  
(FULL-TIME EQUIVALENT)

| FUNCTION<br>COMMON                                              | Boston |       | Cleveland |       | Milwaukee |       | San Francisco |       | St. Louis |       |
|-----------------------------------------------------------------|--------|-------|-----------|-------|-----------|-------|---------------|-------|-----------|-------|
|                                                                 | City   | Total | City      | Total | City      | Total | City          | Total | City      | Total |
| Police .....                                                    | 4.8    | 5.0   | 3.8       | 4.1   | 3.3       | 3.8   | 3.7           | 4.2   | 4.8       | 5.1   |
| Fire .....                                                      | 3.4    | 3.4   | 1.6       | 1.6   | 1.6       | 1.6   | 2.5           | 2.5   | 1.8       | 1.8   |
| Sewerage .....                                                  | 0.2    | 0.2   | 0.6       | 0.6   | 0.3       | 0.8   | 0.4           | 0.4   | --        | 0.9   |
| Sanitation other<br>than Sewerage .....                         | 0.4    | 0.4   | 1.1       | 1.1   | 1.5       | 1.5   | 0.5           | 0.5   | 0.6       | 0.6   |
| Parks & Recreation .....                                        | 0.9    | 0.9   | 0.8       | 1.0   | 0.3       | 1.6   | 1.6           | 1.6   | 1.7       | 1.7   |
| Highways .....                                                  | 0.8    | 2.1   | 0.8       | 1.9   | 1.2       | 2.2   | 0.5           | 1.8   | 0.9       | 2.3   |
| Water Supply .....                                              | 0.4    | 0.4   | 1.7       | 1.7   | 0.7       | 0.7   | 1.2           | 1.2   | 0.9       | 0.9   |
| General Control &<br>Financial Admin. ....                      | 2.5    | 3.5   | 1.0       | 1.8   | 0.8       | 2.3   | 2.4           | 3.1   | 1.4       | 2.0   |
| Total, Common .....                                             | 13.4   | 15.8  | 11.5      | 13.9  | 9.8       | 14.5  | 12.8          | 15.3  | 12.0      | 15.3  |
| <b>VARIABLE</b>                                                 |        |       |           |       |           |       |               |       |           |       |
| Welfare .....                                                   | --     | 1.1   | 0.01      | 0.6   | --        | 1.3   | 3.4           | 3.5   | 0.2       | 1.3   |
| Corrections .....                                               | 0.4    | 0.9   | 0.3       | 0.8   | --        | 0.6   | 0.9           | 1.5   | 0.9       | 1.3   |
| Health .....                                                    | 0.4    | 0.7   | 0.5       | 0.7   | 0.7       | 1.9   | 1.8           | 2.1   | 1.0       | 1.2   |
| Hospitals .....                                                 | 8.0    | 11.3  | --        | 2.6   | 0.1       | 4.4   | 2.9           | 3.9   | 5.8       | 8.4   |
| Housing & Urban<br>Renewal .....                                | 0.7    | 1.9   | 0.4       | 1.2   | 0.6       | 0.6   | 0.5           | 1.0   | 0.3       | 0.8   |
| Public Schools .....                                            | 12.0   | 12.0  | --        | 18.5  | --        | 15.1  | --            | 11.2  | --        | 13.2  |
| Colleges .....                                                  | --     | 2.3   | --        | 4.8   | --        | 6.7   | --            | 5.2   | --        | 4.4   |
| Total, Variable .....                                           | 21.6   | 30.1  | 1.2       | 27.1  | 1.4       | 30.6  | 10.0          | 28.2  | 8.1       | 30.5  |
| Total - Selected,<br>Common & Variable .....                    | 35.0   | 46.0  | 12.6      | 41.0  | 11.2      | 45.1  | 22.3          | 43.5  | 20.1      | 45.8  |
| OTHER .....                                                     | 3.7    | 7.9   | 4.2       | 6.5   | 1.9       | 4.2   | 7.0           | 9.8   | 2.5       | 4.3   |
| Total - All Functions .....                                     | 38.7   | 53.9  | 16.8      | 47.4  | 13.1      | 49.3  | 29.3          | 53.3  | 22.3      | 50.1  |
| <b>POPULATION (000) .....</b>                                   | 641    | 641   | 751       | 751   | 717       | 717   | 716           | 716   | 622       | 622   |
| No. employees per 1,000<br>Common & Variable<br>Functions ..... | 35.0   | 46.0  | 12.6      | 41.0  | 11.2      | 45.1  | 22.3          | 43.5  | 20.1      | 45.8  |
| No. employees per 1,000<br>All Functions .....                  | 38.7   | 53.9  | 16.8      | 47.4  | 13.1      | 49.3  | 29.3          | 53.3  | 22.3      | 50.1  |

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## THE BUREAU OF CENSUS STUDY - CONTINUED 71

CITY EMPLOYMENT AND TOTAL GOVERNMENT EMPLOYMENT  
FOR SELECTED LOCAL GOVERNMENTAL FUNCTIONS AS OF OCTOBER 1972  
EMPLOYEES PER 1,000 POPULATION  
(FULL-TIME EQUIVALENT)

| FUNCTION                                                             | Los Angeles |             | Minneapolis |             | Oakland     |             | Seattle     |             |
|----------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                                      | City        | Total       | City        | Total       | City        | Total       | City        | Total       |
| <b>COMMON</b>                                                        |             |             |             |             |             |             |             |             |
| Police .....                                                         | 3.5         | 4.6         | 2.1         | 2.6         | 2.5         | 3.6         | 2.5         | 3.3         |
| Fire .....                                                           | 1.2         | 1.4         | 1.3         | 1.3         | 1.2         | 2.0         | 2.0         | 2.0         |
| Sewerage .....                                                       | 0.2         | 0.3         | 0.2         | 0.2         | 0.1         | 0.2         | 0.1         | 0.4         |
| Sanitation .....                                                     |             |             |             |             |             |             |             |             |
| Sanitation other .....                                               | 0.4         | 0.4         | 0.6         | 0.6         | 0.2         | 0.2         | 0.3         | 0.4         |
| Parks & Recreation .....                                             | 1.0         | 1.3         | 1.4         | 1.6         | 1.2         | 1.5         | 1.4         | 1.5         |
| Highways .....                                                       | 0.6         | 1.8         | 2.4         | 4.2         | 1.0         | 2.2         | 1.6         | 3.9         |
| Water Supply .....                                                   | 1.2         | 1.3         | 0.8         | 0.8         | --          | 1.0         | 0.9         | 0.9         |
| General Control & Financial Admin. ....                              | 0.9         | 3.3         | 1.2         | 2.6         | 0.7         | 3.0         | 0.8         | 3.0         |
| <b>Total, Common .....</b>                                           | <b>9.0</b>  | <b>14.4</b> | <b>10.0</b> | <b>13.8</b> | <b>7.5</b>  | <b>13.5</b> | <b>9.6</b>  | <b>15.5</b> |
| <b>VARIABLE</b>                                                      |             |             |             |             |             |             |             |             |
| Welfare .....                                                        | 0.02        | 2.2         | 0.3         | 1.6         | --          | 1.8         | --          | 1.7         |
| Corrections .....                                                    | --          | 1.4         | 0.2         | 1.1         | 0.2         | 1.6         | 0.2         | 1.1         |
| Health .....                                                         | --          | 0.6         | 0.5         | 0.8         | --          | 0.7         | 1.0         | 1.2         |
| Hospitals .....                                                      | 0.1         | 3.8         | --          | 3.7         | --          | 3.2         | --          | 2.8         |
| Housing & Urban Renewal .....                                        | 0.1         | 0.4         | --          | 0.7         | 0.4         | 0.9         | 0.5         | 1.1         |
| Public Schools .....                                                 | --          | 14.0        | --          | 13.8        | --          | 14.7        | --          | 14.7        |
| Colleges .....                                                       | --          | 4.8         | --          | 2.3         | --          | 6.4         | --          | 6.8         |
| <b>Total, Variable .....</b>                                         | <b>0.2</b>  | <b>27.1</b> | <b>1.0</b>  | <b>24.0</b> | <b>0.6</b>  | <b>29.2</b> | <b>1.7</b>  | <b>29.0</b> |
| <b>Total - Selected Common &amp; Variable .....</b>                  | <b>9.2</b>  | <b>41.5</b> | <b>11.0</b> | <b>37.8</b> | <b>8.1</b>  | <b>42.7</b> | <b>11.3</b> | <b>44.5</b> |
| <b>OTHER .....</b>                                                   | <b>6.0</b>  | <b>9.7</b>  | <b>1.6</b>  | <b>3.8</b>  | <b>2.7</b>  | <b>8.1</b>  | <b>8.4</b>  | <b>12.0</b> |
| <b>Total - All Functions .....</b>                                   | <b>15.2</b> | <b>51.1</b> | <b>12.6</b> | <b>41.6</b> | <b>10.9</b> | <b>50.8</b> | <b>19.7</b> | <b>56.6</b> |
| <b>POPULATION .....</b>                                              | <b>2810</b> | <b>2810</b> | <b>434</b>  | <b>434</b>  | <b>362</b>  | <b>362</b>  | <b>531</b>  | <b>531</b>  |
| <b>No. employees per 1,000 Common &amp; Variable Functions .....</b> | <b>9.2</b>  | <b>41.5</b> | <b>1.0</b>  | <b>24.0</b> | <b>0.6</b>  | <b>29.2</b> | <b>1.7</b>  | <b>29.0</b> |
| <b>No. employees per 1,000 All Functions .....</b>                   | <b>15.2</b> | <b>51.1</b> | <b>12.6</b> | <b>41.6</b> | <b>10.9</b> | <b>50.8</b> | <b>19.7</b> | <b>56.6</b> |



Mr. COPPIE. There is one overriding factor that influences our situation. We have the highest number of policemen per capita for any inner city in the United States. That is because several years ago 2,000 additional policemen were placed on the streets of the District of Columbia.

The CHAIRMAN. That is right.

Mr. COPPIE. Not only does that force us into a high point for purposes of comparison, but I am sure you realize what that has meant in terms of cost to the city budget and also, of course, part of that cost to the police and fire retirement system.

The CHAIRMAN. That is true. The police force per capita is by far the biggest for the big cities in the country.

Mr. COPPIE. Right.

The CHAIRMAN. I think if we take police out, and we take it out across the board, the District of Columbia still ranks No. 1.

Mr. COPPIE. We would probably question that. I think the more important question here is, what are we doing to manage the problem?

I think that the Mayor is modest in just pointing to the abolishment of 6,000 positions. We have been in a freeze situation more or less for every year of his administration. I can point specifically going back to 1970 and coming forward to the situation where we are in now. We have been in a freeze situation. The objective has been to get a better hold of the employment base of the city.

I think the overriding issue is, it seems to me, is the Congress sensitive to the problem as we are? We are doing something about it.

The CHAIRMAN. Mayor, I will say this at this point. You can respond freely. Getting back to where we began on the municipal bonds. A bond, of course, is more than a piece of paper. A bond is a negotiable instrument. Behind it is the credit and the fiscal accountability and the fiscal responsibility of the entity issuing the bond.

When a corporation issues a bond or a debenture, it has to be cleared by the Securities and Exchange Commission and has to be attested to by a certified public accounting firm as to the creditworthiness of that corporation. The same is true when that corporation issues common stock.

Since the Securities and Exchange Act of 1933, there has been an exception in that act in that municipal bonds were not required to comply with provisions of corporate securities.

Again, that was not your fault, Mayor. I was born in 1929, so it really was not my fault either.

After what happened with New York, we are all on notice. New York has had a lot to do with these hearings. Quite frankly, if New York had not occurred, if we were just blissfully going on as the whole country was when New York was going down the tube, and if this had not come to full light, I doubt if these hearings would have been held.

I doubt if I would have had enough foresight to say, "Well, I better go into some of these matters and see what the fiscal affairs of the city are."

But New York did occur, Mayor. It has been an abundant education not just for Abraham Beame, and not just for Governor Hugh Carey, with whom I rode over in the train just a few moments ago at the time of the last vote, but an education for the whole country.

New York is the greatest city in the world. It is the financial capital and the arts and humanities capital of the world. It is in dire fiscal



stress—so dire as to require the last minute action of the President of the United States from seeing it go through involuntary bankruptcy.

Now, all of us are on notice. Not just with respect to the District of Columbia. If the 100 Senators are not on notice about the needs of the big cities—including Washington, D.C., St. Louis, Cleveland, Buffalo, Philadelphia, and Chicago—as to the problems that they face, then nothing will ever capture our attention, Mayor. We would be too deaf to hear and too blind to see.

The experience of New York is so dramatic and so mind boggling in its complexity that we have to be on notice.

Thus, we had the New York notice, the New York warning, and as we began to look in depth to some of the matters underlying the fiscal basis for the District, I became concerned.

As has been said, I am one of the authors of the home rule bill. I was the author of it in the U.S. Senate. I handled the bill when nobody else would handle it. I am proud of that legislative accomplishment. I put it on my brochure when I ran for reelection, because I thought it was an accomplishment and not just for the District of Columbia. It was a national accomplishment because this is the national city. This is our Nation's Capital.

So I do not retrench from home rule. I have no sadness in retrospect that I think I made a mistake. I did not. I think it was the right thing to do then. I think home rule is right now and it will be right the day after tomorrow and in the years ahead.

We have a responsibility here insofar as the fiscal affairs of the District are concerned. Congress held back part of that jurisdiction and said in that area the Mayor and the City Council are with us together on fiscal affairs of the District. This is not an exclusive prerogative of the District government. It is a cooperative or a joint venture between the city and Capitol Hill.

I know you are interested in getting into the bond market. I know you want to see a more attractive borrowing rate than the 8-percent plus that you are spending now on current Treasury borrowings. Parenthetically, the borrowings years ago were 2 and 3 percent, and the current borrowings are 8 $\frac{3}{8}$  or thereabouts.

But I would not, Mayor, put my stamp of approval on those bonds. I could not say either by silence or inaction that these bonds in my mind pass fiscal muster. I do not think they do.

I care not what Moody's or Standard & Poors may give them as a rating, because I think they were some of the silent conspirators in the downfall of New York City. They were people who had access to information and indeed had a public responsibility, because they are the public rated services not run by government. But they held themselves out—Moody's and Standard & Poors.

They were the people you could believe about municipal finance. When we say it is a triple A, man it is good. New York was an A right down through September and into October. They said it is a good prudent investment. So none of us can take any comfort in what Moody's might say. They would probably give a double A rating to Portugal bonds, if they thought there was some poor sucker in the world to buy them. So we should not dwell too much upon it.

What is important to me is the risk that is involved in these District of Columbia bonds. I see the debt increased from \$1 billion and then in the next 6 years to \$1.9 billion, almost doubling in 6 years.



I see three continuous years of deficit. The first one is very small, \$3.5 million; the next one is rather large, \$45.5 million and then the next one, Mr. Coppie thinks will be \$40 million, and we have our friendly wager on that.

I see the escalating unfunded pensions of this city which balloon out in a catastrophic way from a financial point of view close to the year 2000.

I see a tiny indicia of what I call gimmickry. I do not think it needs to be repeated again, but there is the \$25 million capitalization of ongoing expenses in the capital account.

I see a declining population rate in the District of Columbia, albeit at the time very slowly, thank God, but nevertheless the population of the District appeared to have peaked in 1950. It has declined 4 percent since 1960.

I see perhaps a reduced growth rate in retail sales in the District, as I think was projected by the Congressional Budget Office in a memorandum that was previously presented.

I see these things. In no sense is it as severe today as the disaster of New York. But in every sense, Mayor, I see it as probably what New York faced 10 years ago—when there was time. That is what we have to be interested in; you, and me, the City Council, Mr. Diggs, Mr. Natcher, and Senator Chiles. We have to see that we get the fiscal shape of the District in such good shape that when a certified public accountant firm authenticates the books and records, it will go to the market. I care not if Moody's rates it, but it will go to the market, because the books have been examined and dealt with, and it will command, not only a high rating, but also a low interest rate which is the bottom line you are after and should be after.

I see an analysis of the District's affairs, with steps taken to rectify the trends that may be upon us, and which will enhance the District of Columbia bonds, not detract from them.

We need this kind of appraisal and soul searching and steps taken to cure the ills of the past. If we do not do it, Mayor, then I think we will be in the shape of Philadelphia, to go to the bond market and get 9 percent, or even have your issue totally rejected as Buffalo's was earlier this year.

Fifty million dollars in this municipal bond market is a rather sizable offer. We have so many of them, we do not know what to do with them. A lot of them are below \$10 million.

MAYOR WASHINGTON. It would not matter if it were \$1 million on your theory.

THE CHAIRMAN. What was that?

MAYOR WASHINGTON. On your theory, it would not matter.

THE CHAIRMAN. Well, my theory would be just as bad as if it were \$1 million?

MAYOR WASHINGTON. Yes.

THE CHAIRMAN. I was just further questioning the prudent wisdom of going for even a \$50 million dose at this time when Atlanta goes for \$8 million; Miami for \$7 million; Phoenix for \$15 million; Tallahassee for \$30 million; Oklahoma City for \$25 million; Kansas City for \$6 million; Poughkeepsie, N.Y., for \$2 million; Akron, Ohio, for \$15 million; the State of New Hampshire \$11 million; and the State of Tennessee went for \$70 million, a bigger amount.



Well, I said my piece. I know we do not see eye-to-eye on it. That is what a free democracy is really all about. I can hold and express my views and, Mayor, you certainly are entitled to hold and express your views.

I think we do share a common interest concerning a common destiny for this city. I do not think I will retire with a trophy as a chairman of this committee. I do not want to set any record for longevity, but I would hope it could be said of me when I leave this responsibility and some other Senator takes it on that the financial affairs of the District of Columbia were in good shape when I left. I would be discomforted to leave on any other basis.

I know as one who has worked long and as hard as you have, Mayor, in municipal affairs—you worked with HUD at a very high level. You devoted yourself to public service, to effective and sincere public service. You are one of these guys who works all day and has to work into the night.

You know, a lot of people think politics is a pretty soft job. There is nothing very soft about it. You have given it everything you have. I know you will give it everything you have in the months and years ahead to get a handle on this situation.

Despite agreeing about the bonds, and despite disagreeing about the audit, I think we do agree on the ultimate objective which is to have this city in tip-top fiscal shape.

Mayor WASHINGTON. Mr. Chairman, I think we have a common interest in the city and a common interest in where it is going. We do differ on the bonds, but I do not think we differ on the basic goals.

This hearing has pointed out some indices. As I said, I have never opposed an audit. I just do not think an audit is the term. For instance, I do not believe you are going to audit anything in an unfunded pension plan. We came very close in your inquiry as to what we do. Somebody has to do something with it. Somebody has to deal with it. It is 60 years old.

But I do not want to sit here and commit myself to take away any rights of people, as we do it. I just do not think that is right. I think we are stepping on people who have given fine service. I am very clear about that.

I think that the responsibility that the Congress has had which also is serious to us; with full legislation and full authority all of these years has not been exercised, you know, to the degree that you talk now about responsibility.

I would like to believe, Senator, that from this point, for instance, that some of the areas you identify and which we have identified and are working on, both in budget and in our own local government, will be supported.

I recall when we were moving into the 1974 pay increases. Again, I mention how strong you were in saying that if the Congress passes this and leaves you in a debt, you ought to pick it up, which is a part of the debt we are talking about. Even then, Senator, you were not able to move another body to even treat with that situation.

I am really concerned, because what comes out of this to a degree is that here are some areas that you have and you can take them, but I am going to take the audit and I am going to do this with it. Now,



if we are in a partnership we are in all the way. That is what we have been trying to say.

We have some people that are elected who have some responsibility. You have an oversight. I do not think we ought to debate whether or not you have an oversight or that responsibility. But there is no way that any city in this country now can function without help. Anybody ought to understand that. We are in an urban crisis. Neither you nor I brought it on. We have not even talked about inflation and the unemployment. When you begin to use CETA slots which is simply a program to help the unemployment rate, you gage them against a full-time employment. I do not know what you are getting because actually the program is designed to do what it has to do.

What I am trying to say is that I have the clear—I think I kind of left you—position that though we have these problems, there was a feeling of imposition that the only way you are going to do it is by your taking some initiative, because we were not invited in.

Now, there is no way that we can mutually function with your oversight and our responsibility without some form of partnership. I think if we clear that air, we are really getting closer to where, I think, both of us want to be ultimately in terms of the charge for home rule that you have given us and the charge that is necessarily our part of the responsibility.

You know, these are indices. I do not know that we have treated with New York really fully in some other areas. I worked with the city. I know a little about it. There are a whole lot of factors in there that we have not treated. You have dealt with some indices which you know and I know are indices. Neither the city nor the Congress has been willing to deal with them in the sense that they require a lot of money.

But the question now is: Are we ready? Or are we talking about another study, and another study, and another audit, and another audit, and GAO says, "We have been looked at more than any city in the Nation." All of us have been aware of these items. We have come forward with corrective measures wherever we can.

I think we stand today in a very sound position, because we have not only identified the items, but we were ready to deal with them. Obviously, we are going to need help. I think if we come to that point—you know, you and I are pretty close. We have never been far apart really. This has been a matter that has disturbed me in that sense, because I do not think in the 7 or 8 years I have here that we have had a course of conflict or confrontation. I do not see, in terms of where we are, that we should have it because basically we are both talking about the same thing, not only preventing a New York but keeping the city viable.

I am committed to that. I am going to continue to do it. I just think that we need the bond to help us. Now, that is where we differ.

The CHAIRMAN. We will yield at this time to Senator Mathias.

Senator MATHIAS. Mr. Chairman, I am sorry I was called away to the Committee on the Intelligence Study. I would say that the partnership that he talked about is absolutely a necessary element, if we were to make the Home Rule Act work, if we were to make the District of Columbia the kind of place that it has to be. The partnership requires communication at both ends. I think we already have that kind of communication. I just want to tell the Mayor we are ready.



Mayor WASHINGTON. That is music to my ears. I am pleased. I am ready. I think our government is ready to take its rightful role that has been assigned to it as an elective body and go forward together and make the city what we all want it to be.

The CHAIRMAN. Thank you very much, Mayor and Mr. Coppie.  
[Recess taken.]

The CHAIRMAN. Our next witnesses will be Mr. Sterling Tucker, Chairman, District of Columbia City Council; and Marion Barry, member of the District of Columbia City Council, and chairman of the Committee on Finance and Revenue.

**STATEMENT OF STERLING TUCKER, CHAIRMAN, DISTRICT OF COLUMBIA CITY COUNCIL, AND MARION BARRY, CHAIRMAN, COMMITTEE ON FINANCE AND REVENUE, AND MEMBER OF THE DISTRICT OF COLUMBIA CITY COUNCIL**

The CHAIRMAN. Mr. Tucker and Mr. Barry, we welcome you. We are pleased to have you here. You may proceed.

Mr. TUCKER. Thank you very much, Mr. Chairman and Senator Mathias.

Mr. Barry and I are very pleased to be here to represent the Council. As you have indicated, I serve as the Chairman of the Council, and Mr. Barry serves as the Chairman of our Finance and Revenue Committee.

I spent yesterday and part of Sunday night at the National League of Cities meeting in Miami and participated in some of the discussions on the kind of issues about which we are speaking today.

I worked through the night getting here to participate and getting into these hearings today.

I would like to say, Mr. Chairman, by way of a few credentials which I think I have. I have been working in urban affairs for over 25 years and much of that time with the Urban League movement. At some time, I coordinated the work of all of our cities. We have 102 cities in the Urban League. I have some knowledge of the problems of the cities. I can appreciate the concern you express with reference to them.

I must respectfully suggest, sir, as I sat here, however, I felt that I might well have been in a meeting of the City Council of the District of Columbia. I guess about 99 percent of the territory that has been covered here today has been covered by the Council with perhaps 100 witnesses—people representing a great cross section of the community, experts of various kinds, some of the same ones to whom you have referred.

We have put out a series of documents and reports that we have all examined. We have raised the same kind of critical questions of the Mayor and his associates that you have raised. All of this was a part of the consideration of the Council as a matter, for instance, of the bond issue.

I was one, Mr. Barry I am sure will support this view, and Mr. Coppie, that when the matter of the bond issue came up, I had some initial reservations. There were some differences of opinion with reference to the bond issue. But we worked them out. We worked them out under the authority assigned us by the Home Rule Act which you gave such great and important and dynamic leadership.

In carrying out that responsibility, we were functioning in a way that we thought would represent the best interest of this community.



I am going to submit my general statement for the record, if I might, and make a few comments.

The CHAIRMAN. The whole prepared statement will be made a part of the record.

[Mr. Tucker's prepared statement follows:]

STATEMENT OF CHAIRMAN STERLING TUCKER AND COUNCILMEMBER MARION BARRY, ON BEHALF OF THE COUNCIL OF THE DISTRICT OF COLUMBIA, BEFORE THE SENATE DISTRICT COMMITTEE HEARINGS ON THE RESOLUTION TO DISAPPROVE THE REFUNDING BOND AUTHORIZATION ACT, DECEMBER 2, 1975

Mr. Chairman, members of the committee, as chairman of the Council of the District of Columbia, I want to thank you for the opportunity to appear before the Committee. I am accompanied by Mr. Marion Barry, Chairman of the Finance and Revenue Committee. I must say frankly, Mr. Barry, other members of the Council and myself are concerned and disappointed at the circumstances which bring us here today. Mr. Chairman, you have been an unwavering friend of home rule. The actions which gave impetus to this hearing seem to some to be a "vote of no-confidence" in home rule and the first elected government under home rule. I don't believe you intended to leave this impression. We are referring specifically to the Committee's decision on November 21st to introduce a resolution of disapproval of D.C. Council act 1-57, which would authorize the District to issue \$50 million in general obligation bonds to refund loans of \$6 million and \$44 million made on March 31st and May 30, 1975, respectively, from the U.S. Treasury, at an interest rate slightly over 8%.

Mr. Chairman, we ask the Committee to reconsider its motion of disapproval and move positively to allow the District to move ahead on this refinancing issue.

This legislation is designed with safeguards unmatched by any other bond legislation in this country. Section 3 protects the taxpayer by establishing the maximum allowable maturity at thirty years, a maximum interest rate at 8% and, most importantly, sets a ceiling for the maximum debt service on the bonds at \$5,200,000. This could represent substantial savings to the District. Section 5 of act 1-57, the Refunding Bond Authorization Act, protects the purchaser by establishing the pledge of the full faith and credit of the District for the payment of the interest and principal of the bonds when due. This section, more importantly, mandates the establishment of a sinking fund in accordance with Section 481 of PL 93-198 (the Self-Government and Governmental Reorganization Act). The language of section 5 also clearly states that collections shall be set aside, with other revenues, in a sinking fund and irrevocably dedicated to the payment of such principle, interest and premium.

Mr. Chairman, a second major concern of the Council, which I bring to your attention, is the proposed audit to be executed under the auspices of this Committee. We do not quarrel with the audit per se. We recognize that such an audit can provide once and for all, for all interested parties, an accurate accounting of the District's fiscal status. We do take issue with the execution of such an audit by a committee of Congress.

If the Committee desires an audit, why not ask the elected government to authorize an audit and select private reputable companies to conduct it. The decision to initiate a Congressionally sponsored audit would be appropriate only if we decided not to have one, after having been properly requested by the Executive or the Congress.

Mr. Chairman, much has been said publicly over the past weeks concerning the condition of the District's finances. The difficulty with this situation is that it tends to impugn the integrity of the local officials who were elected under home rule. Curiously, however, those statements which were accurate spoke to conditions which existed long before the present elected government took office on January 2, 1975. During the past week, District finances have been constantly discussed as similar to, or close to, the New York City situation. Such statements are unfortunate.

Mr. Chairman, during the past ten years, New York City has borrowed in excess of 54 billion dollars by selling bonds on the public market. The District borrowed 900 million dollars—from the Treasury—during the same period. Put another way, the District of Columbia, during the past 10 years, borrowed 53.1 billion dollars less than New York City. Mr. Chairman, we would also note that Section 471 and 472 of Public Law 93-198 clearly defines the terms, conditions and procedures under which the District can issue revenue anticipation notes—



not at all similar to the loose legislation which governed the process in New York City.

I think it ought to be made clear for the record that the financial plight facing New York City is not applicable to the District Government.

During the past two months, much has been stated concerning the size of District's payroll and the pension funds. Mr. Chairman, we think this Committee is well aware of the various activities and actions of the Congress which have increased the size of the D.C. payroll. This albatross does not find its roots in the District Building but here in the halls of Congress. May we remind you that 10% of the District of Columbia's budget is an obligatory inheritance to pay for programs enacted by Congress in years past. The fact that the District's payroll is large is not by action of the Council. The Council very early in its tenure recognized that the District's payroll was too large for the city's revenue base. In the FY 1976 budget, the Council cut 2,000 authorized unfunded and unfilled positions; the Council continued the Mayors FY 1975 freeze; the Council also established a personnel ceiling for D.C. obligations of 35,000 full-time employees to be in effect by June 30, 1976. The Council also cut the proposed FY 1976 budget by over \$50 million and for the first time in recent history, cut into the fiscal base of the District Government.

As to the issues surrounding the Pension Funds, we would note that questions regarding the actuarially unsound basis of the District of Columbia police, fire and teachers' retirement programs have been discussed considerably over the last five years. The issue was discussed extensively during the proceedings of the Presidentially appointed Nelsen Commission. The Commission, in its 1972 report which went to the Congress, recommended that the Mayor initiate requests for Congressional action on both the Police and Fire Retirement Programs and Teachers' Retirement Programs in order that they may be placed upon a sound actuarial basis. Indeed, during the 93rd Congress, the House District Committee Sub-Committee on Revenue and Financial Affairs considered several proposals by the D.C. Government to place the employees' retirement program on an actuarially sound basis. The Sub-Committee received communications from the U.S. Treasury which stated its opposition to legislation to fund these retirement programs. Further, there was reportedly little, if any, support in the Sub-Committee or Full Committee for such proposals. Accordingly, no legislation was reported to either the House or Senate.

You will also recall that during the Home Rule hearings and debates, there were discussions in the Congress about the future fiscal viability of a new Home Rule Government with staggering unfunded liability—liability that was, at times, cavalierly granted by the Congress to organized District employees' groups. Often, these significant salary increases were in excess of those recommended by the local government which would ultimately have to bear these costs. An example of this was the granting by Congress of 16% pay increase to firemen and police as opposed to the 10% recommendation by the District Government.

A significant portion of yearly increases in operating expenses is due to Congressionally authorized pay increases. Moreover, every year, the District has to realign its budget to adjust to GS and wage board pay raises authorized by Congress, irrespective of the impact of such increases on the District revenue base. The Court Reorganization act of 1970 also imposed on the District Government a large judiciary with a large and separate personnel system.

When we assumed office in January, we were informed of these serious financial problems. The Council was, however, prohibited from taking any legislative initiative in dealing with personnel matters for one year. Specifically, Section 422(3) of Public Law 93-198 (The District of Columbia Self-Government and Governmental Reorganization Act) prohibits the District Government from making *any* changes in existing personnel systems (which include the Pension) earlier than one year from January 1975, or later than January 2, 1980. Although the Council cannot, at present, legislate in this area, our Council Committees have begun to review these critical questions. Thus, the Council is without authority to pass legislation to remedy a problem which has been with us for a long time. Moreover, we are of the view that the Congress should provide a substantial part of the revenue necessary to place the funds on an actuarially sound basis. It is our understanding that it was never the intention of the key sponsors of Self-Government to leave the District Government with the responsibility to fund these programs.

We would also like to point out that the actuarial data used by the District Government and presented to the Congress is prepared by the U.S. Treasury



Department. Thus, those who suggest that our data and charts are incorrect or antiquated should be critical of the U.S. Treasury, since this data has historically been prepared by the Treasury for the Congress and provided to the District.

Finally, we are compelled to question the rationale and focus of this hearing.

Why are hearings being held today? Clearly, we recognize the authority of this Committee of Congress to hold oversight and review hearings. We also recognize your responsibility as Chairman of this Committee. We would hope that the Committee would exercise that responsibility by coming up with a dollar solution to the financial problems which we have inherited from the Congress. These problems were known when Home Rule was granted by the Congress, and they must be addressed through special funding by the Congress, not through the District budget. Additionally, we would hope that the Committee will exercise its responsibility by enabling the city to tap the incomes of the 250,000 commuters who daily earn their living in the District and make use of its services.

Mr. Chairman, you are a strong supporter of home rule, along with other members of Congress. We realize that you would not have embarked on this course of action unless you felt there were some serious circumstances, but we trust this overview that we have presented as representatives of the Council will show that the District Government has already raised on its own the questions which concern you and has laid out a program and taken initiatives to resolve them. It seems to us that the District must be afforded the opportunity to proceed. To isolate a section of the program, namely, the Refunding Bond Authorization Act, and reject it is to deny the local government the opportunity to develop an integrated fiscally sound program where everything relates. We ask you to (1) reconsider your resolution of disapproval on the bond issue, which protects both the purchaser and tax paying public, and (2) to help establish a forum for dialogue of concerns, which reinforces self government in the District of Columbia. A Congressional audit of the District Government will be counter productive to this purpose. Such an audit, if warranted, is the responsibility of the Legislative Branch of the District Government, which stands ready to undertake it.

Mr. TUCKER. Thank you very much, sir.

I am afraid our appearance here today may appear, even to our colleagues on the Council, and certainly to the public, that we are here in defense of ourselves. I am sorry that there is that impression among our colleagues and the public. For there is nothing, as I have indicated, which has been suggested here that we have not really considered.

I believe, Senator, if you would permit me that I can understand your concern, but I think it is attached to the wrong issue. I think the concerns you have we ought to jointly explore fully. We are prepared, of course, to do that.

What disturbed me also, to some degree in the course of the dialog between the executive branch and the committee, there seemed to have been no consideration at all except only now and then by either party of the Council role in any of this except an occasional reference to it.

Yet 90 percent or more of your authority, as a legislative body, you have shared with us—with 13 people. We take that responsibility very seriously. Unless the legislature of the United States takes that responsibility which it is sharing with us very seriously, the public is not likely to do so.

It seems to me, therefore, that the confidence gap could very well grow and make more difficult the problems that we all face.

I am one who has said that I was hopeful we could get out this issue of our fiscal needs in this first year of home rule. I, therefore, welcome these hearings for that purpose.

As we started to examine our budget, when I saw that about 10 percent of that budget—part of which we had no control—it was just automatic and not much we could do about it. I realize the fiscal obligations which were upon us and would be upon us for the years to



come. Except if we correct it, this question in the first year of this local government, this government will be charged with the responsibility of the judgments of the past which will create all kinds of problems for the future and, therefore, we welcome it. We think it is very necessary indeed.

I will not detail the provisions of the bond issue, as we have set them forth, for that is well known to you and the record will show that. I hope you will be aware of the great care that we took in all of the provisions protecting the public interest and the District of Columbia government in the various provisions of that bill.

I am troubled by the constant comparisons of the District of Columbia as a government and as a city with the problems of New York City. This New "Yorkitis" which is affecting the country makes already difficult problems even more difficult for us to face. It makes it difficult for us to face realistically problems that are already upon us. There are a number of differences between our situation and New York. We could set them forth, but time would not permit this in a way that would be valuable, and I am not sure it would be prudent to try to make the comparisons.

I think we ought to note a view of the Council in its action by a majority vote considered this legislation with adequate and necessary safeguards that are unmatched with any other bond legislation in this country. I think as we study the legislation itself—not just a question of the timing of the bond—and the safeguards built therein, I doubt that we can find a bond measure that provides more safeguards than does this one.

Mr. Chairman, the second major concern of the Council which I bring to your attention is the proposed audit. I say this not because we are concerned that there be one, because we have no quarrel with an audit per se. We recognize—perhaps "audit" is not the appropriate word, but the survey or analysis can provide once and for all interested parties an accurate accounting of the District's fiscal status. I think we need this accurate accounting.

Mr. Chairman, nothing has been suggested so far that you would propose to do here that the Council could not do. You propose to hire an outside firm. The Council can do the same. You propose that certain reports shall come forward. The Council can require, and does require certain reports. Indeed at the moment, we are requiring more reports of the executive branch than either the House or the Senate District committees. I am sure they wish we would go away sometimes, because of the types of reports we are requiring of them.

So I am not quite sure, Mr. Chairman, why it is that the Congress of the United States, this body and the House, would want to exercise the responsibility of a local legislative branch. For whatever information that comes forward shall be shared by all of us and shall be reviewed by all of us.

It just seems to me that this is a function of the local legislature. It is a function that we feel qualified to carry out.

The Congress of the United States in both Houses thought it necessary that the Council have the capacity to audit the government. That the capacity be independent of the executive branch. We were provided with the machinery, but not with the ability to execute it. If there is that ability to execute this authority somewhere, then we would indeed



hope that that ability would be also transferred to the Council so that we could, in a partnership way, pursue this question.

So I am not quite sure what it is that might be done by the Senate or the House or the two jointly that the Council cannot do. It again gives the public the impression that there is something that has happened since home rule for which we are responsible and which we may not be able to analyze, which we created and which we may not be able to correct.

No legislative branch has been so persistent in pursuit of the facts and figures as it relates to our fiscal situation than the Council of the District of Columbia. We have not been asleep. We have not missed the boat. We have not fallen in our responsibilities.

Right from the very beginning, Mr. Chairman, we said that we know the city has many needs, but we all know they cannot be met. We cut the budget, as presented to the Council by over \$50 million. We had some, with the agreement of the mayor, dissent for awhile with the 35,000 limit. We plan to look at that more closely to see how much further we have. The whole cost benefit question we plan to look at further. We are analyzing employee information on a monthly basis. We are getting all kinds of reports which were analyzed.

It seems to me therefore, Mr. Chairman, I am just not quite sure what it is that the Congress wants to do that we are not already attempting to do. We simply need the additional resources.

I think our problem is probably not the issues. I think our problem is one of communications. I think that is the real gap. I think it bears looking at and it bears some responsibility in that regard.

We could get into the pension funds, but they have been discussed. We know how they got started. We know where some of the sources of the analyses were made. An example of this was the granting by Congress of—well, we know how we got into a lot of the bills that we faced. We recognize that a significant portion of the yearly increases in our operating expenses is due to actions of the Congress. There are ways in which it can be corrected.

What I would hope, Mr. Chairman, that you would permit us to do would be to share with us those tools that are available to conduct the survey, or the audit, if you will. Let us have the resources that are necessary. We want this as desperately as you. We think it is necessary. It can be extremely useful to all of us. And we are prepared to move forward with that responsibility which we think perhaps rightfully at least it ought to begin. We would like to be able to continue the work that we have already started in City Hall.

There are areas, of course, in which we cannot legislate. I think we ought to isolate those areas. It seems to me the prudent way to begin is for us to sit down together, as a subordinate legislative branch as we are, but together with you and the executive branch to look at what it is we can sort out the issues we would want to look at, and plan an approach to them, and to identify the various roles that each can reasonably play. We are prepared to do that. We would like to proceed in that way. We would like to have a chance to think it through on that basis and to help structure whatever that study or that relationship shall be during that course; so that the Council shall have its rightful role and it shall have the same opportunity to mature as a legislative branch, as any other governmental body with responsibilities such as we have.



Mr. Chairman, you have always been a strong supporter of home rule. There is no doubt in anybody's mind about that. Your leadership in that regard has been admirable. Your support for the government of the District of Columbia has been admirable. I personally have deeply appreciated your concern which I know is real and sincere. Therefore, I know that you will respectfully consider the suggestions which I made here today—ways in which we can strengthen this partnership role, so that you can help build confidence in this new government, and you can help build strength in this new government, so that less and less of your time will be necessary in pursuing its work.

Finally, I will say, Mr. Chairman—I am repeating myself, but I am happy that the issue about fiscal needs over the years is on the table and out in the open. I hope that we can proceed in examining these in such a way that the whole community can have an opportunity to participate so that we can all better understand the problems we face and the sacrifices we must make and to the decisions that are hard and tough that are ahead.

We respectfully urge that we proceed, however, with this limited issue. If the time is not right to go to the market, the market will soon let us know this. If the time is right to go to the market, then we will indeed be effecting some of the cost-saving measures, as you suggested we ought to do.

I would urge, therefore, that let the judgment of the Government go forward in this case. We can assure you that we will follow this situation and others very carefully. We urge your earnest support and consideration of these matters.

Mr. Barry may have some remarks he would like to make.

The CHAIRMAN. Mr. Barry.

Mr. BARRY. Mr. Chairman, I would just like to offer my support for the points outlined by the distinguished Chairman of the Council, Mr. Tucker, on behalf of myself and other members of the Council.

I would like to point out a few things, Mr. Chairman. As Mr. Tucker has pointed out, the City Council is in its 11th or 12th month now—it is 11 months old, January 2, 1976. If you will look at our record, you will find that the Council has taken quantifiable and concrete steps to improve the efficiency and effectiveness of the District of Columbia government.

I ran for the Council last fall because I wanted to be a part of the solutions concerning the problems. I worked very hard to get the chairman to recommend my appointment as Chairman of the Finance and Revenue Committee, because I wanted to be in the area which you talk about.

Last spring, the Committee on Finance and Revenue recognized the need to examine our entire revenue base and our revenue projections for coming years. As a result, we set into motion some machinery. I personally recommended to the Committee and to the Council that we establish a Tax Division Commission.

Such a commission was established on November 18, 1975. This commission will be composed of a cross section of distinguished citizens and D.C. government representatives. This we did, again, when the question publicly arose from the Congress about our revenue base.

Additionally, as the Chairman has pointed out, we were very concerned about the high cost of government and the high number of



people on the government payroll. I happen to sit on the Budget Committee of the Council. That committee examined and spent many hours looking at the District of Columbia budget.

What has come out this morning, I would say 98 percent of what you have raised, what the Mayor has raised, what the reports have raised, those of us on the Council who were dealing with the budget knew those things. I cannot think of hardly anything new which came out this morning that we did not already know.

In fact, as Mr. Tucker has pointed out, we did recommend to the Council, and we did get into law the fact that we should be down to 35,000 by June 30, 1976. I happen to think we can make that. There is some slight disagreement as to whether we can, but I think we can.

But more importantly, Mr. Chairman, we get a monthly report from the Mayor. I have those reports which not only talks about the past, but it gives us a specific breakdown of everybody who was hired on the District of Columbia payroll and what position. It means that we can examine those decisions in terms of freezes and exceptions.

But more importantly, Mr. Chairman, in the spring of this year, the staff of the Budget Committee was directed to draft a resolution on the budget and accounting for the District of Columbia government. The staff submitted such a draft on November 14 of this year. The draft contains items which fall into the following major areas concerned: the annual budget review and finalization process; other Council budget actions; reprograms and redirections; the content of the annual budget documents, the information to be provided for Council use; financial controls in the District government; expenditure management control; periodic reporting requirements throughout the year; and finally, there was a provision for an annual post audit.

Again, Mr. Chairman, these things came forward before any mention was made of our bond issue that has come before us now.

As you will note, point 7 does call for a post audit. This is something that the Council had taken the initiative in looking at. The executive had agreed we ought to proceed with these procedures. A number of those procedures are outlined. I will just hit on a couple of them.

One is that we are proposing that the Mayor submits a monthly report on expenditures as opposed to obligations which means we can keep track on a monthly basis of where we are going and what is happening.

The same thing is true with the expenditures. We want a statement of cash receipts and disbursements for the city.

I am giving these as just examples of what the Council and the staff in conjunction, quite frankly, with the executive with trying to come up with—or to move ahead with the 9 or 10 months that we have had.

Then the other question which has been raised, again, New York is always brought up. If you will read the official report, you will find that one of the problems they had was that the revenue estimating was off. They would estimate they would get \$4 billion in an area and they would be off by \$200 million, or something like that.

I would like to share with you, Mr. Chairman, our record in terms of the Finance and Revenue Department. For instance in fiscal year 1973, this is a general revenue fund, they estimated we would receive \$471,555,000. The actual amount that was actually received



in fiscal year 1973 was \$470,592,000, a difference of \$958,000 which is less than 0.2 of 1 percent off.

For fiscal year 1974, the Department estimated we would bring in \$499,000 in our general fund. The actual amount was \$499,717,000 again, off by less than 1 percent.

The same was true for fiscal year 1975. The estimate was \$514,555,000 and we brought in \$514,117,000.

But more importantly let's get to the property tax situation. The department estimated in fiscal year 1973 that we would bring in \$134,800,000. We actually brought in a little bit more, \$135,012,000. Again, a difference of less than 0.1 percent. I could do it for 1974 and 1975. You see consistently that our revenue estimating has been basically in line with what we have projected.

I have one or two more questions and then I will stop. That is the question of the marketability of the District bonds. Mr. Chairman, it seems to me that if that is a question, we ought to bring into these hearings some municipal bond experts. I am not a municipal bond expert. I am learning very quickly, but we ought to bring those persons into these hearings who deal daily in the market and ask them what they think about the general market conditions, about the District's possible entry into the market.

It is ironic. The same day that you introduced the resolution for disapproval, four members of the Council, Mr. Dixon, Reverend Douglas Moore, Mrs. Shackleton and myself were in New York. We were keeping a previously scheduled series of meetings with the financial community. We spent a great deal of time with our bond counsel who is among the top bond counsels in the country—Sykes, Galloway & Dikeman—in a joint venture with Hudson, Leftwich & Davenport.

We spent a great deal of time with our financial advisers, First Boston which, again, is among the leading investment and underwriters in America. The chairman of the board of First Boston met with us and talked with us about the District. We met top officials such as vice presidents and presidents of the First National City Bank and Morgan Guarantee Bank, and Salomon Brothers which, as you know, Mr. Chairman is among the top underwriters in the country. I think it is second or third behind a couple of more.

In all of these instances these persons while not committing themselves specifically to the District, indicated a desire to work closely with the District and to insure that syndicates would be formed to bid the District bonds, and that the District would enter the market under the most favorable conditions possible.

So with all of that information, Mr. Chairman, it seems to me that they ought to come down before you conclude these hearings this afternoon or tomorrow and ask them to come and get a judgment from them. They are in the market every day as opposed to our own judgment being imposed.

Finally, Mr. Chairman, the question is in my mind of what do we do to move ahead? I get the feeling sometimes, and I try to be very objective about this, and I try to look at it, but I get the feeling occasionally that we have already been convicted. It is just a matter of going through the trial to assure that due process is there and everything is happening, but at the end we are going to be found guilty. I think we ought to look at it in just the reverse.



Let the City Council conduct the audit. Let the facts stand for themselves. I think, if we took that approach, we would then be in a much better light.

Since last Wednesday—Mr. Chairman, we talked to you on Friday—I have had a number of citizens call me who did not understand why it was necessary, for instance, to read about this in the papers as opposed to us having gotten it first. So I would hope in the future we will work out the situations where all of us will know what is going on and work together for solutions.

I have some very specific ideas about some of the questions that you raised concerning the pension fund, as well as others. I will just stop at this point and say I hope we can get the situation in a frame of reference where there is no indictment made beforehand. Where we are looking at it objectively and openly and then go from there.

The CHAIRMAN. Thank you very much, Mr. Tucker and Mr. Barry.

Let's first identify some things upon which we have agreed. I think there are some things upon which we agree, and then there are things on which, I think, we disagree.

We agree that the financial problems that have been discussed here today between myself and the Mayor are problems that predated home rule, the classic example, the pension fund and the indebtedness. The great bulk of that \$1 billion indebtedness was prior to home rule. What I think to be an excessive payroll in large measure predated home rule.

I think we can also agree that, even though these things may have predated home rule, the Congress has oversight responsibility over the financial affairs of the District, The Council, the Mayor, and the Congress all have a responsibility to try to cope with these problems—as serious as some of them may be. I think there is an agreement there.

I think there is an agreement, and you gentlemen can correct me if I am misstating it, that some of these problems are substantial, not overwhelming but substantial, that require some action. For instance, the increasing debt, it is now \$1 billion, in 6 years from now it will be almost double that, \$1.9 billion.

In 2 years already you have deficits, \$3.5 million, \$45.5 million, and \$40 million for fiscal 1976. That was Mr. Coppie's estimate.

You have escalating unfunded pension benefits. We discussed that. That is a real problem.

Excessive number of employees, Mr. Barry points out the Council will attempt to impose a 35,000-employee ceiling. The current employment in that category is 36,500, but that does not reflect the total employment in the District. It was brought out before that the total funding for the District, as Mr. Coppie pointed out, was 49,500. If you add in others for comparing purposes it gets up pretty close to the 55,000 that Dr. Muller uses in his comparative analysis in which transit employees are included.

Decline in population of the city—we both recognize that. That is a problem in terms of future fiscal projections and the like.

So I think we are in agreement that there are problems. Now, is not only a preferable time, but now is the time for Congress, the Council, and the Mayor to provide remedies to cope with them.

We even agree on the audit. Mr. Tucker said he was supportive of the audit concept. He wants it done by the City Council. That is the City Council's prerogative. We agree at least on the need for the



audit. Maybe we are not in total agreement on the implementation of that.

We have some differences, Mr. Tucker. Why is it if you agree, and feel strongly that there is a need for the audit by an outside independent firm, did you keep that within your bosom until such time as I suggested it publicly?

Mr. TUCKER. I did not see an issue that needed to be made public. We just established the auditing section under the Home Rule Act. They have been working on the budget. We had moved in our Financial and Revenue Committee along the lines, as indicated by Mr. Barry. We were moving progressively to a consideration of a lot of things, including the postaudit of the books. We just simply had not made it a public issue. It was just a part of our overall program.

That is why I say that communication is probably the major problem here. Had there been adequate communication, I think you would have seen that we are going along the same lines. We recognize this need to understand more fully the exact nature of our fiscal affairs and where they are headed, and what the likely results are to be. We recognize this is very important.

A major consideration would be how to fund it. Every dime that is in our budget, that we know of, is accounted for now. I think that is the issue. It is a part of our overall plan. We have laid out a work plan for this finance and revenue field which includes this, but we just have not made that particularly an issue. It had not been highlighted in any way except in the committee, but not public in any way.

Mr. BARRY. Mr. Chairman, I think in addition to that, a number of people have a great deal of distrust in government in general, including the Congress of the United States.

The CHAIRMAN. I think we come next to used car salesmen.

Mr. BARRY. Right, which is sort of bad.

The CHAIRMAN. That is what the polls show.

Mr. BARRY. Mr. Chairman, as you may recall, we received the budget on March 10. We did have some initial disagreement with the executive. No executive generally would want you to cut the budget, otherwise they would not have submitted a budget in the form with which they wanted you to do it. We tried to keep as much of this dialog back and forth out of the newspapers, because we think they tend to distort things. They take the negative as opposed to the positive.

As I point out in my statement, last spring we started working on this budget resolution. We did include a postaudit provision in it. The committee has discussed this on at least three occasions prior to November 14, before we got our final draft as to what it says. It is about a 30- or 35-page document which we plan to bring to the Council.

We have not brought it publicly, because we have tried to work with the executive without appearing to be raising issues and more distrust there until we can get it rolling. As Mr. Tucker said, the real question is money. We had asked our auditor, for instance, to do some auditing for the Department of Resources during our discussions in the summer. He points out that it would take him over a year with the limited staff he had just to do that little part. We are working on it and trying to get it going.



The CHAIRMAN. That would be your city auditor?

Mr. BARRY. Mr. Watson.

The CHAIRMAN. So you understand a very substantial undertaking such as an audit of the city's books, and sometimes referred to as a post-audit, cannot, under the present staffing, be effectively done by the city auditor?

From a purely pragmatic point of view in terms of number of personnel and expertise, it would have to be done by an independent auditing firm.

Mr. BARRY. Mr. Chairman you and I agree, of course, with that point that the city auditor ought to have some role in that.

The CHAIRMAN. Absolutely. We are going to meet tomorrow some time with some auditing experts both inside of Government and outside of Government to consider the scope of the audit. We have provided for Mr. Watson to come. I understand he is going to be here. Mr. Coppie and his staff may participate. The General Accounting Office members will come. We hope that all of them will come and participate in the design and construction of the audit.

Mr. BARRY. Mr. Chairman, have you ruled out the suggestion that maybe we ought to reconsider how this audit gets started?

The CHAIRMAN. I am going forward with phase I of the survey, which is a prelude to the audit. The ultimate audit itself will be in three phases: Phase I is the overview, the prelude, that guides us as to the scope of the complexity of the actual audit itself. I am committed in my own mind to going forward with that and will, with the approval of the Senate Rules Committee.

What we will do with later stages—we will cross that bridge when we have finished phase I, which will take 8 to 10 weeks from the time we start.

Insofar as funding is concerned, this is one area in which we can save the District some money. I think I have the possibility of seeing to that if a full-blown audit is conducted, which could cost thousands of dollars. We have some very broad estimates: as low as \$500,000, the highest being \$750,000 or more. We would not take this out of the District of Columbia funds at all.

In fact, it is my intention to move forward to phase II. I think phase I will compel us to go forward.

But be that as it may, we hope it can be done with other funds, rather than taking it out of the District of Columbia appropriations.

Does that appeal to you in the sense of a financial saving?

Mr. TUCKER. That appeals very much, but it begs the basic question however. I think the initial responsibility is ours, because I do not see that as an oversight function in supervising an audit. It seems to me that that ought to be a function of the legislature which you created. It seems to me for just such purposes, that you would review the actions of the work and the process by which that work gets done.

Mr. BARRY. Mr. Chairman, I think that is important for this approach in the sense that there are some cities which supervise their own audit. That independent CPA firm, or GAO, are going to be influenced by who they do it for in a sense that if the city asked them to do it that they are going to cover up something.

As you know, CPA's often audit corporations at the request of the corporation. They have to put their name on the line. Their credibility and their professionalism goes beyond any one city or any one person.



So I think the idea here is that even though we have raised the problems about the city and its problem, someone might assume to not let us supervise it, because they might think we are going to try to do something with it or cover it up. I think that is far from the truth in the sense that CPA firms or the GAO, have that credibility there, too. They are not going to mislead or tell lies about what they see and do not see. That happens in a lot of cities where States jointly, as you know, join in either paying for it or joint partnerships. I think here we have ample precedence around the country.

I could very well understand the problem of GAO not having done these audits before. They are not in the municipal auditing business. They audit Federal agencies. That is what Mr. Coppie has talked about.

I do not have a serious problem with an independent audit, but I think it ought to be put in the context that GAO has not had any experience of any magnitude in doing these audits, because they do not audit municipal governments.

The CHAIRMAN. So this, in a sense, is beyond the scope of responsibility of GAO. That is what we are talking about in phase II, whether to have an agency audit or a postaudit of a municipal corporation. GAO has never done such an audit. I think, in due time, it perhaps could do it.

Secondly, GAO is most anxious that an outside firm be utilized to design the new fiscal reporting techniques on a separation of powers basis. They do not want to be in on the design of the new techniques, the new procedures, et cetera. They want that to come from outside sources, because they reserve the right to say, "We reject it. We do not like it. We do not think they are good enough," et cetera.

They definitely want an outside firm to design a technique. As they pointed out in their letter to Mayor Washington in September, for the last 3½ years they have been quietly urging that the District of Columbia government get an up-to-date, modern, representative auditing system installed.

Mr. Barry, you mentioned that I was already judging the situation. Oh, yes; I am. I have not tried to appear here in a nonpartisan, disinterested capacity, any more than when I introduced the home rule bill. I brought it to this committee and then conducted some hearings on it. I was a partisan participant in that bill.

Some of the witnesses testified against the bill and said I had already made up my mind. This frequently happens in Congress where a Senator, be he a chairman of a committee or a subcommittee, introduces a bill in the legislative area. It goes to his committee and he conducts a hearing. It happens more often than not. Senator Kennedy introduces most of the medical manpower legislation with his Subcommittee on Health, et cetera. There is nothing new about this.

Also, Mr. Barry, you mentioned the bond underwriters, the bond counsel, et cetera, that you and other members of the Council met with in New York, the very day I introduced my resolution. You know, of course, that the bond underwriters and the bond counsel, and what have you, still make their money when and if the bonds are sold. They are most anxious when you go into the bond market, because that is when they get the green stuff back.

Mr. John Mitchell was a bond counsel. He was paid, before he got into the Federal service, when the bonds went to market.



I have dealt with underwriters. I have dealt with bond counsel when I was in the State government of Missouri. They will paint the rosiest possible picture because the dividends, insofar as they are concerned, come only when the bonds are marketed.

Buffalo's bonds, for instance, went to market and there was nobody there to buy them. There was double sadness in the city of Buffalo, because they were not sold, and an even greater grief in Wall Street among the bond counsel and the underwriters. They shed lots of tears over the fact that they did not score.

I am not for a bond counsel or a bond underwriter subsistence act. They can take their chances with such advice that they gave to the District, to go to the bond market for \$50 million in bonds, at the shakiest time in modern municipal bond history. I suggest that when and if you ever go to the bond market again, get new counsel and new advisers, because they were aiming you down the primrose path. You were victimized, I think, by very, very poor advice, not only as to the amount of the issue but as to the timing of the marketability.

As part of this picture, this is just the opening wedge in District of Columbia bonds. This is the first issue at \$50 million. If this goes and is marketed, \$100 million will come on the market for capital improvements or in part refunding a debt.

You do not have to be much of an expert on finance at the present time to know that the District of Columbia cannot sell \$150 million in bonds in today's market. There is a very easily achieved saturation point. The \$50 million being the first issue followed up by \$100 million will severely overtax the market. That is my opinion. I hold it most sincerely and I hope I hold it somewhat professionally.

Mr. TUCKER. Mr. Chairman, may I make this one observation? In terms of the projections for the future, the Council has really made it very clear that we are considering this one at a time. The only one we are considering right now is the one for \$50 million, as you know, to retire certain obligations that we currently have.

We have made no judgments in the Council as to what should happen after this one. At the time that that matter comes up, we will consider it in the same very thorough way that we have considered this. We really have made that very clear in the Council that this is the only one we are considering right now. This is the only one we have in mind. We will review each one as they come along. We will exercise the greatest scrutiny and use the best judgment then, as we did now, when those matters come up.

The CHAIRMAN. You heard my exchange with the Mayor on the anticipated borrowing habits of the District for the next 6 years. They averaged in the first 3 or 4 years \$200 million or thereabouts, and it was to tail off to about \$100 million in 6 years. There was a mix insofar as the programmatic planning for the District was concerned—which means borrowing from the Treasury.

The Mayor has said that there is \$600 million in already authorized capital projects that need to be funded and \$300 million in new ones.

So the anticipation by the Mayor and your anticipation may not be the same, but the anticipation of the Mayor in the foreseeable future is to go to the bond market.

As it was explained to me, part of the reason in going now was to try to get an attractive enough rating to make the subsequent issue of the \$100 million more attractive and to establish a track record.



I submit to both of you gentlemen, and the Mayor, when all of this is said and done a year or so from now, and the city's records are kept in accordance with generally accepted accounting procedures, I think the District of Columbia's ability to go to the market at an attractive interest rate will be significantly enhanced. Or, to put it another way, I think you will be going to the market in a better posture a year or two from now than you would be going today without the accredited and recognized fiscal procedures to be part of the underpinning of your bond offer.

Mr. BARRY. Mr. Chairman, the point you made about our bond counsel and financial advisers—I disagree with you on it. But assuming what you say is true, that they are all wet and everything, et cetera, the act itself protects the District of Columbia very clearly. It says, and you may differ on whether it means 8 percent, but at least it says in the act itself which we have here that the Mayor has to reject those bids, if they are over 8 percent. That was what was going on then.

Not only that, Mr. Chairman, the act very specifically limits the amount of annual payment which can be made from the District of Columbia Treasury to retire those bonds. Assuming they are wet, or they are not right—I do not agree with you on that—but the act itself protects the District. It protects the taxpayers and the Congress from this bad advice.

The CHAIRMAN. You have to protect, Mr. Barry, the purchasing public. Now, there will be sophisticated purchasers: Banks, insurance companies, and the like. They can take their risks. But there is a thing called the public at large. You have seen them on television. These nice elderly couples who run grocery stores. Did you see on television one night a couple whose whole life savings were in New York City bonds? The bonds had been pushed by these very same underwriters that you mentioned.

First Boston Corp. became publicly disenchanted with New York, but all of the big ones—Salomon Bros.—all were in the conspiracy of silence. The Secretary of the Treasury, Bill Simon, was their top municipal bond salesman. I do not know where he will go after he is Secretary of the Treasury, but if he gives Salomon Bros. the same kind of advice he is giving the President of the United States, Salomon Bros. had better beware.

They were all in on this. These are pretty knowledgeable people. They can make a buck. The innocent purchaser who buys bonds, sometimes cannot protect himself. I will try to protect him as best I can.

Mr. BARRY. Mr. Chairman, can I make one more point before we leave?

The CHAIRMAN. Yes.

Mr. BARRY. That is the question of employment levels. It is true, I guess, the Council could have moved and the Mayor could have moved to fire thousands of people. But I think it was a policy decision of this first year of home rule—and a lot of reasons—we wanted to get into a no-RIF situation. We wanted to try to bring this level down through some kind of normalcy as opposed to a situation where all of a sudden you fire 5,000, 6,000, or 7,000 people.

As you know, Washington is unique in a sense that we do not have industry here. We do not have anything here except the Federal Government and the District Government which owns 55 percent of the land.



So it was a policy decision not to do it that way. I think we made a right decision in not firing this first year thousands of people, particularly when we can afford in a normal way, through attrition, to move ahead and keep them on the payroll. And they are doing productive work. It is not like they are sitting on their fingers and hands and not doing anything.

I think that it is important to note that we knew we had a problem in that area. But how do you solve it and how do you move ahead so that you do not disrupt the livelihood and lives of thousands of people who depend on this government for some kind of direction? I do not think any of us want to do that. I am sure with our plan we can get down to a point we all would like and people could normally adjust in this situation.

I think you ought to know that we are aware of it, but as a policy decision we did not fire anybody. That is important.

The CHAIRMAN. Thank you, Mr. Barry and Mr. Tucker.

Mr. TUCKER. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness will be Robert Reischauer of the Congressional Budget Office. He has prepared an analysis for us. I identified Dr. Reischauer earlier, when Mayor Washington was testifying, as the author of the CBO's report on New York City.

I want to repeat for the record what I said then. It is the best single document that has been prepared on New York City's fiscal crisis, and was prepared under Dr. Reischauer's direction. He will be accompanied by Ms. Adele Jackson, principal analyst.

We are pleased to have you testify before the committee this morning. Your full prepared statement will appear in the record at the conclusion of your testimony.

**STATEMENT OF ROBERT D. REISCHAUER, SPECIAL ASSISTANT TO  
THE DIRECTOR, ACCOMPANIED BY ADELE JACKSON, PRINCIPAL  
ANALYST, CONGRESSIONAL BUDGET OFFICE**

Mr. REISCHAUER. Mr. Chairman, I appreciate this opportunity to appear before the Committee on the District of Columbia.

The Congressional Budget Office, at your request, is preparing a short background paper that both summarizes the broad fiscal trends that have affected the budget of the District of Columbia and discusses the forces that are likely to influence the city's fiscal position in the decade ahead. These issues are of relevance to the new congressional budget process as well as to this committee for in recent years the Federal payment to the District of Columbia has increased significantly.

It is clear that we are at the beginning of a new era for city finances. The New York City crisis has changed the ways in which we evaluate the fiscal practices of local governments. For years these practices were of concern to only a few, now they are front page news. Questions are being asked that were rarely, if ever, raised in public forums before and a general reassessment of past positions and practices is taking place. The public is demanding to know whether there is fiscal gimmickry in their city's budget and whether the commitments are being made today that are beyond their city's long-range fiscal capability. In short whether they are headed down the New York City road.



Although definitive answers to these particular questions with respect to the District of Columbia are not yet available, I would like to focus my remarks on some of the issues that increasingly will have to be faced by the District of Columbia in this new, more open era of municipal finance.

One of the foremost of the new questions is "What is the long-range or intermediate-range budget outlook for the city?" Few local governments in the United States are in a position to respond to this question with more than a shrug of the shoulders. Fortunately the District is an exception, for under the charter it is required to submit a multiyear revenue and expenditure plan. The city should be commended for the straightforward and competent manner in which it carried out this mandate. However, the picture painted in these reports is far from optimistic. Outlays for existing and planned programs are projected to grow by some 12.6 percent per year over the 1976 to 1980 period, while revenues from current authority are expected to rise by only 5 percent per year. If this scenario is played out a gap between anticipated expenditures and revenues of \$509 million would exist in 1980. The tremendous magnitude of this gap is best illustrated by noting that to close it would require a hike of 64 percent in the anticipated 1980 revenues that are controlled by the city or a reduction of 31 percent in expected city expenditures. Or, to put it another way, the source gap extrapolated to New York City's population would be roughly \$5 billion as compared to the actual gap of \$800 million that faced New York City this year.

The size of this projected budget gap, of course, is dependent upon the assumptions that are used concerning the overall rate of inflation and economic growth.

Fortunately, however, we are not left to guess about the sensitivity of the budget gap to economic conditions. The District of Columbia estimated the size of this gap using a more pessimistic and a more optimistic view of the economy than that contained in the figures I have just cited. Under the former the gap in 1980 widened to some \$660 million, while under the more rosy scenario it narrowed to \$390 million. The conclusion that arises from this analysis is that even an unexpectedly strong economic recovery will not obviate the necessity for the District of Columbia to make some very difficult budget choices in the near future.

Potential investors in city bonds are going to want to know how the city and the Congress are likely to close the budget gap, questions that can be answered only by the city and this body, not by analysis. Are taxes going to be raised? If so, which taxes? Are Federal grants going to be increased? Is the anticipated growth in spending going to be reduced? If so, what categories of spending will be cut?

Given answers to questions like these, economic analysis may address the issues of the effects of such changes on the long run economic viability of Washington and its ability to attract businesses and tax-paying residents.

A second question that increasingly is being asked of cities is "What liabilities do you have over and above the obvious obligation represented by outstanding debt?" In the District of Columbia, as in many cities, the unfunded or underfunded retirement programs for public employees represent the city's major liability.



The District government administers three retirement programs which cover approximately 36 percent of its work force. The largest of these is the Metropolitan Police and Fire Retirement System. This system is operated on a pay-as-you-go basis: In other words no reserve has been established to help pay for future pension benefits that are being earned by current employees. Employee contributions are applied to the city's general fund and benefits are paid out of current revenues. While this is the least expensive method of operating a pension system in the short run, pension liabilities will continue to mount under this method and will represent an increasingly large drain on the city's budget. The two other systems—the Teachers Retirement System and the Judges Retirement System—are partially funded. The Teacher Retirement System has a fund valued at \$59.2 million into which employee contributions and investment earnings are deposited and out of which retirement benefits are paid. The District of Columbia pays into this fund the amount needed to maintain it at its current authorized level. However, as long as this level remains constant the system's liabilities will increase faster than the capability of the fund to meet them. The Judges Retirement System is by far the smallest, with a fund balance of slightly under \$1 million. Retirement benefits for judges are paid out of an annual appropriation by the city; contributions by judges are paid into the fund and survivor's annuity payments are made out of the fund. Since the contributions and investment earnings of this fund exceed the annuity payments the fund balance grows from year to year but not sufficiently rapidly to reduce the size of the unfunded liability.

In total the unfunded liability of the District's three pension systems was estimated by the District of Columbia to be between \$1.16 billion and \$1.56 billion at the end of fiscal year 1975. If current practices are continued these liabilities will grow by some 17 percent by fiscal year 1980.

In effect these liabilities represent the accumulated consumption of services by yesterday's and today's populations that will have to be paid by tomorrow's taxpayers. If these liabilities represented a fairly constant sum and if the economic base of the city were expected to grow apace with the economy the existence of these obligations would not be cause for a great deal of concern. However, this has not been the case and therefore in the District of Columbia, as in many large cities, the fraction of each tax dollar consumed paying for yesterday's services in the form of unfunded pension benefits has been growing. This cannot help but reflect upon a jurisdiction's desirability as a potential place of residence or business, for most taxpayers like to pay for the services they are actually receiving, not for those consumed by previous generations.

The District of Columbia has elaborated a number of ways in which the unfunded liabilities of the retirement programs can be reduced gradually over a proper period of time. Therefore, there is no reason why this situation cannot be handled in an orderly fashion but the hard decisions on how it is to be handled have yet to be made to date. To the extent that a solution requires the District of Columbia to increase its contribution to the retirement systems the size of the budget gap that was discussed previously will be increased for this gap assumes a continuation of current pension practices.



While not of an identical nature to the pension liabilities, it should be mentioned that both Metro and the city's capital improvement program could prove to be claimants on more of the city's future resources than anticipated in the city's intermediate term expenditure projections. With respect to Metro there is still a great deal of uncertainty regarding how much of the system will be built, how much that portion which is built will cost and how large the operating deficit of the rail and bus systems will be allowed to grow. If the experiences of other cities tells us anything it is that even the most carefully made capital and operating cost estimates for mass transit systems are usually far too low.

In keeping with the mandate of the Congressional Budget Office to provide the Congress with nonpartisan analysis of matters affecting the Federal budget, I cannot make a recommendation concerning the advisability of the District entering the municipal bond market at this time. The immediate needs must be balanced against the less palpable dangers. In closing I would like to touch upon the conflicting considerations that should be weighed in making such a decision.

On the one hand the unsettled state of the municipal bond market would seem to indicate that now is not a propitious time to stage a premier. The New York City crisis has had an undeniable effect. Many investors have begun to question the security and stability that municipal bonds were once assumed to provide. The thought that tax revenues may be used to support essential services in New York while payment of interest and principal on bonds and notes is delayed has many investors asking what a "first line" on tax revenues is really worth.

As a result of these changed attitudes as well as the high volume of municipal issues interest rates in the tax exempt market have risen to high levels relative to those in the taxable market. Thus the advantages of the tax exempt market may not be as great as normal.

Of course, from an individual issuer's perspective, overall market conditions are less important than the specific rate you face and clearly there is a tremendous variation in the rates municipalities are paying today.

No one can predict how the District of Columbia would be received if it entered the municipal bond market at this time. However, several of the patterns that are in evidence in this market do not augur well for the District.

For one thing large central cities in the Northeast and Northcentral regions appear to have been forced to pay extremely high interest rates recently because of their actual or superficial resemblance to New York City. The District of Columbia could well find itself tarred with this brush as well. Without a history of familiarity with the city, investors may incorrectly assume that the 1 year cash imbalance of \$69 million reported by the District of Columbia Municipal Research Bureau, represents the same sort of fiscal dilemma that faced New York City.

Another pattern that seems to be in evidence in the municipal bond market is the flight of investors toward quality issues.

It is not clear how this trend would affect the District; the backing of District debt with the Federal payment and the knowledge that Congress is taking an active interest in the city's budget situation may



offset any investor hesitation arising from the central city type economic problems afflicting the city and the awareness that, relative to other cities, Washington has a considerable amount of debt outstanding already.

While the uncertain situation facing the bond market would seem to urge a policy of delay and restraint, there are considerations on the other side as well.

(1) There is the possibility that debt service costs could be reduced if the limited bond issue for January alone is considered and if the rate paid by the District is below that currently paid to the Treasury. This could free up revenues to reduce the city's fund deficit.

(2) The projects to be funded may be badly needed and postponement may hurt the city and its residents.

(3) Delay may have financial costs. If capital projects that must be built are put off not only will inflation force up the eventual cost of completing these projects but also a cost will be incurred by District residents in the form of delayed or foregone services.

The decision before this committee is a complex one, but you and the city are to be commended for facing these issues squarely and openly in a way that insures that whatever problems the city may have in its future they will not be as they were in New York, the result of a reluctance to face difficult issues in a timely manner.

Thank you.

The CHAIRMAN. Thank you very much, Dr. Reischauer and Ms. Jackson. You have fulfilled the responsibility of the Congressional Budget Office. You are not to come before the committee and say you have to do this or you must do that. The principal purpose of the CBO is to lay out intelligently the various options that are available in making a decision.

You did so extraordinarily well in the New York analysis for a decision that Congress had to adopt, but you laid out several possibilities that go into a difficult decision. You have done that in this document.

You stated extremely well the preconceived notion with which I came in this room this morning. You stated very well the arguments that Mr. Coppie, the Mayor, and Mr. Tucker would make for the District of Columbia. You have done an excellent job.

I want to keep you in that posture. Let me ask you a few questions. Is it fair to say that the increasing debt posture of the District of Columbia, which is \$1 billion now and going to presumably \$1.9 billion in the next 6 years, is a substantial increment in debt and cause a concern in District of Columbia finances?

Mr. REISCHAUER. In the area of municipal finance, everything seems to be relative. A lot of figures which have been brought forward today are of the form of comparing the District of Columbia to New York, San Francisco, and St. Louis. Obviously, a 90-percent increase in outstanding debt over a 6-year period is a large increase, but how large we think it is in the year 1980 or 1981, will probably depend largely on what happens to New York City in these other areas. We will once again be comparing outstanding debt from one city to another.

While I will say it is a large increase—I think Mr. Coppie said that it was a large increase or magnitude that occurred over the last decade or so in the District—whether we judge this to be unreasonable will really depend on what other governments do over this period.



The CHAIRMAN. What about the same analysis of the deficit of the District. You mentioned it in your prepared statement of a cash balance deficit of \$69 million or an obligational deficit of \$45 million, but if this goes on for 3 or 4 years continuously, then is it not a problem of concern?

Mr. REISCHAUER. Yes. It is a problem of concern.

The CHAIRMAN. You mentioned the escalating unfunded pension benefits. I need not ask you about that. That is a gigantic problem for the District. It now costs them \$46 million or \$48 million a year under this. That zooms up. As these balloon out, by the year 1990, they will take a staggering toll on any governmental budget, will they not?

Mr. REISCHAUER. Yes; they will. There is a fundamental difference between the situation facing the Federal Government and that facing New York City, the District, or any State government, and that is the Federal Government's budget position will be as strong as the Nation as a whole. But within individual jurisdictions you have the problems of the ebbs and flows of regional economic activity. You have declining States, declining cities, in which people are faced with extreme tax burdens caused largely by paying for services rendered in the past. It will affect their decisions on where to do business.

I think they then would also turn back and reflect on the economic base of the city as a whole and its ability to meet those obligations that it has.

The CHAIRMAN. In all fairness, would not you surmise that there are too many cities in the United States that are in a posture very close to Washington, D.C.?

Mr. REISCHAUER. Yes. The District is not unique, but neither is the situation of coming to grips with this problem. It is one where we are going to see more and more investors and people concerned with municipal finance demanding that large city pension systems be gotten under control.

The CHAIRMAN. This committee has a unique responsibility, it is the duty of the District of Columbia Committee, of which I am the Chairman, to approach this problem more broadly.

I am convinced the problems of the cities will remain the number 1 problem for the rest of my lifetime in the United States. It will affect the whole gamut of human living; schools, hospitals, transportation, housing, nutrition, health care services, et cetera.

The problems that the District faces are shared by many other cities. I am not going to draw out a recommendation from you. That would spoil your overview neutrality—but I will give mine.

I think, for instance, when we get to revenue sharing, as much as I like to see money go to my State capital, and other Missouri cities, that we are going to have to pay some special attention to the very special and very compelling problems that urban America faces.

Thank you very much, Dr. Reischauer, As previously stated, your prepared statement will appear at this point in the record.

[Dr. Reischauer's prepared statement follows.]



Statement of

Robert D. Reischauer  
Special Assistant to the Director  
Congressional Budget Office

Before

The Committee on the District of Columbia

December 2, 1975

Mr. Chairman, I appreciate this opportunity to appear before the Committee on the District of Columbia.

The Congressional Budget Office, at your request, is preparing a short background paper that both summarizes the broad fiscal trends that have affected the Budget of the District of Columbia and discusses the forces that are likely to influence the city's fiscal position in the decade ahead. These issues are of relevance to the new Congressional Budget Process as well as to this Committee for in recent years the federal payment to the District of Columbia has increased significantly.

It is clear that we are at the beginning of a new era for city finances. The New York City crisis has changed the ways in which we evaluate the fiscal practices of local governments. For years these practices were of concern to only a few; now they are front page news. Questions are being asked that were rarely, if ever, raised in public forums before and a general



reassessment of past positions and practices is taking place everywhere. The public is demanding to know whether there is fiscal gimmickry in their city's budget and whether commitments are being made today that are beyond their city's long range fiscal capability -- in short whether they are headed down the road traveled by New York City.

Although definitive answers to these particular questions with respect to the District of Columbia are not yet available, I would like to focus my remarks on some of the issues that increasingly will have to be faced by the District of Columbia in this new, more open era of municipal finance.

One of the foremost of the new questions is "What is the long or intermediate range budget outlook for the city?" Few local governments in the United States are in a position to respond to this question with more than a shrug of the shoulders. Fortunately the District is an exception, for under the Charter it is required to submit a multi-year revenue and expenditure plan. The city should be commended for the straightforward and competent manner in which it carried out this mandate. However, the picture painted in these reports is far from optimistic.<sup>1.</sup> Outlays for existing

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1. Office of Budget and Management Systems, Multi-Year Financial Plan for FY1976-80 (March 1975) and Budgeting for City Objectives Under Home Rule (April, 1975).



and planned programs are projected to grow by some 12.0 percent per year over the 1976 to 1980 period, while revenues from current authority (before the recent tax package was approved) are expected to rise by only 5 percent per year. (See Table 1) If this scenario is played out a gap between anticipated expenditures and revenues of \$509 million would exist in 1980. The tremendous magnitude of this gap is best illustrated by noting that to close it would require a hike of 64 percent in the anticipated 1980 revenues that are controlled by the city or a reduction of 31 percent in expected city expenditures. Or, to put it another way, the budget gap extrapolated to New York City's population would be roughly \$5 billion as compared to the actual gap of \$800 million that faced New York City this year.

Table 1. Multi-Year Financial Plan Expenditure-Revenue Summary (Dollar Amounts in Millions)

|             | FY1976  | FY1977  | FY1978  | FY1979  | FY1980  | Annual<br>Growth<br>Rate |
|-------------|---------|---------|---------|---------|---------|--------------------------|
| Expenditure |         |         |         |         |         |                          |
| Budget      |         |         |         |         |         |                          |
| Authority   | 1,072.6 | 1,200.6 | 1,347.5 | 1,519.5 | 1,647.3 | 11.3                     |
| Outlays     | 1,016.4 | 1,182.2 | 1,325.5 | 1,493.7 | 1,628.2 | 12.6                     |
| Revenues    |         |         |         |         |         |                          |
| Current     |         |         |         |         |         |                          |
| Authority   | 918.6   | 974.9   | 1,027.3 | 1,071.4 | 1,119.0 | 5.0                      |
| Fiscal Gap  | 97.8    | 207.3   | 298.2   | 422.3   | 509.2   | -                        |

Source: Multi-Year Financial Plan for FY1976-80, page 10.

The size of this projected budget gap, of course, is dependent upon the assumptions that are used concerning the overall rate of inflation and economic growth.



Fortunately, however, we are not left to guess about the sensitivity of the budget gap to economic conditions. The District of Columbia estimated the size of this gap using a more pessimistic and a more optimistic view of the economy than that contained in the Figures I have just cited. Under the former, the gap in 1980 widened to some \$660 million, while under the more rosy scenario it narrowed to \$390 million. The conclusion that arises from this analysis is that even an unexpectedly strong economic recovery will not obviate the necessity for the District of Columbia to make some very difficult budget choices in the near future.

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underfunded retirement programs for public employees represent the city's major liability.

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of the fund to meet them. The Judges Retirement System is by far the smallest, with a fund balance of slightly under \$1 million. Retirement benefits for judges are paid out of an annual appropriation by the city; contributions by judges are paid into the fund and survivor's annuity payments are made out of the fund. Since the contributions and investment earnings of this fund exceed the annuity payments the fund balance grows from year to year but not sufficiently rapidly to reduce the size of the unfunded liability.

In total the unfunded liability of the District's three pension systems was estimated by the District of Columbia to be between \$1.16 and \$1.56 billion at the end of fiscal year 1975. If current practices are continued these liabilities will grow by some 17 percent by FY1980.

In effect these liabilities represent the accumulated consumption of services by yesterday's and today's populations that will have to be paid by tomorrow's taxpayers. If these liabilities represented a fairly constant sum and if the economic base of the city were expected to grow apace with the economy, the existence of these obligations would not be cause for a great deal of concern. However, this has not been the case and therefore in the District of Columbia, as in many large cities, the fraction of each tax dollar consumed paying for yesterday's services in the form



of unfunded pension benefits has been growing. This cannot help but reflect upon a jurisdiction's desirability as a potential place of residence or business, for most taxpayers like to pay for the services they are actually receiving, not for those consumed by previous generations.

The District of Columbia has elaborated a number of ways in which the unfunded liabilities of the retirement programs can be reduced gradually over a proper period of time. Therefore, there is no reason why this situation can not be handled in an orderly fashion but the hard decisions on how it is to be handled have yet to be made. To the extent that a solution requires the District of Columbia to increase its contribution to the retirement systems the size of the budget gap that was discussed previously will be increased for this gap assumes a continuation of current pension practices.

While not of an identical nature to the pension liabilities, it should be mentioned that both Metro and the City's Capital Improvement Program could prove to be claimants on more of the city's future resources than anticipated in the city's intermediate term expenditure projections. With respect to Metro there is still a great deal of uncertainty regarding how much of the system will be built, how much that portion which is built will cost and how large the operating deficit of the rail and bus systems will be allowed



to grow. If the experience of other cities tells us anything it is that even the most carefully made capital and operating cost estimates for mass transit systems are usually too low. With respect to the city's ambitious capital improvement program the spectre of cost overruns is present also. Since the proposed plan of improvements at currently projected costs places the city's debt service costs close to the maximum level permitted under the Home Rule Law, increased borrowing may not represent a viable alternative method of financing unanticipated costs. Rather construction plans would have to be scaled back or current revenues would have to be diverted to the capital account. As the intermediate range revenue projections make abundantly clear there will be no excess revenues just waiting to be tapped for capital projects.

In keeping with the mandate of the Congressional Budget Office to provide the Congress with nonpartisan analysis of matters affecting the federal budget, I can not make a recommendation concerning the advisability of the District entering the municipal bond market at this time. The City's immediate needs must be balanced against the less palpable dangers. In closing I would like to touch upon the conflicting considerations that should be weighed in making such a decision.

On the one hand the unsettled state of the municipal bond market would seem to indicate that now is not a propitious time to stage a premiere. The New York City crisis has had an undeniable effect. Many investors have begun to question



the security and stability that municipal bonds were once assumed to provide. The thought that tax revenues may be used to support essential services while payment of interest and principal on bonds and notes is delayed has many investors asking what a "first lien" on tax revenues is really worth. As a result of these changed attitudes as well as the high volume of municipal issues, interest rates in the tax exempt market have risen to high levels relative to those in the taxable market. Thus the advantages of the tax exempt market may not be as great as normal.

Of course from an individual issuer's perspective, overall market conditions are less important than the specific rate you face and clearly there is a tremendous variation in the rates municipalities are paying today. No one can predict how the District of Columbia would be received if it entered the municipal bond market at this time. However, several of the patterns that are in evidence in this market do not augur well for the District. For one thing large central cities in the Northeast and Northcentral regions appear to have been forced to pay extremely high interest rates because of their actual or superficial resemblance to New York City. The District of Columbia could well find itself tarred with this brush as well. Without a history of familiarity with the city, investors may incorrectly assume that the one year



cash imbalance of \$69 million reported by the District of Columbia Municipal Research Bureau, Inc. represents the same sort of fiscal dilemma that faced New York City this year.

Another pattern that seems to be in evidence in the municipal bond market is the flight of investors towards quality issues. It is not clear how this trend would affect the District; the backing of District debt with the federal payment and the knowledge that Congress is taking an active interest in the city's budget situation may offset any investor hesitation arising from the central city type economic problems afflicting the city and the awareness that, relative to other cities, Washington has a considerable amount of debt outstanding.

While the uncertain situation facing the bond market would seem to urge a policy of delay and restraint, there are considerations on the other side as well. First, there is the possibility that debt service costs could be reduced if the limited bond issue for January alone is considered and if the rate paid by the District is below that currently paid to the Treasury. This could free up revenues to reduce the city's fund deficit. Second, the projects to be funded may be badly needed and postponement may hurt the city and its residents. And third, delay may have financial costs. If capital projects that must be built are put off not only will inflation force up the eventual cost of completing these projects but also a cost will be incurred by



District residents in the form of delayed or foregone services.

The decision before this Committee is a complex one but the Congress and the city are to be commended for facing these issues squarely and openly in a way that ensures that whatever problems the city may have in its future they will not be, as they were in New York, the result of a reluctance to face difficult issues in a timely manner.

Thank you.



The CHAIRMAN. The committee will now recess. We may be gone as much as an hour. I have a meeting I must go to with the Secretary of Transportation.

Mr. Dearborn and Mr. Muller have consented to stay with us. They have been very patient.

[Recess taken.]

#### AFTER RECESS

The CHAIRMAN. The committee will come to order.

My apologies to everyone. You have been very patient. We will try to move along.

May I say before we forget it, the committee will meet tomorrow to take a vote on the bond issue question.

We will meet in a public room, and we will announce it when we find a room, and it will be off the Senate floor at the time of the first vote.

It will be at the time of the first Senate vote tomorrow, whenever that first vote comes, and the press is welcome to come to the meeting and observe it.

There will be no TV cameras, because it apparently violates a rule.

Our next witness is Mr. Philip M. Dearborn, Executive Director, D.C. Municipal Research Bureau.

#### STATEMENT OF PHILIP M. DEARBORN, EXECUTIVE DIRECTOR, DISTRICT OF COLUMBIA MUNICIPAL RESEARCH BUREAU

Mr. DEARBORN. Mr. Chairman, with me is Mr. Jim Crawford, and I am Philip M. Dearborn, the Executive Director of the D.C. Municipal Research Bureau.

The CHAIRMAN. Thank you for being with us.

By way of background purposes, what is the D.C. Municipal Research Bureau?

Mr. DEARBORN. The D.C. Municipal Research Bureau is a voluntary membership organization concerned with the government of the District of Columbia.

We do independent research on city government issues and make the results available to the public.

We do not advocate any particular courses of action.

The CHAIRMAN. The funding of this bureau is made up primarily of businessmen, professionals, and companies. Would that be a fair summary?

Mr. DEARBORN. I think that is a fair summary.

We do have individual members also.

The CHAIRMAN. Now, could you give us a little of your personal background, Mr. Dearborn? What kind of experience have you had in matters relating to accounting?

Mr. DEARBORN. Mr. Chairman, my experience in relation to accounting has not been extensive.

I have served as a budget officer in Fairfax County, and as deputy county executive for financial affairs in the county.

I have served as finance director for the city of Cleveland, conducted a study entitled "City Financial Emergencies," advised the Commission on Intergovernmental Relations, been on the staff of the Office of



Management and Budget, dealing primarily with problems relating to the implementation of revenue sharing.

The CHAIRMAN. Very good.

I especially welcome you with those considerable credentials.

You may proceed.

Mr. DEARBORN. Thank you, Mr. Chairman.

I have been asked to appear here today to discuss with you the Bureau's published reports on the District, and specifically, "Paying for Capital Improvements" (November 1974), "Financial Reporting" (August 1975), and "Analysis of City Financial Operations for Fiscal 1975" (November 1975). Because each member of the committee has been supplied with a copy of these three Bureau reports, I will only highlight the findings and conclusions, which relate to the issuance of \$50 million in refunding bonds.

The question of issuing refunding bonds was addressed in our publication, "Paying for Capital Improvements," on page 16. Specifically, the report stated:

Refunding: It also appears that the City should defer any consideration of refunding existing Treasury loans with tax exempt bonds. The present high interest rates for all securities, and the difficulty of maintaining demand for a large volume of District bonds, would minimize potential interest savings. After the District has established a substantial market for its bonds, and at a time when interest rates are more favorable, consideration should then be given to a selective refunding program.

At the time this conclusion was reached, in November 1974, we anticipated that the city would be selling a substantial amount of project bonds soon after the advent of home rule. It appears that if the District simultaneously attempted to sell refunding bonds while also selling project bonds, the city would have flooded the market with District bonds before the market had had an opportunity to receive and evaluate the District as a new municipal credit. This would have unnecessarily increased the interest rates on both the project and refunding bonds. For a number of reasons the District has not proceeded with the issuance of project bonds and does not now have any legislation pending for their issuance. In view of this fact, it does not appear that issuing the proposed refunding bonds would present the marketing problem contemplated in the report. Whether the District, in today's high interest market, will gain any substantial interest savings from such issuance is still unclear, but the authorizing legislation does not require sale, if there is no advantage to the city.

While the question of whether the District should issue refunding bonds has interesting technical aspects, it does not appear to represent any major substantive issue in the context of the District's overall financial problems. As reported in the Bureau's "Analysis of City Financial Operations for Fiscal 1975," the District's immediate problems relate much more directly to the balancing of current receipts with current expenditures, than to issues related to the sale of refunding bonds. I know there has been concern expressed this morning and publicly in other areas by members of the committee that this basic budget balancing problem needs to be faced before the city publicly issues any bonds. Certainly the question of the District's present financial status is one that potential investors will want to explore very carefully, and one that will require good and complete information and to provide assurances that it is coping with its financial



problems before issuing bonds, the better will be its credit ratings and its interest rates.

In recognition of this need for good financial information, the Bureau issued "Financial Reporting," which urged that the accounts and reports of the District be prepared in conformity with accepted national municipal standards and with an independent auditor's opinion resulting from a postaudit. Because the city has operated under Federal accounting and reporting standards in the past, conformity with accepted municipal standards and a typical municipal postaudit had not been considered necessary prior to home rule, and it was confirmed this morning by the Chairman of the Council, and Chairman of the Revenue Committee, that the City Council is now considering the enactment of legislation that would routinely provide for the preparation of the city's financial reports in accordance with national standards and would provide for an annual postaudit in connection with these reports. It is important to note that for a substantial number of local governments a postaudit is a routine annual occurrence, and is done to provide an independent assurance to the credibility of the government's own reports.

In connection with these hearings, it is my understanding that the committee may also wish to review the overall status of the city's debt and its operating budgets. Because this is a large and complex subject, I will not try to repeat the detailed findings of our reports on "Paying for Capital Improvements" and our "Analysis of City Financial Operations for Fiscal 1975," but I would like to mention a few important points that you may wish to consider. I might say you have already touched really on these but I will, for the record, read them in any event. The city presently has over a billion dollars in long-term Treasury loans and expects by 1980 to have approximately \$1.8 billion in long-term debt. The amount of debt outstanding, together with the interest on it, represent a future liability which will have to be paid from future revenues.

The most obvious way to reduce costs would be to reduce the size of the capital improvements program by eliminating lower priority projects, and certainly such a solution should be considered. Since much of the program has already been authorized by Congress and is well underway, and in light of previous commitments and current rates of inflation, it may be difficult to reduce by any substantial amount the total projected cost for the capital improvements program. As an alternative, the Bureau's report suggests a delay and stretchout of the program to reduce debt service costs on the 1976-80 budgets. The issuance of refunding bonds to replace existing debt with lower interest debt, also has potential for reducing costs.

However, the annual requirements for payment of principal and interest are only one of a number of major future financial commitments facing the District, all of which together will make the balancing of receipts and expenditures more difficult in future years. In this regard I refer you to the city's own publication, "Multi-Year Financial Plan for Fiscal 1976-80," as perhaps the best source of information on how all of these commitments will result in a substantial gap between projected revenues and projected expenditures.

Because the Bureau has not issued public reports on such other costs as those for the Metro deficit, for police and fire retirement systems, for



annual pay increases, for welfare and medicaid programs, and for other significant and growing items in the District's budget, we are not able to offer definitive suggestions as to how these costs can be controlled. It is apparent, however, from our review of the city's experience in fiscal 1975, during which year spending on both an obligation and a cash disbursement basis exceeded revenues, that the District will have to impose stringent budget measures and pay close attention to the balance between revenues and expenditures in future years. As we reported:

A one year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these funding imbalances or deficits cause no serious problems.

The District does have a problem in that its future expenditure requirements are projected to be larger than its future expected revenues. What this means in municipal budgeting is that the city will have to move to increase its revenues or decrease its expenditures. It can be expected that neither alternative will be pleasant to the community or to the officials who have to make the decisions. I am confident that the officials at the District Building, on both the executive and the legislative side, already understand what's ahead, what's required of them, and what they must do. However, they will need support from the community and from Federal officials in making difficult decisions.

Mr. Chairman, if I might just make a couple of personal observations, about some of the things mentioned earlier. I have observed the City Council over the last 11 months quite closely, and I believe that they have been a very diligent and hardworking body, and most conscientious in addressing their legislative responsibilities.

I would also like to credit the Mayor and staff with complete cooperation with the Bureau, and all of our reports show this. We feel that they do have an awareness of their problems. They have at all times been very open and very helpful. I believe they have demonstrated a concern in the District government that equals that of the City Council.

Also, I would say I concur that the Robert Reischauer report on New York is the best I have seen yet.

The CHAIRMAN. Thank you, Mr. Dearborn, and our thanks are owed to you for your three reports, issued by the District of Columbia Municipal Research Bureau. I think they were extraordinarily well done.

They are not only well done, but they are set out in a way that laymen, such as Senator Bartlett and myself, can comprehend. The technical language is kept to a minimum, and it is clearly set forth.

Now, if I may, all three of these reports will be made a part of the record.

[The reports follow:]



# PAYING FOR CAPITAL IMPROVEMENTS

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Research Report No. 1 - November 1974

NOTE: This is the first public report of the D. C. Municipal Research Bureau, a non-profit corporation dedicated to improving the District government by providing objective information to the public and to officials responsible for government actions.



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EXECUTIVE DIRECTOR  
Philip M. Dearborn



The District Capital Improvements Program 1975-1980 calls for expenditures of more than \$900 million during the six-year period. This program together with projects already completed or in process, will result in approximately \$2 billion of new facilities by the end of 1980.

The entire cost of the program is being paid from borrowed money, which will be repaid with interest from future revenues. The impact of this repayment obligation on future budgets and taxes is reviewed in this report. In addition, the report, using standard investor measures, looks at the overall present and planned debt as compared to other cities. The impact of the new Home Rule Charter on capital financing is also considered.

As a result of this review, a number of questions are raised that should be considered by the new District government. The report evaluates alternate approaches to achieving the overall program goals. These include stretching out program disbursements over a longer period of time; shortening the debt repayment period; issuing revenue bonds for sewer and water facilities; and refunding existing taxable debt with tax exempt bonds.

#### The Present Program

The District, since 1968, has been embarked on a major program of replacing old and obsolete physical plant, mainly public schools; and building new service facilities for higher education, mass transit, and water pollution control. This program has caused the District debt to increase from \$177.3 million in fiscal 1968 to a projected \$1,069.7 million at the end of 1975 (see Table 1).



Table 1  
D. C. DEBT OUTSTANDING  
(In Millions)

|            | General <sup>1</sup> | Highway | Water   | Sanitary<br>Sewage Works | Metro<br>Area Sewer | Total    |
|------------|----------------------|---------|---------|--------------------------|---------------------|----------|
| 1965       | \$ 20.7              | \$ 38.4 | \$ 20.1 | \$ 11.4                  | \$ 10.4             | \$ 101.0 |
| 1966       | 39.3                 | 43.1    | 22.1    | 12.6                     | 10.9                | 128.0    |
| 1967       | 51.0                 | 51.4    | 21.8    | 12.4                     | 11.8                | 148.4    |
| 1968       | 71.5                 | 58.0    | 21.9    | 13.5                     | 12.1                | 177.0    |
| 1969       | 121.9                | 70.8    | 21.3    | 14.8                     | 12.2                | 241.0    |
| 1970       | 196.2                | 78.7    | 24.1    | 15.1                     | 12.4                | 326.5    |
| 1971       | 239.3                | 78.5    | 25.2    | 18.4                     | 12.4                | 373.8    |
| 1972       | 364.0                | 84.9    | 26.6    | 28.0                     | 12.3                | 515.8    |
| 1973       | 476.6                | 93.9    | 28.2    | 31.9                     | 13.9                | 644.5    |
| 1974 est.  | 649.0                | 104.0   | 35.4    | 60.6                     | 17.8                | 866.8    |
| 1975 proj. | 812.3                | 116.9   | 41.0    | 79.2                     | 20.3                | 1,069.7  |

Source: Justification for the 1975 Budget, District of Columbia, Vol. V, pp. 2B-1 - 2B-8.

<sup>1/</sup> Includes financing for schools, higher education, transportation, environmental services, public safety, human resources, libraries and recreation, and general government.



It is estimated, based on present capital plans, that total debt outstanding in 1980 will be \$1,768 million. When this program is completed, the City will have constructed facilities for two new colleges; provided complete treatment of wastewater; put into operation a mass transit system and a new highway network; renovated or replaced all obsolete school, fire, police, general government and court buildings; and provided extensive recreation facilities.

The total debt outstanding is important because it is a future liability that must eventually be paid. Of more immediate significance is the impact on annual budgets caused by rapidly increasing debt service (payment of principal and interest). The fiscal 1975 budget includes \$49.1 million for debt service up from \$7.1 million in 1970. The City projects a 1980 debt service cost of \$137 million. In 1970 debt service required 1.3% of City revenues, in 1975 it will require 5.7% of local revenues, and by 1980 this percentage will increase to 12.9%. To illustrate the significance of debt service, the equivalent property tax required to pay it in 1970 was \$.20 per \$100 assessed value, in 1975 \$1.12, and in 1980 it will require \$2.35, based on projected values.

#### How Does the District Compare to Other Cities

There are several measures used by investment analysts to evaluate City debt. Two of the most common are debt as a percent of true taxable value, and debt per capita. The District's 1974 ratio of debt to estimated true value is 11.7%, and it is expected to increase to 17.8% by 1980. One authority suggests that, "a debt to full market value ratio of 10 percent suggests an unsatisfactory credit loan in the absence of unusual strength in other credit areas" (Twentieth Century Fund Task Force, The Rating Game, 1974, p. 78).



The District debt per capita in 1973 was \$851, in 1974 it increased to \$1,051, and by 1980 it is projected to be \$2,349. On June 30, 1974 the District ranked third among major cities in debt per capita (see Table 2).

Another measure that analysts use is the amount of debt retired annually as a percent of total debt. This measure has significance because it reflects the speed with which the government is repaying its debts, and it indicates the extent to which the government can issue new debt without increasing total indebtedness. In 1975, the District will retire less than 1% of its outstanding debt (see Table 3), which is a payment ratio well behind other large cities (see Table 3a).

Although by the above measures the District appears to have capital financing problems, it also has unique strengths. Chief among which is the economic stability provided by the Federal government. This stability is expressed in traditionally lower unemployment rates than most major metropolitan areas, high average salaries, and some insulation against loss of revenues during National economic downturns. The District has a well balanced revenue base, which includes income, sales, and property taxes. In addition the Federal payment to the District exceeds the cost of projected debt service, and it is likely that the Federal government will always insist that there be prompt payment of debt service by the City. The District also ranks high in its property tax collection experience.



Table 2  
Comparative Debt Per Capita, Major Cities  
June 30, 1974

|                      | Combined State and Local<br><u>Gross Overall Debt Per Capita</u> |
|----------------------|------------------------------------------------------------------|
| New York             | \$1,280                                                          |
| San Francisco        | 1,086                                                            |
| District of Columbia | 1,051                                                            |
| Philadelphia         | 997                                                              |
| Boston               | 970                                                              |
| Columbus             | 906                                                              |
| Cleveland            | 812                                                              |
| Seattle              | 796                                                              |
| Cincinnati           | 762                                                              |
| New Orleans          | 760                                                              |
| Buffalo              | 753                                                              |
| Pittsburgh           | 744                                                              |
| Dallas               | 737                                                              |
| Memphis              | 706                                                              |
| Minneapolis          | 689                                                              |
| Atlanta              | 672                                                              |
| Houston              | 623                                                              |
| Baltimore            | 558                                                              |
| Los Angeles          | 519                                                              |
| Milwaukee            | 515                                                              |
| Denver               | 515                                                              |
| Kansas City          | 489                                                              |
| Nashville            | 485                                                              |
| Jacksonville         | 472                                                              |
| Detroit              | 434                                                              |
| Chicago              | 418                                                              |
| San Diego            | 351                                                              |
| Indianapolis         | 347                                                              |
| San Antonio          | 337                                                              |
| St. Louis            | 310                                                              |
| Phoenix              | 303                                                              |
| Median               | 623                                                              |

Source: Municipal Bond Selector, Standard & Poor's Corporation,  
Vol. 33, No. 3, June 30, 1974



Table 3  
Annual Principal Payments  
All Funds 1965-75  
(in millions)

|            | Principal<br>Payments | Debt<br>Outstanding | Principal Payment<br>As a % of Total Debt |
|------------|-----------------------|---------------------|-------------------------------------------|
| 1965       | \$1.4                 | \$ 103.0            | 1.4                                       |
| 1966       | 1.7                   | 129.5               | 1.3                                       |
| 1967       | 1.8                   | 149.0               | 1.2                                       |
| 1968       | 2.0                   | 177.3               | 1.1                                       |
| 1969       | 2.6                   | 241.2               | 1.1                                       |
| 1970       | 3.3                   | 326.5               | 1.0                                       |
| 1971       | 4.0                   | 373.8               | 1.1                                       |
| 1972       | 4.9                   | 515.8               | .9                                        |
| 1973       | 5.9                   | 643.5               | .9                                        |
| 1974 est.  | 7.1                   | 866.8               | .8                                        |
| 1975 proj. | 9.6                   | 1,069.7             | .9                                        |

Source: Justification for the 1975 Budget, District of Columbia, vol. V,  
pp. ZB-1 to ZB-8.



Table 3a  
Debt Retired During Year as A  
Percent of Total Long-Term Debt Outstanding  
1971-72

| <u>City</u>      | <u>Percent of Net Long-Term<br/>Debt Retired During Year</u> |
|------------------|--------------------------------------------------------------|
| Atlanta          | 2.3                                                          |
| Baltimore        | 5.3                                                          |
| Boston           | 9.5                                                          |
| Buffalo          | 9.4                                                          |
| Chicago          | 4.7                                                          |
| Cincinnati       | 6.1                                                          |
| Cleveland        | 7.9                                                          |
| Columbus         | 4.2                                                          |
| Dallas           | 11.0                                                         |
| Denver           | 3.4                                                          |
| Detroit          | 5.4                                                          |
| Houston          | 5.7                                                          |
| Indianapolis     | 4.4                                                          |
| Jacksonville     | 4.2                                                          |
| Kansas City      | 4.7                                                          |
| Los Angeles      | 3.7                                                          |
| Memphis          | 4.7                                                          |
| Milwaukee        | 11.0                                                         |
| Minneapolis      | 12.8                                                         |
| Nashville        | 6.9                                                          |
| New Orleans      | 4.3                                                          |
| New York         | 9.0                                                          |
| Philadelphia     | 2.9                                                          |
| Phoenix          | 6.6                                                          |
| Pittsburgh       | 7.8                                                          |
| St. Louis        | 5.2                                                          |
| San Antonio      | 5.1                                                          |
| San Diego        | 3.2                                                          |
| San Francisco    | 8.1                                                          |
| Seattle          | 3.5                                                          |
| Washington, D.C. | .9                                                           |
| Median           | 5.2                                                          |

Source: U.S. Bureau of the Census, City Government Finances in 1971-72, Table 7.



The Impact of Home Rule

The Home Rule Charter authorizes the District to issue general obligation tax exempt bonds for financing capital projects and for refunding previously incurred indebtedness. Before Home Rule, the District borrowed funds from the U.S. Treasury at an interest rate reflecting the cost of borrowed funds to the Treasury. The interest cost to the District on these Treasury loans in fiscal 1975 is estimated at \$38.6 million. The District may continue to borrow capital funds from the Treasury for all projects authorized by Congress prior to January 2, 1975, including the District's share of Metro.

Loans from the Treasury are based on interest rates paid by the Federal government. Because the interest paid by the Federal government is subject to Federal taxes, the District can save on interest costs by issuing its own bonds, which will pay investors interest that is exempt from Federal taxes. The City estimates that the interest rates it will pay on its bonds will be one percent to two percent less than interest rates it pays on Treasury loans, which adds an incentive to switch from Treasury to District financing of capital projects as soon as possible. In addition, there are potential savings on interest costs from refunding some existing Treasury loans through the issuance of tax exempt bonds. However, because the Treasury loans were made at rates varying over the years from a low of 2.625% to recent highs of over 7.50%, not all Treasury loans could be refunded at an interest saving.

The issuance of tax exempt bonds, although clearly desirable from a fiscal viewpoint, will present some problems. Under the policy of borrowing from Treasury, the District has had easy access to capital funds at the U.S. government taxable interest rates. Now, in issuing its own tax exempt bonds, the District will find



itself in competition with other borrowers for the limited supply of capital financing presently available in the private market. This competition will be especially difficult because there is no established market of investors in D.C. bonds, and indeed, most potential investors have little knowledge about the District government or its finances.

The Charter also requires the District to use "level debt service" financing. Level debt service consists of a constant annual payment over the life of the bonds, it is achieved by paying increasingly larger principal amounts as the required interest decreases. This is the type of financing customarily used in home mortgages. It contrasts with most state and local general obligation financing, which is done on an "equal principal payments" basis. Equal principal payments result in a decreasing annual debt service payment because the principal payment remains constant, while the interest payment decreases as the amount of debt outstanding declines.

An example of the difference in these two approaches is shown in Table 4. The use of level debt service reduces the annual cost in the early years, but substantially increases the total interest cost. Because it minimizes the initial debt service costs, it permits the issuance of a larger volume of debt over the short term, by deferring costs in the future.

Provided the District substantially completes its capital financing by 1980, a case can be made for the use of level debt service. If, however, the amount of annual capital financing will remain fairly constant beyond 1980, then the equal payment basis would be more economical, even though it would cost more over the next few years.



Table 4  
The Cost of Level Debt Service  
Versus Equal Annual Principal Payments, \$1,000,000  
Assumptions - 30 Year Term, 6% Interest,  
Single Annual Principal & Interest Payment

| Year           | Level Debt Service | Equal Principal | Impact of Equal<br>Principal on<br>Annual Costs |
|----------------|--------------------|-----------------|-------------------------------------------------|
| 1              | \$72,650           | \$93,334        | \$ +20,684                                      |
| 2              | "                  | 91,333          | +18,683                                         |
| 3              | "                  | 89,333          | +16,683                                         |
| 4              | "                  | 87,334          | +14,684                                         |
| 5              | "                  | 85,333          | +12,683                                         |
| 6              | "                  | 83,333          | +10,683                                         |
| 7              | "                  | 81,334          | + 8,684                                         |
| 8              | "                  | 79,333          | + 6,683                                         |
| 9              | "                  | 77,333          | + 4,683                                         |
| 10             | "                  | 75,334          | + 2,684                                         |
| 11             | "                  | 73,333          | + 683                                           |
| 12             | "                  | 71,333          | - 1,317                                         |
| 13             | "                  | 69,334          | - 3,316                                         |
| 14             | "                  | 67,333          | - 5,317                                         |
| 15             | "                  | 65,333          | - 7,317                                         |
| 16             | "                  | 63,334          | - 9,316                                         |
| 17             | "                  | 61,333          | -11,317                                         |
| 18             | "                  | 59,333          | -13,317                                         |
| 19             | "                  | 57,334          | -15,316                                         |
| 20             | "                  | 55,333          | -17,317                                         |
| 21             | "                  | 53,333          | -19,317                                         |
| 22             | "                  | 51,334          | -21,316                                         |
| 23             | "                  | 49,333          | -23,317                                         |
| 24             | "                  | 47,333          | -25,317                                         |
| 25             | "                  | 45,334          | -27,316                                         |
| 26             | "                  | 43,333          | -29,317                                         |
| 27             | "                  | 41,333          | -31,317                                         |
| 28             | "                  | 39,334          | -33,316                                         |
| 29             | "                  | 37,333          | -35,317                                         |
| 30             | "                  | 35,333          | -37,317                                         |
| Total          | 2,179,500          | 1,930,000       | -249,500                                        |
| Interest Cost  | 1,179,500          | 930,000         |                                                 |
| As a % of Loan | 118%               | 93%             |                                                 |



Policy Questions

The present District program suggests a number of questions that need to be considered by the new government. Should the City continue its present ambitious capital program, taking into account inflation, high interest costs, and the impact of debt service demands on the total budget? Can the District find a market at reasonable tax exempt rates for the bonds it plans to sell? To what extent should existing debt be refunded? Should the City continue using level debt service or try to change the Charter, so as to use more conventional and conservative equal principal payments? Is a 30-year debt repayment period too long? Should there be an emphasis on issuing revenue bonds, as opposed to general obligations?

Alternatives

The most serious capital financing problem facing the City is the impact of increased debt service costs on future budgets. Under the best economic conditions, the District can expect only modest annual increases in budget revenues. Competition for these increased revenues will be strong with employees demanding pay increases and citizens demanding improved programs. The greater the portion of new revenues that is taken by increased debt service, the more difficulty the District will have in reconciling these competing demands. Listed below are the presently estimated annual increases in District revenues; the annual debt service increases based on present plans for capital financing; and the percentage of the revenue increases that debt service will take:



| (\$ millions) |                            |                                 |                                                        |
|---------------|----------------------------|---------------------------------|--------------------------------------------------------|
| Fiscal Year   | Projected Revenue Increase | Projected Debt Service Increase | Debt Service Increase as a Percent of Revenue Increase |
| 1975          | \$39.1                     | \$9.1                           | 23.3                                                   |
| 1976          | 53.4                       | 18.2                            | 34.1                                                   |
| 1977          | 53.0                       | 29.7                            | 56.0                                                   |
| 1978          | 47.0                       | 17.7                            | 37.7                                                   |
| 1979          | 30.2                       | 11.5                            | 38.1                                                   |
| 1980          | 30.9                       | 11.2                            | 36.2                                                   |

Source: D.C. 1975-1980 Capital Improvements Program, Tables 9I & 9J

The prospect of over half the revenue increase in 1977 going for debt service does not seem politically realistic, and more than one-third going for this purpose in other future years will certainly be difficult. Therefore, it would be desirable to change the debt issuance plans so as to reduce the annual debt service load.

The obvious alternative is to reduce the size of the capital improvements program by eliminating lower-priority projects. Such a solution should be considered by the new government. However, in light of previous commitments, public pressure to increase capital spending for new projects, and current inflation, it will be difficult to reduce the total cost of the program.

#### Stretch-Out

If the program cost cannot be substantially reduced, then at a minimum, a stretch-out of cash disbursements should be considered. Such a stretch-out could utilize the natural tendency of capital projects to be delayed by unforeseen events. An illustration of how a stretch-out alternative might work is shown below:



| Year | (\$ millions)              |                        |
|------|----------------------------|------------------------|
|      | City's Proposed Borrowings | Alternative Borrowings |
| 1975 | \$383.76                   | \$130.0                |
| 1976 | 256.76                     | 145.0                  |
| 1977 | 167.13                     | 145.0                  |
| 1978 | 162.83                     | 145.0                  |
| 1979 | 158.14                     | 145.0                  |
| 1980 | 99.48                      | 145.0                  |
| 1981 | (                          | 145.0                  |
| 1982 | (55.15                     | 145.0                  |
| 1983 | (                          | 145.0                  |
|      | <u>\$1,283.25</u>          | <u>\$1,290.0</u>       |

Source: D.C. 1975-1980 Capital Improvements Program, Table 9C

In the illustration the total amount spent for capital projects would be about the same, but it would occur on a more uniform basis over nine years, instead of six years. The rate of increase in projected debt service would thereby be decreased. This annual reduction in debt service would have an effect on the portion of revenue increases that must be used for debt service, as shown below:

| Year | (\$ millions)              |                                            |                                       |
|------|----------------------------|--------------------------------------------|---------------------------------------|
|      | Projected Revenue Increase | Debt Service Increase Based on Alternative | Debt Service as a Percent of Revenues |
| 1975 | \$39.1                     | \$9.1                                      | 23.3                                  |
| 1976 | 53.4                       | 18.2                                       | 34.1                                  |
| 1977 | 53.0                       | 10.5                                       | 19.8                                  |
| 1978 | 47.0                       | 10.0                                       | 21.3                                  |
| 1979 | 30.2                       | 10.0                                       | 33.1                                  |
| 1980 | 30.9                       | 10.0                                       | 32.4                                  |

In addition to easing pressure on debt service, a more uniform schedule of issuing debt reduces the possibility of the District being penalized by temporary high interest rates. For example, the City program proposes to sell \$640.5 million securities, or about half of the total proposed financing, during 1975 and 1976, years in which interest rates may be abnormally high. The alternative



proposal would sell \$275.0 million, or about 21% of the total amount during the same two years. In addition, the municipal bond market should be more receptive to smaller more uniform District issues, especially in the first few years when a new market is being created. This factor alone might result in a better overall interest cost for the program.

#### Impact of Inflation

One objection to a stretch-out will be the claim that inflation of construction costs will offset debt service savings. This may be true, but it may also be that a future drop in interest rates will offset construction cost increases. Shown below is the effect of a two-year delay, during which period it is assumed that construction costs increased 12% annually compounded, while interest costs on municipal bonds declined from 6% to 4%:

|                                                                  |                  |
|------------------------------------------------------------------|------------------|
| 1974 - Construction cost                                         | \$1,000,000      |
| Interest cost on \$1,000,000 at 6%<br>for 30 years               | <u>1,179,500</u> |
| Total facility cost                                              | \$2,179,500      |
| 1976 - Construction cost increased<br>at 12% annually compounded | \$1,254,000      |
| Interest cost on \$1,000,000 at 4%<br>for 30 years               | <u>735,200</u>   |
| Total facility cost                                              | \$1,989,200      |

There is, of course, no assurance that interest rates will decrease one-third over the next two years, but there is also no assurance that construction costs will continue to increase at a rapid rate. The question, therefore, is whether the City should try to guess what will happen to interest rates and construction costs, or whether it should develop a manageable program that is based on priority needs and not on consideration of cyclical fluctuations in the national economy.



Total Debt

While a stretch-out of debt issuances could have an effect on debt service requirements, it will not appreciably affect the total debt outstanding. The best alternative to reduce debt outstanding would be to speed up debt repayment by decreasing the term from 30 years to 25 years or less; or to change from level debt service to a more conventional equal annual principal basis. Unfortunately, either method of speeding up debt repayment would require immediate increased annual debt service payments. Because debt service is already a problem, it appears that the District must continue to issue bonds using a level debt service over a 30-year term.

Use of Revenue Bonds

Another alternative that would at least give an appearance of reduction in total City debt would be to convert some financing from general obligation debt to mortgage revenue bonds. It appears that about \$270 million of existing or proposed sewer and water debt could be supported solely by revenues generated from these operations. In effect sewer and water operations would be established as independent self-supporting utilities. Such an arrangement is common in local governments, especially in cases where the systems serve customers who are not within the government's jurisdiction. Such financing requires that there be a sound financial operation based on rates set at a level sufficient to meet all costs. General tax revenues are generally not pledged to support the operation. As a result, this debt is not considered by investors as direct debt of the City.



The City would, however, have to give up some of its freedom of action over setting rates and other aspects of operations because of commitments required by investors. In addition, the interest rates on revenue bonds might be slightly higher than on general obligation bonds, but this is by no means certain in the District's case.

Considering the many complex financing problems immediately facing the District, the conversion of sewer and water debt to revenue bonds should probably not be a matter of high priority, but it is an alternative that might be considered at a later time.

#### Refunding

It also appears that the City should defer any consideration of refunding existing Treasury loans with tax exempt bonds. The present high interest rates for all securities, and the difficulty of maintaining demand for a large volume of District bonds, would minimize the potential interest savings. After the District has established a substantial market for its bonds, and at a time when interest rates are more favorable, consideration should then be given to a selective refunding program.

#### Conclusion

The present capital improvement program will have substantial impact on future District budgets and taxes. In addition, the City must turn to private investors for financing the program in the future. While this will provide lower interest costs because of the tax exempt features of the bonds, it will also subject the District's program to independent analysis. The District, therefore, needs to review its present plans, and be able to give both taxpayers and future investors assurance that the capital improvement program is financially sound.



## FINANCIAL REPORTING

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Technical Report No. 1 - August, 1975



THE DISTRICT OF COLUMBIA MUNICIPAL RESEARCH BUREAU, INC.  
ROOM 1400, 1612 K STREET, NORTHWEST, WASHINGTON, D.C. 20006 (202) 659-8003

EXECUTIVE DIRECTOR  
Philip M. Dearborn



Good financial reporting by the executive branch of government and annual post auditing by an independent auditor are essential for public understanding and confidence in the District's finances, and for legislative policy-making and control. In recognition of this need, the District Home Rule Charter specifically authorizes the City Council to require the Mayor, "to submit to the Council a financial statement in any detail and at such times as the Council may specify." While this provision gives Council authority to specify the contents of financial reports, in actual practice the reports should meet both executive and legislative needs for information, and the reports must take into account the availability of information in the City's accounting and reporting system.

The District's accounting systems are especially complicated because they generate financial information not only for the City's own purposes but also to meet the Federal government's reporting requirements. The complexity of City operations could flood these reports with financial details and technical terminology and not provide the concise, and meaningful information necessary to understand the City's financial operation. Therefore, it is important to recognize the purpose for which reports are issued, and then to discuss the ways in which financial reporting can achieve these goals.

The primary purposes of financial reports are:

- . to provide sufficient information to assure compliance with legal and budgetary limitations;
- . to show the City's financial condition;
- . to anticipate changes in financial resources or requirements that will affect the budget;
- . to provide information about progress in implementing authorized programs.



To be useful the reports should be available soon after the close of the reporting period. In most cities interim reports are made monthly within 15 days after the end of the month, and a final year-end statement is issued within three months after the end of the fiscal year.

#### Financial Reporting

National standards for the form of financial reports by cities have been developed, and have been successfully implemented with minor variations by most major cities. These standards, although directed towards cities with more conventional financing patterns, offer good guidance for the District. The standards are defined in Governmental Accounting, Auditing, and Financial Reporting, issued by the National Committee on Governmental Accounting. Additional guidance, particularly for the preparation of year-end statements, is available from Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The District currently prepares on an annual basis a fairly comprehensive financial report. However, the year-end report is not available until six months after the end of the fiscal period and it does not conform to accepted reporting standards. City efforts are currently underway to issue the year-end report sooner, and this goal should continue to be vigorously pursued. Attention should also be given to major format changes in the balance sheets of each fund. Permanent assets and long-term liabilities should be reported in a separate schedule. "Budgetary accounts", "statistical accounts", and "capital accounts" should not be included in the balance sheet. And the fund balance (or deficit) available for future years'



appropriations should be shown. The year-end report should contain a statement of changes in fund balances, and the annual report on cash receipts should compare them with the official budget estimates that were made for such receipts. A detailed statement of City debt and a detailed report of property tax levies and the collections for the current and previous years should also be included.

The most important and needed interim report is a monthly or quarterly report on the status of appropriations. The primary purpose of such a report is to compare spending progress with plans, and to assure compliance with budgetary and appropriation directives and limitations. Without such interim reports, expenditure experience is known only when the year-end report is issued, well after the end of the fiscal year. Information about expenditures needs to be available during the fiscal year for control purposes, and also to provide base data to evaluate the future years' budget projections. This report should go beyond the ten broad categories of activities appropriated by Congress, and should compare individual department and agency obligations with the budget allocations on which Congressional appropriations were based.

To supplement the monthly appropriations report there should be a monthly cash report showing cash balances and the relation between cash receipts and cash disbursements. This report will permit a review of the status of the District's "financial plan", that was used as a basis for funding the budget, and will also provide information about the cash status of all other unbudgeted funds. In addition to providing information about cash available to meet commitments, this report should provide information about the effectiveness of the City's cash management and investment policies.

The City presently issues a quarterly capital improvement report, and a monthly revenue report. These reports appear to be adequate, although some minor changes to conform them to the system of all City reports may be desirable.



The unique problems associated with Federal grants make it desirable to issue a separate monthly or quarterly report on the status of each grant. A separate report is necessary because grant periods usually do not conform to the District's fiscal year, and because of the wide variety of grants for both operating programs and capital improvements. The report should provide information about the amounts and purposes of grant funds, and the progress being made in implementing the programs. Because grants are received and terminated throughout the year, interim reports represent the best method of continuously accounting for the City's grant operations.

#### Auditing

In addition to the changes in existing reports discussed above, and the new reports suggested for implementation, a vital part of good financial reporting is an annual independent audit of the City accounts. The auditor, as a result of such audit, will state whether the reports present fairly the City's financial position and results of financial operations, and whether the reports have been prepared in accordance with generally accepted accounting principles. In preparing such an opinion, auditors will also determine the propriety, legality, and mathematical accuracy of financial transactions, and whether they have been properly recorded.

The role of an independent auditor in performing such post-audit tasks is well defined for private organizations, and for most city governments. Because the District's status has been more like a Federal agency, there traditionally has not been a City post-audit, with the accompanying certification of the District's financial reports.

With the City's new status, an annual post-auditing may now be desirable for several reasons. First, an independent auditor's opinion will provide credibility to the District's annual financial report. This is especially important at a time when reliability of unaudited city financial information has become an issue in the



national bond market. An independent audit will highlight any discrepancies and will assist the City in bringing its accounting and reporting into conformity with National standards. And finally, the professional staff that conducts the post-audit will provide technical assistance to aid in managing the District's finances.

In the District there are presently three audit groups with total staffs of over seventy, which could conduct a post-audit and certify the City's annual financial report:

The General Accounting Office of the Federal government has a statutory duty to annually audit the accounts and operations of the District government. In the past this responsibility has been interpreted to include mainly program audits focusing on specific problems or operations in which there is a Federal interest.

The Office of Municipal Audits and Inspections is a part of the Executive Branch, and as such, may not meet the requirement for independency that is needed to conduct a post-audit. This office has traditionally concerned itself primarily with internal auditing functions.

The newest City audit group is the Office of District of Columbia Auditor, which was established by the Home Rule Charter. The Charter direction to the auditor is that he, "shall each year conduct a thorough audit of the accounts and operations of the District..." This directive, which is similar to that for the General Accounting Office, may be interpreted as requiring only program audits, and not as requiring a general post-audit each year. However, the auditor clearly has the authority to conduct such an audit, and he has the independency because he is appointed by Council for a six-year term.



If the District is to have an annual post-audit, it will require action by City Council to either direct that an audit be done by a City staff, probably that of the new D.C. auditor, or to hire a private accounting firm to do the work. In view of the need for the City to maintain the credibility of its finances, the effort required for a post-audit may be justified, even if done on a contract basis.

Conclusion

City financial reporting and an accompanying annual post-audit provide the information base on which budget, tax and private investment decisions are made. It is, therefore, important that the District establish as its immediate goal, the issuance of interim and annual financial reports in conformity with accepted National standards, and with an independent auditor's opinion. Achievement of such a goal will represent a significant milestone for financial management in the District.



## APPENDIX

This appendix contains suggested forms for the interim reports. These examples are not intended to represent the actual forms that the District will use, but rather are to illustrate an approach to financial reporting that could provide financial information in a simple and concise form. Although the illustrations are compatible with National standards, adaptations have been made to simplify them, and to better align them with existing District accounting.

Because the City is already issuing a year-end report, a capital improvement report, and a revenue report, no illustrations of these reports are included.

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EXHIBIT A  
 Appropriation Report  
 All Operating Funds  
 Month of December 1974 & Six Months Ended December 31, 1974  
 in \$000's

| Category                 | Appropriation<br>Fiscal Year<br>1975 | Total<br>Obligations from<br>1975 Appropriations<br>Six Months Ended<br>12/31/74 | Obligations<br>December 1974 |
|--------------------------|--------------------------------------|----------------------------------------------------------------------------------|------------------------------|
| <u>General Operating</u> |                                      |                                                                                  |                              |
| Mayor                    | \$600.8                              | XXXXXX                                                                           | XXXXXX                       |
| Council                  | 925.9                                |                                                                                  |                              |
| Secretariat              | 543.1                                |                                                                                  |                              |
| Public Affairs           | 248.5                                |                                                                                  |                              |
| OBFM                     | 2,820.4                              |                                                                                  |                              |
| OPM                      | 2,316.7                              |                                                                                  |                              |
| Personnel                | 1,263.5                              |                                                                                  |                              |
| Disability Compensation  | 2,375.0                              |                                                                                  |                              |
| Unemployment Comp.       | 3,970.0                              |                                                                                  |                              |
| Workmen's Compensation   | 572.4                                |                                                                                  |                              |
| Audits                   | 663.4                                |                                                                                  |                              |
| Civil Defense            | 152.1                                |                                                                                  |                              |
| Human Rights             | 577.9                                |                                                                                  |                              |
| Consumer Affairs         | 284.4                                |                                                                                  |                              |
| Bicentennial             | 150.0                                |                                                                                  |                              |
| Finance & Revenue        | 8,022.0                              |                                                                                  |                              |
| Corporate Counsel        | 3,360.9                              |                                                                                  |                              |
| General Services         | 15,989.3                             |                                                                                  |                              |



EXHIBIT B  
Status of Federal Grants  
December 31, 1974

| Name of Grant                  | Grant Period<br>Termination<br>Date | Total Grant<br>Amount | Committed<br>To Date<br>12/31/74 | Expended<br>To Date<br>12/31/74 |
|--------------------------------|-------------------------------------|-----------------------|----------------------------------|---------------------------------|
| <u>City Council</u>            |                                     |                       |                                  |                                 |
| Planning & Management          | X/XX/XX                             | XXXXXX                | XXXXXX                           | XXXXXX                          |
| Emergency Employment Act       |                                     |                       |                                  |                                 |
| <u>Executive Office</u>        |                                     |                       |                                  |                                 |
| Comprehensive Planning Assist. |                                     |                       |                                  |                                 |
| Emergency Employment Act       |                                     |                       |                                  |                                 |



EXHIBIT C  
Combined Statement of Cash Receipts & Disbursements  
All Funds  
For the Month of \_\_\_\_\_

| Fund                                      | Balance<br>X/1/XX | Receipts | Disbursements | Balance<br>X/31/XX |
|-------------------------------------------|-------------------|----------|---------------|--------------------|
| General                                   | XXXXXX            | XXXXXX   | XXXXXX        | XXXXXX             |
| Working Funds                             |                   |          |               |                    |
| Printing                                  | XXXXXX            |          |               |                    |
| Repairs & Improvements                    | XXXXXX            |          |               |                    |
| Maintenance of Vehicles                   | XXXXXX            |          |               |                    |
| Administrative Services                   |                   |          |               |                    |
| Food Services                             |                   |          |               |                    |
| Etc.                                      |                   |          |               |                    |
| Highway                                   |                   |          |               |                    |
| Motor Vehicle Parking                     |                   |          |               |                    |
| Water                                     |                   |          |               |                    |
| Sanitary Sewage Works                     |                   |          |               |                    |
| Metro Area Sanitary Sewage                |                   |          |               |                    |
| Stadium                                   |                   |          |               |                    |
| Alcoholic Rehabilitation                  |                   |          |               |                    |
| Federal Grant Funds:                      |                   |          |               |                    |
| Health                                    |                   |          |               |                    |
| Welfare                                   |                   |          |               |                    |
| Education                                 |                   |          |               |                    |
| Public Safety                             |                   |          |               |                    |
| Environmental                             |                   |          |               |                    |
| Urban Renewal                             |                   |          |               |                    |
| Other (summarized)                        |                   |          |               |                    |
| Revenue Sharing Trust                     |                   |          |               |                    |
| Trust Funds:                              |                   |          |               |                    |
| Judicial Retirement                       |                   |          |               |                    |
| Teachers Retirement                       |                   |          |               |                    |
| Private & Miscellaneous (summarized)      |                   |          |               |                    |
| Bond Funds:                               |                   |          |               |                    |
| (To be established as bonds are sold)     |                   |          |               |                    |
| Debt Service Fund:                        |                   |          |               |                    |
| (To be established when bonds are sold)   |                   |          |               |                    |
| Deposit and Agency Funds: (summarized)    |                   |          |               |                    |
| Totals                                    | XXXXXX            | XXXXXX   | XXXXXX        | XXXXXX             |
| <u>Balances Classified by Depository:</u> |                   |          |               |                    |
| Cash on Hand                              |                   |          |               | XXXXXX             |
| Open Deposit                              |                   |          |               | XXXXXX             |
| Time & Certificates of Deposit            |                   |          |               | XXXXXX             |
| U.S. Treasury Investments                 |                   |          |               | XXXXXX             |
| Other                                     |                   |          |               | XXXXXX             |
|                                           |                   |          |               | XXXXXX             |





THE DISTRICT OF COLUMBIA MUNICIPAL RESEARCH BUREAU, INC.  
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RESEARCH MEMORANDUM NUMBER 1

This memorandum initiates a new form of Research Bureau report. "Research Memorandums" will contain several pages of information about a specific subject of current interest to city officials and to the public. These memorandums will be in addition to regular research and technical reports issued by the Bureau.

SUBJECT: Analysis of City Financial Operations for Fiscal 1975

DATE : November 1975

The City spent more from appropriated operating funds than it received during fiscal year 1975, based on the Annual Financial Report of the District, which was released on October 31. To illustrate how this occurred and how the 1975 experience compared to fiscal 1974, the City's cash receipts, its obligations, and its actual cash disbursements for each of the two years are summarized in the attached Table I.

The District is required to stay within the Congressionally approved operating appropriation, which was \$919.9 million in 1975. In 1975 the City obligated itself to spend a total of \$918.2 million. The operating revenues received to finance these expenditures were \$872.7 million, resulting in an excess of obligations compared to revenues of \$45.5 million for the year. By contrast, in fiscal 1974 the underfunding was \$3.5 million.

On a cash basis, the City had disbursements of \$942.0 million, which exceeded the \$872.7 million receipts by \$69.3 million. The 1975 cash disbursements exceeded total appropriations by \$22.1 million because they included both expenditures from the 1975 appropriation, and payment of unfunded obligations from prior years' appropriations. The payment of past obligations in 1975 was greater than the amount of 1975 obligations deferred into future years.

The cash shortfall was offset in fiscal 1975 by using the cash balances at the beginning of the year, and by borrowing the maximum \$40 million cash advance permitted by law in one year from the U. S. Treasury. This \$40 million advance was in addition to outstanding advances of \$25 million borrowed in prior years. During fiscal 1975 the City converted the outstanding \$25 million operating advance to a long-term Treasury loan to be repaid over 30 years. This was justified by City officials on the basis that capital expenditures of \$25 million in past years had been paid from current revenues and not from loans. If the conversion had not been done, the total Treasury advances on June 30 would have been \$65 million.

In addition to the problem with appropriated funds, the City also spent \$33.3 million more out of Federal grant funds than it received during the year. Provided these disbursements are eligible for Federal funding, the City should receive reimbursement in subsequent years for this cash shortfall. Cash available in other fund accounts was used on a temporary basis to offset the deficiency.



The District does not release a balance sheet in conformity with accepted standards, showing the overall position of the City's appropriated operating funds or of Federal grant funds. Although it is not feasible to prepare a balance sheet showing the position of Federal grant funds, it is possible to prepare such a report for operating funds on a pro-forma basis using information that is available in the City's financial report (see Table II). On this basis the combined appropriated operating funds deficit is an estimated \$98.4 million. The fund deficit, in municipal accounting, is defined as the amount that will have to be paid from future appropriations.

Why was fiscal 1975 such a relatively bad year for the District? The primary reason appears to have been a \$51.2 million supplemental appropriation, which was required mainly to pay for unbudgeted pay increases. This supplemental appropriation was never funded with additional revenues, except for a \$5 million increase in the Federal payment. Spending limitations of \$18 million and cash balances were supposed to offset the remainder.

A one year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these fund imbalances or deficits cause no serious problems.

Because of the current concern over New York, comparisons of the District's financial operations with New York's are probably inevitable. Therefore, it is important to point out differences between the two cities' finances. The District has experienced a one year cash imbalance of about 7%, compared with repeated New York imbalances of greater amounts. The District's accumulated fund deficit is less than 10% of the current operating budget, compared to at least 25% for New York. And finally, the Mayor and City Council have approved a \$53 million new tax package for fiscal 1976.

Nevertheless, the City is under substantial financial strain at the present time because of the need to offset the 1975 imbalance, because of inflation and the need to fund employee pay increases, and because of increasing costs for the Metro deficit, debt service, retirement costs, Medicaid and other program demands. It will require stringent measures and close attention to the balance between revenues and expenditures to insure there is no repeat of the fiscal 1975 experience.

Philip M. Dearborn  
Executive Director

Attachments



Table I  
All Appropriated Operating Funds  
Cash Receipts Compared to:  
1. Obligations, 2. Cash Disbursements  
1974 and 1975  
(in millions)

| <u>Cash Receipts</u>                                                   | <u>Fiscal<br/>1974</u> | <u>Fiscal<br/>1975</u> |
|------------------------------------------------------------------------|------------------------|------------------------|
| Property Taxes                                                         | \$151.5                | \$142.7                |
| Sales & Gross Receipts Taxes                                           | 170.1                  | 179.7                  |
| Income & Franchise Taxes                                               | 164.2                  | 172.7                  |
| Gasoline Taxes                                                         | 19.4                   | 19.3                   |
| Water & Sewer Charges                                                  | 26.0                   | 25.8                   |
| Motor Vehicle Licenses & Fees                                          | 15.0                   | 15.1                   |
| Inheritance & Estate Taxes                                             | 6.0                    | 11.1                   |
| Fines and Forfeitures                                                  | 9.3                    | 9.0                    |
| Charges for Current Services                                           | 10.7                   | 13.5                   |
| Police & Fire Retirement Contributions                                 | 9.6                    | 13.1                   |
| Other                                                                  | 11.5                   | 7.0                    |
| Federal Payment                                                        | 191.5                  | 231.8                  |
| Federal Revenue Sharing                                                | 37.5                   | 31.9                   |
|                                                                        | <u>\$822.3</u>         | <u>\$872.7</u>         |
| <br>1. <u>Obligations</u>                                              |                        |                        |
| General Operating                                                      | \$72.6                 | \$79.6                 |
| Public Safety                                                          | 209.3                  | 230.8                  |
| Education                                                              | 199.0                  | 219.3                  |
| Recreation                                                             | 14.0                   | 14.8                   |
| Human Resources                                                        | 223.1                  | 232.0                  |
| Highways and Traffic                                                   | 23.8                   | 25.3                   |
| Environmental Services                                                 | 47.4                   | 54.6                   |
| Refunds and Miscellaneous                                              | 4.5                    | 5.2                    |
| Debt Service                                                           | 40.2                   | 49.6                   |
| Permanent Authorization                                                | -8.1                   | 7.0                    |
|                                                                        | <u>\$825.8</u>         | <u>\$918.2</u>         |
| <br><u>Excess (Deficiency), Receipts Compared<br/>to Obligations</u>   | <br>\$(3.5)            | <br>\$(45.5)           |
| <br>2. <u>Cash Disbursements</u>                                       |                        |                        |
| General Operating                                                      | 75.1                   | 81.2                   |
| Public Safety                                                          | 208.4                  | 233.0                  |
| Education                                                              | 182.5                  | 232.9                  |
| Recreation                                                             | 13.9                   | 15.6                   |
| Human Resources                                                        | 229.8                  | 239.3                  |
| Highways and Traffic                                                   | 24.3                   | 24.7                   |
| Environmental Services                                                 | 45.4                   | 54.4                   |
| Miscellaneous                                                          | 4.5                    | 5.4                    |
| Debt Service                                                           | 45.2                   | 49.1                   |
| Permanent Authorizations                                               | -10.9                  | 6.4                    |
|                                                                        | <u>\$818.2</u>         | <u>\$942.0</u>         |
| <br><u>Excess (Deficiency), Receipts Compared<br/>to Disbursements</u> | <br>\$4.1              | <br>\$(69.3)           |



Table II  
 Pro-Forma Balance Sheet  
 All Appropriated Operating Funds  
 June 30, 1975  
 (in millions)

Assets

|                                              |             |
|----------------------------------------------|-------------|
| Cash                                         | \$(2.7)     |
| Investments                                  | 4.6         |
| Accounts Receivable, current                 | 8.9         |
| Accounts Receivable, delinquent              | 14.9        |
| Taxes Receivable                             | 19.2        |
| Due from Federal Government Stadium interest | 9.0         |
| Inventory, material and supplies             | <u>16.9</u> |
|                                              | \$70.8      |

Liabilities

|                                    |               |
|------------------------------------|---------------|
| Vouchers Payable                   | 28.1          |
| Salaries Payable                   | 38.5          |
| Personnel Benefits Payable         | 6.7           |
| Treasury Advance                   | 40.8          |
| Due to Teachers' Retirement Fund   | 10.6          |
| Other Payables                     | 1.3           |
| Reserve for Undeliverable Checks   | .6            |
| Reserve for Unobligated Allotments | 42.6          |
| Fund Deficit                       | <u>(98.4)</u> |
|                                    | \$70.8        |



The CHAIRMAN. At the bottom of the first page, you have a quotation from your report of last year. You quote from that report, and the recommendation was basically against going to the market for refunding bonds. But you say at the top of page 2, at the time this conclusion was reached in November of 1974, it was anticipated that the city would be selling a substantial amount of project bonds soon after the advent of home rule, and so forth.

If this were the factual case, what would be your comment, assuming the District goes to the market with \$50 million in refunding bonds—as they hope to do with this matter before us—and it is their intent soon thereafter to go to the market with \$100 million of bonds, perhaps some capital and some refunding, how would you view that in linking the two together, the \$50 million being the forerunner to the \$100 million that was to come soon thereafter?

Mr. DEARBORN. Mr. Chairman, I am judging by the leadtime that has been indicated in this refunding bond issue. By that, I mean the time from when legislation is drafted, and introduced in the City Council, goes through the City Council Committee, goes through their work sessions, their two readings, the final approval, the approval of the Mayor, and then filing with the Senate and House for 30 legislative days. That whole period, it seems to me, is almost certain to take 3, 4, or maybe even 6 months, depending on how much trouble the City Council has in making its decision. So that is why I indicate there is no legislation now pending.

I cannot see that any following issue will come close to this refunding.

The CHAIRMAN. The Wall Street Journal has identified this as the most precarious bond market in modern history. Would such a bond market be a conducive arena in which to attempt to market in the same calendar year \$150 million in bonds, from a city which never before had gone to the market at all? Can you comment on that?

Mr. DEARBORN. Mr. Chairman, this is a technical question regarding the market, which I am not perhaps in the best position to answer.

There has been a lot of discussion, and I have talked with people about how popular the bonds will be—they are tax exempt in every State in the country, and in theory this will make them highly marketable.

The CHAIRMAN. Philadelphia bonds are tax exempt in every State for the Federal income tax, but not for the State income tax.

Mr. DEARBORN. Federal income tax, yes.

The CHAIRMAN. And they went to market for \$60 million. They came in at an interest rate of 8.8 percent; and then when they went to the market again for \$25 million, they came in with a composite rate of 9.49, and they have an A rating.

All right. At the bottom of page 2, continuing onto page 3:

Certainly the question of the District's present financial status is one that potential investors will want to explore very carefully, and one that will require good and complete information.

From your point of view, as a former budget or financial person, at Cleveland, and in Fairfax County, will the investing public have good and complete financial information on the District of Columbia situation under the present reporting and accounting procedures?



Mr. DEARBORN. I think we indicated in the next sentence that there will be a link, in my opinion, between how good and how complete the information is, and how well received the bonds are, by potential investors.

I have not seen any prospectus draft or anything that indicates what they plan to distribute to the investors showing the financial condition of the District, what kind of certifications they might have on it, so I cannot judge for certain what kind of information will be placed in the hands of the investors.

The CHAIRMAN. We will have to recess again, and we will come back shortly.

[Whereupon, the committee was in short recess.]

#### AFTER RECESS

The CHAIRMAN. The committee will once again be in order.

We left off at the top of page 3 about the good and complete records.

Could there not be some advantage to the city in going to the market a year or a year and a half, maybe even 2 years from now, with truly good and truly complete records authenticated by an independent certified public accounting firm? Could not that be advantageous in the sense that with good and complete records, and a solid analysis of the city's fiscal health, they could get an even better rating, if one were to play the rating game? Or more importantly, would they not obtain an even more advantageous interest payment then they might obtain now in the marketplace, where the records are not as good, not as complete, and where there are some doubts about the city's fiscal health?

Mr. DEARBORN. Mr. Chairman, yes, if it reflected generally better financial conditions in the city, I am sure it would be influential to investors.

I would expect that each succeeding year that there would be improvement overall, both in content, appearance, and what it has to say about the District's financial affairs. There should typically be continuing improvement as the District sells more bonds, as it gets more and better improved prospectus, and a feel of what is going on.

That is not to say, however, that it would be an adverse sale in terms of interest rates and accreditation, if they were not actually in conformity with the times.

The CHAIRMAN. Now, your report on financial reporting for the District pointed out various specifics, insofar as where you thought improvements could be made in their accounting and reporting system. I remember some of that being the interim reports, the monthly reports, and various recommendations which were made on pages 1, 2, and 3 of that report. Is that not correct?

Mr. DEARBORN. Yes; that is correct.

The CHAIRMAN. That report is in the record in full, and it speaks for itself.

On page 4, I think it was, you got into the question of auditing.

I think you were in the room where I read excerpts from that subsection, called "Auditing in the District of Columbia."

Would it not be helpful to the District, in terms of knowing what their current fiscal health is, and also, for the establishment of general



and accepted accounting procedures in the future to have the assistance of an independent auditing firm?

Mr. DEARBORN. Yes.

Mr. Chairman, yes, clearly in my opinion it would be.

I might say, Mr. Chairman, and this is somewhat off the audit subject and off the District in particular, that I feel and hope that the trend among all major cities will very quickly be to conform with these accounting standards, and have a postaudit.

I believe not only for the District, but any other city, that it is a healthy thing.

The CHAIRMAN. I very strongly share that view, and I think that maybe New York will make that view more than just a theoretical dream, and make it in some instances reality.

I believe the financial market increasingly is more cautious, and will look behind the face of the instrument to see the fiscal strength of the governmental entity that is involved. Thus it seems it was always a good idea to have an independent public audit. The reasons for it now are all the more compelling. The marketplace may well insist on it.

Mr. DEARBORN. If it does not, it should.

The CHAIRMAN. All right.

Now, on the bottom of page 3, Paying for Capital Improvements, in that excellent report, you referred to various measures, such as the extent of the debt of the District of Columbia as a ratio to the tax. What was the ratio where you quoted?

Mr. DEARBORN. That is debt to true value.

The CHAIRMAN. Debt to full market value, and you quoted per capita debt—there were three or four different yardsticks that you mentioned—and as I read that report, the summary seemed to be that the debt problem of the District was a considerable one. That it was growing, and that it required attention by those interested in District affairs. Is that a fair summary of what you are portraying here?

Mr. DEARBORN. Yes. The overall thrust of our report was that the District is on a very ambitious program, and should properly make a review of what its impacts will be on the immediate future operating budget, in particular, and on its overall financial condition.

The CHAIRMAN. I am now at the bottom of page 4. You point out all the areas of cost exposure to the District, which have not been the subject of reports by your agency. You mentioned the Metro deficit, police and fire retirement systems, pay increases, and so forth. These are ongoing problems that a big city faces.

My final question is this: On the top of page 5, you say:

A one year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; while promptly diagnosed and corrected, these funding imbalances or deficits cause no serious problems.

If the District continued on a course of deficits for 3 or 4 years, you would become increasingly troubled. On an obligational basis, the District for the past 2 years has run into a deficit: In fiscal 1974, \$3.5 million, in fiscal 1975, \$45.5 million, and Mr. Coppie's estimate for 1976 is \$40 million.

If that continues unchecked, that is a warning sign, is it not?

Mr. DEARBORN. Yes, it certainly is.

The CHAIRMAN. I yield to Senator Bartlett.

Senator BARTLETT. Mr. Chairman, thank you very much.



Mr. Dearborn, in your statement, page 5, you quote from your report:

A one year imbalance between revenue and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these funding imbalances or deficits cause no serious problems.

The Chairman mentioned that this morning, and he quoted that into the record.

What do you mean by that?

Mr. DEARBORN. Well, Senator, what I mean by that, is that any city well managed, that there is always the situation that occurs, when for one reason or another, revenues have been overestimated, or unexpected expenditure requirements came up during the year, or some other unexpected events happened, and the city ends up that year taking in less revenue than it spends. You must try to have them equal. But this means that sometimes you fall the wrong way. So it is not unusual. In a well-managed city there is usually a fairly prompt response in the following year or two, and a compensation for that, a recovery, and it evens out all the time.

Senator BARTLETT. Specifically, when you say, "when promptly diagnosed and corrected," do you mean that within a year or two you have a balanced budget?

Mr. DEARBORN. Typically what happens in that 1 fiscal year, yes.

Senator BARTLETT. We are talking about a well-run city.

Mr. DEARBORN. In 1 fiscal year, this happens through no particular fault of anybody.

Generally, we are talking about a situation, where it happens so late in the year, you cannot adjust that year.

Senator BARTLETT. In our cities in Oklahoma, there are those that are well run and those that are not, and they all operate in the black.

It is a constitutional requirement, so none could borrow as New York does, or as Washington does, without a sinking fund, or without revenues.

They could have bonds issued—many of which are voted for by the people.

I will have to go for a 10-minute vote, but I will be back.

The CHAIRMAN. We do thank you very much, Mr. Dearborn, for your very fine statement.

[Mr. Dearborn's prepared statement follows:]



STATEMENT OF PHILIP M. DEARBORN  
EXECUTIVE DIRECTOR, D. C. MUNICIPAL RESEARCH BUREAU  
BEFORE THE SENATE DISTRICT COMMITTEE  
TUESDAY, DECEMBER 2, 1975

Mr. Chairman, members of the Committee, the D. C. Municipal Research Bureau is a voluntary membership organization concerned with the government of the District of Columbia. We do independent research on City government issues and make the results available to the public. In this regard, I have been asked to appear here today to discuss with you the Bureau's published reports on the District, and specifically, Paying for Capital Improvements (November 1974), Financial Reporting (August 1975), and Analysis of City Financial Operations for Fiscal 1975 (November 1975). Because each member of the Committee has been supplied with a copy of these three Bureau reports, I will only highlight the findings and conclusions, which relate to the issuance of \$50 million in refunding bonds.

The question of issuing refunding bonds was addressed in our publication, Paying for Capital Improvements, on page 16. Specifically, the report stated:

"Refunding

It also appears that the City should defer any consideration of refunding existing Treasury loans with tax exempt bonds. The present high interest rates for all securities, and the difficulty of maintaining demand for a large volume of District bonds, would minimize potential interest savings. After the District has established a substantial market for its bonds, and at a time when interest rates are more favorable, consideration should then be given to aselective refunding program."



At the time this conclusion was reached in November 1974, we anticipated that the City would be selling a substantial amount of project bonds soon after the advent of Home Rule. It appeared that if the District simultaneously attempted to sell refunding bonds while also selling project bonds, the City would have flooded the market with District bonds before the market had had an opportunity to receive and evaluate the District as a new municipal credit. This would have unnecessarily increased the interest rates on both the project and refunding bonds. For a number of reasons the District has not proceeded with the issuance of project bonds and does not now have any legislation pending for their issuance. In view of this fact, it does not appear that issuing the proposed refunding bonds would present the marketing problem contemplated in the report. Whether the District, in today's high interest market, will gain any substantial interest savings from such issuance is still unclear, but the authorizing legislation does not require sale, if there is no advantage to the City.

While the question of whether the District should issue refunding bonds has interesting technical aspects, it does not appear to represent any major substantive issue in the context of the District's overall financial problems. As reported in the Bureau's Analysis of City Financial Operations for Fiscal 1975, the District's immediate problems relate much more directly to the balancing of current receipts with current expenditures, than to issues related to the sale of refunding bonds. I know there has been concern expressed by members of the Committee that this basic budget balancing problem needs to be faced before the City publicly issues any bonds. Certainly the question of the District's present financial status is one that potential investors will want to explore very carefully, and one that will require



good and complete information. The more the District can do to provide good information and to provide assurances that it is coping with its financial problems before issuing bonds, the better will be its credit ratings and its interest rates.

In recognition of this need for good financial information, the Bureau issued Financial Reporting, which urged that the accounts and reports of the District be prepared in conformity with accepted national municipal standards and with an independent auditor's opinion resulting from a post-audit. Because the City has operated under Federal accounting and reporting standards in the past, conformity with accepted municipal standards and a typical municipal post-audit had not been considered necessary prior to Home Rule. It is my understanding that the City Council is now considering the enactment of legislation that would routinely provide for the preparation of the City's financial reports in accordance with national standards and would provide for an annual post-audit in connection with these reports. It is important to note that for a substantial number of local governments a post-audit is a routine annual occurrence, and is done to provide an independent assurance to the credibility of the government's own reports.

In connection with these hearings, it is my understanding that the Committee may also wish to review the overall status of the City's debt and its operating budgets. Because this is a large and complex subject, I will not try to repeat the detailed findings of our reports on Paying for Capital Improvements and our Analysis of City Financial Operations for Fiscal 1975, but I would like to mention a few important points that you may wish to consider. The City presently has over a billion dollars in long term Treasury loans and expects by 1980 to have approximately \$1.8 billion in long term debt. The amount of debt outstanding, together with the interest on it, represent a future liability which will have to be paid from future revenues.



The most obvious way to reduce costs would be to reduce the size of the capital improvements program by eliminating lower priority projects, and certainly such a solution should be considered. Since much of the program has already been authorized by Congress and is well underway, and in light of previous commitments and current rates of inflation, it may be difficult to reduce by any substantial amount the total projected cost for the capital improvements program. As an alternative, the Bureau's report suggests a delay and stretch-out of the program to reduce debt service costs on the 1976-1980 budgets. The issuance of refunding bonds to replace existing debt with lower interest debt, also has potential for reducing costs.

However, the annual requirements for payment of principal and interest are only one of a number of major future financial commitments facing the District, all of which together will make the balancing of receipts and expenditures more difficult in future years. In this regard I refer you to the City's own publication, Multi Year Financial Plan for Fiscal 1976-1980, as perhaps the best source of information on how all of these commitments will result in a substantial gap between projected revenues and projected expenditures.

Because the Bureau has not issued public reports on such other costs as those for the Metro deficit, for police and fire retirement systems, for annual pay increases, for welfare and Medicaid programs, and for other significant and growing items in the District's budget, we are not able to offer definitive suggestions as to how these costs can be controlled. It is apparent, however, from our review of the City's experience in fiscal 1975, during which year spending on both an obligation and a cash disbursement basis exceeded revenues, that the District will have to impose stringent budget measures and pay close attention to the balance



- 5 -

between revenues and expenditures in future years. As we reported, "a one year imbalance between revenues and expenditures, and a fund deficit occur with some frequency in other major cities; when promptly diagnosed and corrected, these funding imbalances or deficits cause no serious problems."

The District does have a problem in that its future expenditure requirements are projected to be larger than its future expected revenues. What this means in municipal budgeting is that the City will have to move to increase its revenues or decrease its expenditures. It can be expected that neither alternative will be pleasant to the community or to the officials who have to make the decisions. I am confident that the officials at the District Building, on both the executive and the legislative side, already understand what's ahead, what's required of them, and what they must do. However, they will need support from the community and from Federal officials in making difficult decisions.



The CHAIRMAN. We stand in recess.  
[Whereupon the committee was in recess.]

#### AFTER RECESS

The CHAIRMAN. Our next witness is Mr. Thomas Muller of the Urban Institute. Please come forward, Mr. Muller, we will start with you.

Mr. Muller, we welcome you, and do sincerely appreciate your enormous courtesy. I believe you have been here since 9:30 this morning, and it has been a long day. We are grateful to you.

You may proceed.

#### STATEMENT OF THOMAS MULLER, DIRECTOR OF EVALUATION STUDIES, THE URBAN INSTITUTE

Mr. MULLER. Mr. Chairman, I am pleased to respond to your invitation to testify on a subject that is of considerable concern to residents of this city and other parts of the Nation.

The CHAIRMAN. Would you please tell us about the Urban Institute.

Mr. MULLER. It is a nonprofit, nonpartisan organization involved in urban research.

We do not represent any particular viewpoint, and our studies are published as a matter of record.

The CHAIRMAN. It is a nonprofit organization. Do you receive foundation moneys?

Mr. MULLER. We get foundation moneys.

We also have grants from the Federal Government.

The CHAIRMAN. The purpose of the institute is to focus on various aspects of urban endeavor?

Mr. MULLER. That is correct, particularly in the area of economic analysis.

The CHAIRMAN. What is your personal background?

Mr. MULLER. My position is Director of Evaluation Studies. I have undertaken a number of studies dealing with various fiscal issues, education finance, and financing of other public services. We have conducted a number of studies dealing with the Washington metropolitan area fiscal issues. Just 3 weeks ago we issued a report dealing with the decline of the urban areas which make fiscal comparisons between cities that are growing and those that are declining. We were trying to get some insight as to why New York and other cities have particular fiscal problems. So my background deals with fiscal analysis.

I was going to say, in fact, the last study which I undertook as to growing and declining areas, had a number of indicators of fiscal problems which cities may or may not have, and it is in that context that my comments follow.

Essentially, what I do is to compare the District of Columbia with other declining areas, fully taking into account the points made this morning, that the District of Columbia provides services which are both those of local and State government; and at the same time collects taxes which are identified with State and local government. For example, the District of Columbia has a gasoline tax which is not imposed by other local governments, but by States. Looking at the District of



Columbia government as both the local and State government, is the methodology we use here.

The CHAIRMAN. You used the phrase "declining area," that the District is a declining area. By that, I take it you mean the population is declining.

Mr. MULLER. That is correct. But we have also found that cities which have a declining population also tend to have higher outlays for public services. A good example of that is Kansas City versus St. Louis. Kansas City is in much better shape than the city of St. Louis. So that is essentially the methodology. The declining also generally means a decline in private employment and generally means a loss of income from middle-class people, and so forth. But the population is one of the key determinants.

I note New York being mentioned quite often this morning and this afternoon. In terms of the scope of services, the District of Columbia and New York compare in that both communities provide higher education, public housing, mass transit, and a broad array of social services.

However, I think on the revenue side, the District has a number of pluses going for it. It has a broad range of taxes, a growing personal income level, and a very substantial Federal payment, which I think puts the city in generally better condition than some other declining cities.

The CHAIRMAN. That is the ace in the hole.

Mr. MULLER. It helps a lot, because that payment has been rising more rapidly than revenues from its own sources, and it has enabled the city to provide services without sharp increases in taxes.

The CHAIRMAN. And the conventional assumption, which I think may be coming to the end of the line, is don't worry so much, whatever the gap or shortfall is, the Federal Government will make it up in terms of an increase in the Federal payment. I think that is what motivates some who recommend that the District go into the bond market. That is the real ace in the hole in this situation, the Federal payment, and fear not, the Federal Government will pump in the dough. You say that is perhaps in the mix.

Mr. MULLER. Well, I cannot prejudge, but in the past, certainly, since as you noted this morning, the difference between revenues and expenses is usually made up by the Federal payment.

In terms of the bond market, I am sure the Federal Government will stand explicitly behind the District. I would think it would be a factor, but not the determining factor, in the bond market's view of the city.

I think it is very unlikely that the New York situation would exist in the District of Columbia, in the sense that given the fact this is the Nation's Capital, default would seem even more improbable.

The CHAIRMAN. Even if the day never comes, and I do not think it will, when the District of Columbia would default, there are situations that are short of default, and New York is one of those examples. If the financial affairs of the District were to become so enmeshed, or out of hand, there would be a move to do what was done in the 1860's—that is to take away local self-determination, a day I would hate to see.



Well, we must recess for another vote.  
[Whereupon the committee was in short recess.]

## AFTER RECESS

The CHAIRMAN. We were talking about the problems of the cities with declining populations and income.

We were talking about New York City. The District of Columbia has a university, and New York has that also.

Mr. MULLER. The one thing we found that is even more true in the District of Columbia, is over the last number of years, the employment in cities has decreased. In the District of Columbia, we found over an 8-year period, from 1966 to 1974, municipal employment increased by 61 percent.

That increase is due to two factors: first of all, an increase in personnel for existing services, which is 70 percent of the amount; and the balance, 30 percent, is due to two new functions, which the District of Columbia has performed. One is the takeover of transit, and the second is higher education, which was just being geared up in 1966, and now is becoming full blown. So most of the increase in employment is attributed to the expansion of existing services, and of personnel.

The reason that I mentioned transit, is because if BART in San Francisco is typical of the Metro system here, about two-thirds of the expenditure has to be paid out of the general revenue, because only a small share of operating expenditures is met from the fare box, and so essentially transit employees do become part of the tax burden to a great extent. I think it is legitimate to include those as long as you do it for all cities, and not only for a selection of cities. But in any case, there has been an expansion in municipal employment in the District.

Wages in the District were quite stable, and were just moving up with the other cities, up to about 2 years ago. There has been a sharp increase since then, and I will not go through the statistics, but wages now are above the average of a number of declining cities, as of the end of 1974, which of course affects the payroll, since over half of the total District of Columbia revenue is allocated in terms of payroll, excluding benefits. That is a good way to essentially judge a city's situation, by saying how much it spends on payroll.

The only other services are transfer payments. In any case, getting back to the one issue which you spoke about this morning, the number of employees which the District of Columbia has, per 1,000 residents, the number does appear high and it has risen quite a bit.

The numbers which Mr. Coppie and I have really come out the same. He noted 49,700 employees; if you add 4,300 because of transit, it gives you about 54,000. That is 1,000 difference, and presumably that is the attrition you spoke about earlier.

The CHAIRMAN. His figure was 49,700 without transit.

Mr. MULLER. Yes.

The CHAIRMAN. And you are adding 4,300 for transit.

Mr. MULLER. That comes to 54,000, and the 1,000 difference with Mr. Coppie's figures may be due to attrition.

I am dealing with 1974 population, and he may be dealing with a different population.



The way we did it was to take the share of all State employees also, so when we talk about New York in table 2, it is not only the 404,000 employees which New York City has, but you put in all the special employees in transit, and so forth, and another 64,000 employees. That assumes that roughly 34 percent of all State employees actually are there because of New York City.

Now, that is being ultraconservative. I doubt that is really the case, but it is certainly a way of doing things.

If you look at the payroll, it is quite high in the District of Columbia, on a per-capita basis. The reason, by the way, St. Louis is there, is not because you happen to be from there, but St. Louis is one of the large cities which offers county services, and, therefore, it is more comparable. But there is quite a difference in payroll.

The final thing that we have is the District of Columbia outlays, the percentage of all income, and the District is really fortunate in that it has a high income, relative to most cities.

A city like St. Louis would be glad to exchange their income with that of the District of Columbia, and in using that criteria, we find that the District of Columbia spends approximately 13 percent of all income for its payroll, which is slightly below that of New York City and Boston but higher than Philadelphia, Baltimore, and St. Louis.

The District of Columbia is a declining city, and therefore has high costs, and if you were to look at Dallas, or Phoenix, you would find much lower outlays for services.

I would say nothing about revenue services, because this has been brought up earlier, except to note that Federal revenue as a share of the District of Columbia budget has been going up continually.

In fiscal 1965, only 20 percent of the District of Columbia budget was Federal funds.

The CHAIRMAN. That is Federal payment?

Mr. MULLER. Federal payment plus other payments.

There has been an increase in dependence by the District on non-locally generated revenue, more so than is the case with the average of other cities in the country.

This increased share of Federal revenue, plus the increased amount in the income of city residents, this has avoided until now a large tax increase, and so in that sense, the District of Columbia is in relatively good shape.

Just to summarize, the District of Columbia does have more employees per capita than other large cities, which do provide the same type of services. Until early 1970, wages were similar in other cities, and now they have moved somewhat ahead.

Public debt has been noted a number of times this morning on a per-capita basis. It ran in 1973 over \$1,000 per capita, and that is way above the average of other cities, although it is pretty much the same as in New York City.

Finally, it appears the District of Columbia has been able to maintain a moderate tax revenue burden compared to other cities, because of the substantial increases in direct Federal payment, and the high level of personal income, so these are pluses which the District of Columbia does have fiscally. I think after we view everything collectively, no one item seems to be particularly critical, but when one uses a pattern in recent years, the increase in employment, increase in wages,



increase in debts, higher pension funds, and so forth, I think collectively, it may be a potential problem, which one needs to examine beyond my comments.

The CHAIRMAN. Very good.

Let me ask you this, have you analyzed other cities?

Mr. MULLER. Correct.

The CHAIRMAN. Like my own city of St. Louis, Baltimore, and so forth.

Mr. MULLER. Correct.

The CHAIRMAN. Do you know of any case studies, or actual game plans, where a city has taken a long hard look at its payroll, the number of its employees and costs, and has said we have got to do something here?

Have you seen any of that, where they state we cannot let this continue forever, other than becoming a massive thing that New York has become, and as was required to do under the gun, lopping thousands and thousands off the payrolls, perhaps more thousands to come?

Do you know of cities that have successfully coped with that?

Mr. MULLER. Pittsburgh is one city that has over a time, since about 1970, slowly reduced its public employment.

It has also controlled wages. Obviously everyone deserves a decent wage, but a number of cities have been forced to control the payroll, and they do it both by slowly reducing public employment, and controlling the rate of wage increases, and I think both go hand in hand.

If you provide large wage increases, and cut back employment, your payroll does really improve.

On the other hand, since we have obviously certain inflationary tendencies now, I think one has to balance a slow reduction in employment, where it is necessary, with a control on wages and fringe benefits, which of course are primarily pension plans. I think it has to be done in conjunction with each department.

Education, for example, is an area where a number of cities have special controls. The District, which is not unique by any sense, has had a drop in enrollment, yet the number of employees has increased in the school system in the District. Now, there may be good reasons for this, but certainly it is something which may require further examination.

There are many demands for services, and many people are needed to provide those services.

The New York Times had an article dealing with the sanitation workers, and pointed out despite the fact there are fewer workers New York streets are cleaner. That may not hold true for every service, but certainly it does not necessarily hold that by controlling the size of employment, services will deteriorate.

I think it has to be examined on a one-by-one basis.

The CHAIRMAN. Are there any studies which show by imposition of employment freeze, that you freeze the current positions, how much goes by attrition in the fiscal year?

Mr. MULLER. I have not seen any late studies on this.

The attrition rate, of course, is very slow right now. The attrition is very rapid where there is expansion of the economy. Right now, if you are a teacher—it is the only service I know—attrition in Fairfax County is practically zero.



No teacher, unless he has to, will leave his position, because it is impossible to get another job in education. My guess would be, given the national economic situation, attrition right now would be rather slow.

Given rapid economic growth, it would increase. I would say in the short run, attrition would not be very rapid, unless it happens to be where so many people are just going to be retired. If you have an elderly worker, and then you have a forced retirement age, then you would have some, but my guess is attrition would be relatively slow in any urban area due to the national economy right now.

The CHAIRMAN. So let us take the District of Columbia, with employees in the amount of 55,000 people. If a freeze were imposed on the number of employees, do you have any kind of guesstimates as to 1 year later, how many would go by attrition, what would be the retirement and death, and then those who actually outright quit? Could we be talking of as many as 5 percent?

Mr. MULLER. I would say 5 percent would be high. I could not give you a figure, but 5 percent would be high, given the present economic situation.

I would say it is certainly not as much as 5 percent, but I have not seen any recent studies on that.

Again, it depends on the functions.

The CHAIRMAN. Thank you very much, Mr. Muller, for all of your help. We appreciate it.

Your prepared statement will appear at this point in the record.

[Mr. Muller's prepared statement follows:]



STATEMENT OF THOMAS MULLER, THE URBAN INSTITUTE,  
BEFORE THE UNITED STATES SENATE, COMMITTEE ON THE DISTRICT OF COLUMBIA

DECEMBER 2, 1975



Mr. Chairman:

I am pleased to respond to your invitation to testify on a subject that is of considerable concern to residents of this city and other parts of the nation. The current fiscal situation in the District of Columbia has been reviewed this morning by Mayor Washington and two other speakers. I hope my comments can provide additional insight on some of the issues raised.

In recent years two studies have been prepared at the Urban Institute which deal with the fiscal structure of Washington, D.C. and the balance of the metropolitan area.<sup>1/</sup> My comments this morning are, however, based primarily on the data and methodologies used in a third study, of which I am the author, on the fiscal status of the nation's growing and declining cities.<sup>2/</sup> I will address my comments this morning to a comparison of fiscal conditions in the District of Columbia with a selected number of other large jurisdictions also having declining populations.<sup>3/</sup>

Since the District is a jurisdiction which provides services which are traditionally the role of both local and state government, and collects taxes typically identified with both state and local governments, an analysis of the District's expenditure and employment patterns needs to take account of this dual role. In addition, the Federal presence has direct implications for fiscal patterns in the District.

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<sup>1/</sup> Greene, K. V., W. B. Neenan, and C. D. Scott, Fiscal Interactions in a Metropolitan Area, Lexington Books, 1974.

Muller, Thomas, Fiscal Issues in Metropolitan Growth, Washington Metropolitan Council of Governments, 1973.

<sup>2/</sup> Muller, Thomas, Growing and Declining Urban Areas: A Fiscal Comparison, The Urban Institute, Washington, D.C.: 1975.

<sup>3/</sup> Cities with declining populations have substantially higher outlays per capita for public services than growing jurisdictions. For a detailed discussion see T. Muller, ibid.



With New York City's fiscal problems foremost in current discussions, it is interesting to observe that the scope of services provided by the District of Columbia more closely resembles those provided by New York City than most other urban jurisdictions. Both jurisdictions provide higher education, public housing, mass transit and a broad array of social services, particularly health care. Thus, despite differences in scale, (D.C. has less than 10 percent of the New York City population) the similarities between the two are greater than differences. However, from a fiscal perspective, the District has some positive characteristics not present in New York or most large cities with declining populations. These include a very broad range of taxes, high and rapidly growing personal income levels, and a substantial Federal payment in lieu of taxes on Federal property.

I would now like to turn to a brief summary of expenditure, revenue and debt level patterns in the District of Columbia over the last several years. Those involved in capital market credit ratings consider these patterns and related fiscal factors in their analyses.



Expenditure Patterns: Public Employment

Between 1966 and 1974, municipal employment in the District of Columbia increased 61 percent, from 34,257 to 55,178 persons. Since, during this same period, the District population decreased by 5 percentage points, on a per capita basis, municipal employment has increased by about 70 percent. Nationally, local and state government employment increased 34 percent during the same 8 year period. With a national population increase of 7 percent, on a per capita basis, all non-Federal public employment increased by about 24 percent since 1966. Thus the District of Columbia's rate of increase was well above national levels.

The major functional areas of municipal employment showing increased levels since 1966 in D.C. have been: health services (126%); police protection (83%); sanitation other than sewerage (34%); corrections (83%); financial administration-general control (102%); and public schools (29%).<sup>4/</sup> Added District functions since 1966 include higher education and transit, which together resulted in an increase of 6,000 employees.<sup>5/</sup>

Wages. In 1972, monthly wages of municipal employees, other than teachers, in the District were \$785, or somewhat below the \$866 average of the six other large declining cities as shown in Table 1. However, rapid wage increases in D.C. since 1972 have resulted in a wage rate slightly above the six city average by October 1974.<sup>6/</sup> The importance of these wages as a component in the D.C. budget can be illustrated by the fact that in fiscal 1974, 52 percent of total operating outlays for the District, including direct transfer payments, were for personnel.

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<sup>4/</sup> Public school employment increased in the District of Columbia since 1971 despite a considerable drop in enrollment.

<sup>5/</sup> Excluding the two added functions, the number of D.C. employees increased by 44 percent between fiscal 1966 and fiscal 1974.

<sup>6/</sup> October 1974 represents the latest data collected by the Bureau of the Census. Since this date, a number of large cities and the District of Columbia have apparently reduced the level of public employees.



TABLE 1  
MUNICIPAL EMPLOYEES\* AND MONTHLY WAGE DATA IN CITIES\*\*  
WITH DECLINING POPULATIONS

| Jurisdiction                      | No. of Municipal Workers |                      | Percent Change<br>1972-1974 | Monthly Wages <sup>1/</sup> |           | Percent Change<br>1972-1974 |
|-----------------------------------|--------------------------|----------------------|-----------------------------|-----------------------------|-----------|-----------------------------|
|                                   | Oct. 1972                | Oct. 1974            |                             | Oct. 1972                   | Oct. 1974 |                             |
| District of Columbia              | 35,474                   | 39,758 <sup>2/</sup> | 12.1                        | \$785                       | \$1,009   | 28.5                        |
| New York City                     | 247,624                  | 260,278              | 5.1                         | 961                         | 1,064     | 10.7                        |
| San Francisco                     | 20,943                   | 21,482               | 2.6                         | 1,068                       | 1,145     | 7.2                         |
| Boston                            | 17,162                   | 15,352               | -10.3                       | 809                         | 1,016     | 25.6                        |
| Philadelphia                      | 36,952                   | 37,124               | 4.7                         | 948                         | 1,064     | 12.3                        |
| Baltimore                         | 24,073                   | 22,556               | -2.2                        | 655                         | 769       | 13.5                        |
| St. Louis                         | 14,094                   | 13,497               | -4.3                        | 758                         | 868       | 14.5                        |
| Average 6 cities<br>(Except D.C.) |                          |                      |                             | 866                         | 987       | 14.0                        |

SOURCES: Bureau of the Census, Public Employment in 1974.

Bureau of the Census, Local Government Employment in Selected Metropolitan Areas and Large Counties 1972 and 1974.

\*/ Excluding state employees and municipal educational employees.

\*\*/ Cities included are those with 500,000 or more residents, and also serve as combined city-counties.

1/ Wages of all municipal employees, other than teachers.

2/ Transit expansion in D.C. added 4,036 municipal employees.



Method of Comparison. To provide a meaningful comparison of public employment between the District of Columbia and other cities with declining populations I will use the following method:

(1) All non-Federal public employment in selected cities, including education, is aggregated. The cities used for comparison also function as counties, and thus provide a broad scope of services, similar to those provided in the District;

(2) A percentage of all state employment equal to each city's share of the state population is then added to the municipal share, with the exception of three non-urban state provided services: agriculture, highway, and police. It should be noted that this approach tends to attribute more state employees to central cities other than the District than may actually be the case for some functions.

As shown in Table 2, the District of Columbia has 76.3 employees per 1,000 residents in October 1974. This compares with 61.8 per 1,000 residents in New York City (including a pro rated share of state employees). Other cities with populations close to the D.C. level (Boston, Baltimore, San Francisco, St. Louis) had fewer municipal workers. The total municipal payroll per capita (excluding fringe benefits) was \$957 in D.C., \$845 in New York City, but only \$584 in Baltimore and \$609 in St. Louis. The average for all metropolitan areas of the nation was \$554 per capita.

It should be noted that employment differences do not take into account differences in the quality of services provided. In general, available output measures, such as the level of crime, frequency of fire, health statistics, cleanliness of streets, and achievement test results given to students in urban areas shown little relationship between these measures and per capita outlays. In the District of Columbia, however, the large number of police per capita are



TABLE 2

NON-FEDERAL PUBLIC  
EMPLOYEES AND PAYROLL DATA FOR THE  
DISTRICT OF COLUMBIA AND SELECTED CITIES  
OCTOBER 1974

| Jurisdiction                             | City/County<br>and Special<br>District Employees <sup>1/</sup> | State <sup>2/</sup><br>Employees | Total<br>Employment<br>(In Thousands) | Employees Per<br>1000 Residents | Annual City <sup>2/</sup><br>and State<br>Payroll<br>(In Millions) | Payroll<br>Per<br>Capita |
|------------------------------------------|----------------------------------------------------------------|----------------------------------|---------------------------------------|---------------------------------|--------------------------------------------------------------------|--------------------------|
| District of<br>Columbia                  | 55,178                                                         | --                               | 55                                    | 76.3                            | \$692                                                              | \$957                    |
| New York City <sup>4/</sup>              | 403,918                                                        | 64,566                           | 468                                   | 61.8                            | 6,393                                                              | 845                      |
| San Francisco <sup>4/</sup>              | 33,565                                                         | 5,308                            | 39                                    | 57.0                            | 545                                                                | 805                      |
| Boston (Suffolk<br>County)               | 33,172                                                         | 6,765                            | 40                                    | 56.0                            | 531                                                                | 744                      |
| Philadelphia <sup>4/</sup>               | 77,166                                                         | 15,800                           | 93                                    | 50.5                            | 1,175                                                              | 639                      |
| Baltimore                                | 38,103                                                         | 10,058                           | 48                                    | 55.5                            | 505                                                                | 584                      |
| St. Louis                                | 23,695                                                         | 5,060                            | 23                                    | 52.3                            | 325                                                                | 609                      |
| U.S. Metropolitan <sup>5/</sup><br>Areas | 4,051,252                                                      | 1,335,700                        | 5387                                  | 47.5                            | 62,866                                                             | 554                      |

SOURCES: Bureau of the Census, Public Employment in 1974, May 1975.  
Bureau of the Census, Local Government in Selected Metropolitan Areas and Large  
Counties, August 1975.

<sup>1/</sup> Full-time equivalents.

<sup>2/</sup> All state employees, except state agriculture, highway and police departments, pro-rated to cities  
on the basis of population.

<sup>3/</sup> October, 1972 payroll for local and state employees times 12.

<sup>4/</sup> Includes transit employees.

<sup>5/</sup> 78 largest metropolitan areas, including D.C. and other cities shown in Table 2.



necessitated, in part, by the large number of non-residents in the city and their presence may be a deterrent to some crimes.

As noted in my opening remarks, the District of Columbia is fortunate to have a population with a high personal income level. In fact, per capita income in 1974 was \$7,479, the highest of any state, higher than almost all large cities, and \$2,000 above the national average. Therefore, if we compare D.C. expenditures for municipal employees as a function of personal income (see Table 3) we find that Boston and New York City actually spent a higher share of their income, directly or indirectly, for non-Federal public service personnel. However, personnel outlays in the District, as a percentage of income, nevertheless exceed most other large growing or declining cities.

Debt Service. While municipal employment and payroll levels have a major impact on local budgets, trends in capital outlays are also important to note in assessing the fiscal stability of a jurisdiction. Long-term full faith and credit debt in fiscal 1974 in D.C. was \$778 million, or \$1,062 per capita, almost exactly the same as the per capita rate in New York City, excluding a share of New York State debt. This represents a marked increase over the 1965 debt level of \$111 million in the District. During fiscal 1974 an additional \$152 million in long-term debt has been issued, but only \$7 million retired.<sup>7/</sup> These debt levels for the District are considerably above the average of other large jurisdictions, with the exception of New York City.<sup>8/</sup> While the tax base in the District surpasses the base of the most other large cities, a continuing rise in the debt level may create problems in the future.

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<sup>7/</sup> In addition, D.C. in fiscal 1974, had \$130 million in short-term debt.

<sup>8/</sup> In fiscal 1974 the fourteen cities with 500,000 or more residents and a decline in population had a debt of \$351 per capita. This excludes a share of state debt.



Table 3

Non-Federal Public Employment Payroll as a Percent of Personal Income

|                         | 1974 Personal<br>Income<br>(In Millions) | Non-Federal*<br>Public Payroll<br>Fiscal 1974<br>(In Millions from<br>Table 2) | Payroll as<br>Percent of<br>Personal Income |
|-------------------------|------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------|
| District of Columbia    | \$ 5,407                                 | \$ 696                                                                         | 12.9                                        |
| New York City           | 48,760                                   | 6,393                                                                          | 13.1                                        |
| San Francisco           | 5,399                                    | 531                                                                            | 9.8                                         |
| Boston (Suffolk County) | 3,948                                    | 531                                                                            | 13.4                                        |
| Philadelphia            | 10,170                                   | 1,175                                                                          | 11.6                                        |
| Baltimore               | 4,090                                    | 505                                                                            | 12.3                                        |
| St. Louis               | 2,798                                    | 325                                                                            | 11.6                                        |

Source: Bureau of Economic Analysis Survey of Current Business  
April 1975.

\*Payroll estimates may be somewhat higher than actual outlays since some teachers have the option of elect to receive their wages over ten months.



Revenue Comparisons

The District of Columbia, as other large cities, has become increasingly dependent on intergovernmental transfers to meet the cost of city services, particularly social services. In fiscal 1965, only 26 percent of the D.C. budget was in the form of Federal funds. This increased to 36 percent in fiscal 1970 (see Table 4). By 1974, 45 percent of city revenues, or about one half billion dollars, was obtained from the Federal government. This amount consisted of the direct Federal payment (\$187 million), and revenue sharing (\$29 million), with the balance (\$283 million) in Federal assistance for specific programs, primarily health and welfare services.

Since 1970, D.C. has become more dependent on non-local revenue than most other large cities. The Federal share of total revenue increased by 102 percent, compared to an 86 percent increase in Federal and state revenue to other large cities between 1970 and 1974. The direct Federal payment to D.C. increased from \$116 million in fiscal 1970 to \$226 million in fiscal 1975. This, together with above average rises in income and income-related tax collections has resulted in an avoidance of large tax increases. In fact, property tax rates in the District are lower than in the majority of cities with 500,000 or more residents.<sup>9/</sup> However, in the absence of substantial increases in Federal funding, the District will have to increase taxes substantially in the near future, or sharply reduce its payroll to avoid major deficits.

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<sup>9/</sup> The District effective tax rate on residential property in fiscal 1972 was 1.5 percent, compared to 2.5 percent in other large declining cities.



TABLE 4

REVENUE SOURCES, DISTRICT OF COLUMBIA AND OTHER CITIES  
500,000 OR MORE RESIDENTS  
(IN MILLIONS)

| <u>District of Columbia</u>                      |              |              |                             |
|--------------------------------------------------|--------------|--------------|-----------------------------|
|                                                  | 1969-1970    | 1973-1974    | Percent Change<br>1970-1974 |
| Federal Revenue:                                 |              |              |                             |
| Federal Payment                                  | \$116        | \$187        | 61%                         |
| Revenue Sharing                                  | ---          | 29           | ---                         |
| Other Revenue                                    | <u>131</u>   | <u>283</u>   | <u>116%</u>                 |
| Total                                            | \$247        | \$499        | 102%                        |
| Local Revenue:                                   |              |              |                             |
| Property Taxes                                   | \$128        | \$144        | 13%                         |
| Other Local Revenue                              | 312          | 472          | 51%                         |
| Total                                            | \$440        | \$616        | 40%                         |
| <u>All Cities With 500,000 or More Residents</u> |              |              |                             |
|                                                  | 1969-1970    | 1973-1974    | Percent Change<br>1970-1974 |
| State and Federal Revenue                        | \$4,570      | \$8,519      | 86%                         |
| Local Revenue:                                   |              |              |                             |
| Property Taxes                                   | 3,804        | 4,988        | 31%                         |
| Other Local Revenue                              | <u>4,328</u> | <u>6,907</u> | 60%                         |
| Total                                            | \$8,132      | \$11,895     | 46%                         |



Conclusions

Although I have taken only a cursory view of recent revenue and expenditure patterns in the District of Columbia as compared with a number of other similarly situated jurisdictions, the following conclusions can be drawn with some confidence:

(1) The District of Columbia employs more personnel per capita than other large cities with declining populations that provide a broad array of services. Municipal employment in the District of Columbia has been rising despite a 5% drop in population in recent years.

(2) Until the early 1970s municipal wages in the District of Columbia have been similar to those in other large cities. However, in more recent years, wages have increased at an above average rate.

(3) The level of public debt in the District of Columbia on a per capita basis is higher relative to other jurisdictions.

(4) It appears that the District has been able to maintain a moderate tax burden for its residents compared to other cities, because of the high level of personal income of the District's residents and a substantial increase in the direct Federal payment since 1970.

(5) In the absence of sharply rising Federal payments, the District will have to substantially increase taxes or severely curtail the rise in its payroll to avoid deficits in the near future.



The CHAIRMAN. Now, I will put a catchall in the record.

We will place in the record, in full, any and all statements that have been presented here this afternoon and this morning, and we have a letter from the League of Women Voters of the District of Columbia.

They state, in the conclusion, "that this government has made admirable progress in its brief lifetime toward unraveling some of the fiscal tangles Congress gave it along with home rule. It deserves your support and good will. From what we have observed, to date, we think you will find this newly elected government is as keen on achieving fiscal integrity as you and we are."

They seem to be in favor of the bond issue.

That concludes today's hearing.

[The letter follows:]

LEAGUE OF WOMEN VOTERS OF THE DISTRICT OF COLUMBIA,  
Washington, D.C., December 1, 1975.

HON. THOMAS F. EAGLETON,  
Senate Office Building,  
Washington, D.C.

DEAR SENATOR EAGLETON: The League of Women Voters of the District of Columbia counts you among our friends in our long and on-going struggle for Home Rule. We were especially disappointed, therefore, when you sponsored S. Con. Res. 78 vetoing an action approved by our duly elected City Council and Mayor. The bill, authorizing the issuance of general obligation bonds not to exceed \$50,000,000, is not in conflict with the constitution, the law or the federal interest. We urge your committee to table this resolution.

One objective of the bill was very specific. The bill was carefully designed to enable the District government to borrow money at a lower rate of interest than it pays the federal treasury. It would not raise the total debt but would, in fact, reduce our debt service. Saving money is, after all, a fiscally conservative and responsible act.

Another objective in floating the bonds at this time was to establish the city's credit in the bond market with an issue considered relatively small in the financial world. This cautious first step was taken after consultation with bond experts and full public hearings.

We have closely observed our newly elected City Council in action as a committee-as-a-whole, in legislative sessions, in committee meetings and in hearings. We have seen its examination of this city's billion dollar budget force the executive branch to trim back its programs and personnel to reflect more realistically the revenues available. The Council has shown every evidence of moving in a most fiscally responsible direction, to put D.C.'s financial house in far better order than it inherited from the Congress.

It was the Congress that raised police and firemen's salaries last year, as they have done in previous years, throwing our budgets out of balance with expected revenues. It was Congress which gave us pay-as-you-go retirement plans—unfunded pension plans for police and firemen and in part for teachers, too.

Considering the fiscal responsibility this newly elected government has demonstrated, your public announcement calling for a full audit in a manner implying the government would resist this review is in no way warranted. The fact is that the new government was, itself, moving towards just such an audit. Knowing of your concern for the District of Columbia and its right to govern itself, we suggest that a preferable Congressional approach would be to obtain desired information through the city government before imposing Congressional restraints. The city government is now responsible to the citizens of Washington, D.C. This new system must be given a chance.

In conclusion we would like to state that this government has made admirable progress in its brief lifetime toward unraveling some of the fiscal tangles Congress gave it along with Home Rule. It deserves your support and good will. From what we have observed, to date, we think you will find this newly elected government is as keen on achieving fiscal integrity as you and we are.

Sincerely yours,

ELLYN W. SWANSON,  
President.

The CHAIRMAN. We stand adjourned until tomorrow morning at 9:30 a.m.

[Whereupon, at 6 p.m., the committee adjourned.]



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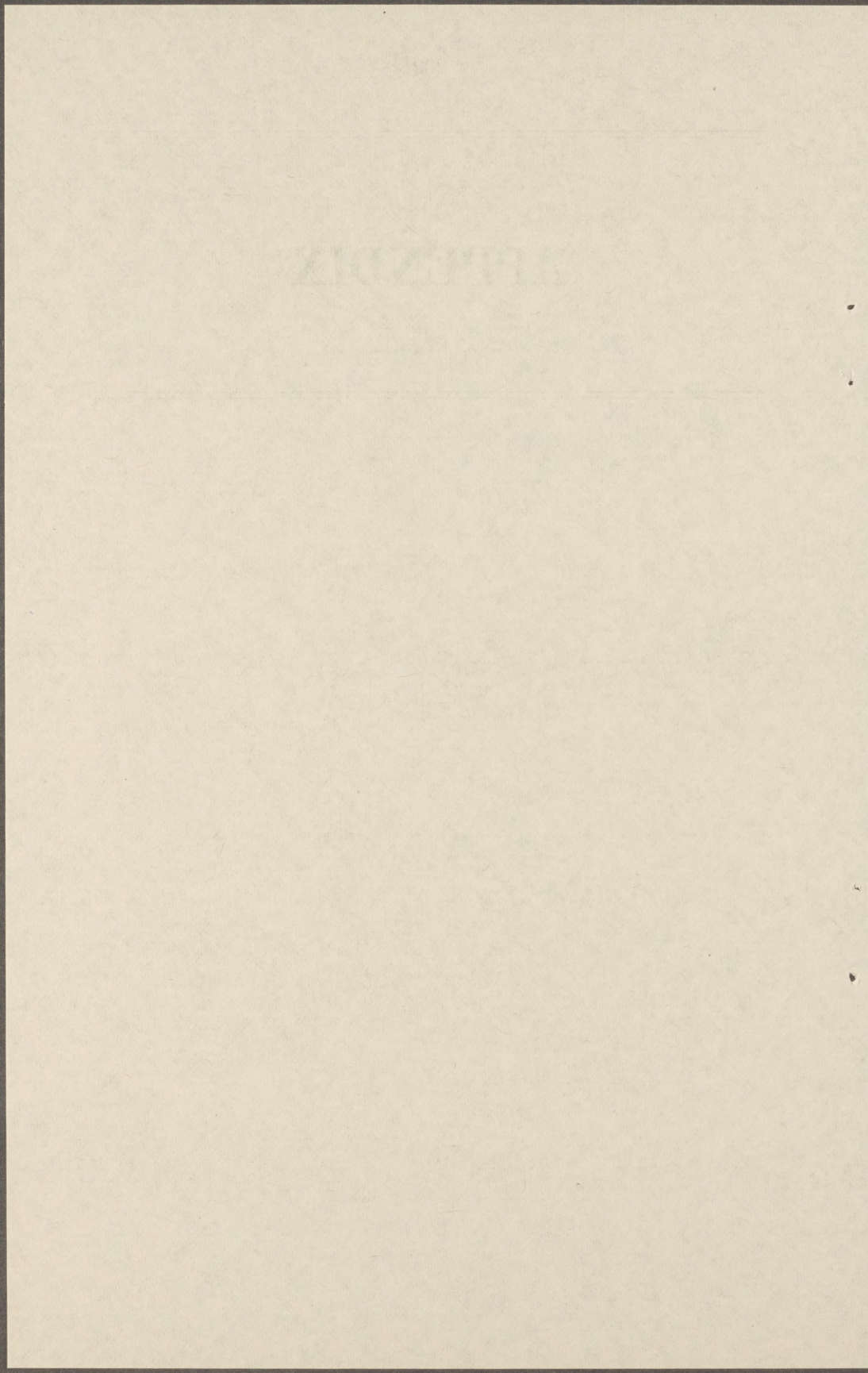
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# APPENDIX

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## **Budgeting for City Objectives under Home Rule**

A Special Report on  
Fiscal Trends and Issues  
Facing the District of Columbia  
through 1980

Executive Office of the Mayor

Office of Budget  
& Management Systems

April 1975





**GENERAL NOTES**

1. All years referred to throughout this report are fiscal years.
2. Detail in the tables, text, and charts of this report may not add to the totals because of rounding.
3. Abbreviations used in this report are described inside the back cover.



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## SUMMARY

### PURPOSE OF REPORT

This is a special follow-up report to the 1976-1980 *Multi-Year Financial Plan* released with the executive budget in March 1975. Like the earlier plan, this report neither predicts what will happen nor recommends what should happen to the size and composition of the District budget during the next five years. Rather, it shows overall city budget trends in the near future and specific cost implications of current fiscal policies and ongoing program commitments.

Chapter I explains why the underlying trends and issues presented in the report will remain valid regardless of the final outcome on the 1976 budget. Because severe fiscal pressures are likely to remain with the District for years to come, this report raises three key policy questions:

- How can spending priorities be established to meet current and future needs?
- What are the prospects for controlling projected budget growth?
- What is the potential scope and severity

of the fiscal gaps facing the District in coming years?

By presenting information to begin answering these questions, this report gives citizens and city government officials a better understanding of the program and fiscal issues facing the District under home rule, and provides a basis for developing policies which will permit the city to meet priority needs and maintain fiscal stability in the future. Having a substantive and organized body of information on future trends affords sufficient lead time to plan and take action now to meet the challenges ahead. As a result, the city is in a much stronger fiscal position than many other state and local governments.

### PRIORITIES

Chapter II deals with the importance of establishing an explicit set of priorities to guide future program and fiscal decisions. It presents a view of the 1976 budget and projected trends through 1980 on a traditional agency-by-agency basis. Then, for the first time, trend information is presented on how the budget is distributed among



*programs* that cut across agency lines and *client groups* for whom city services are delivered. Highlights of the major findings under each of these three snapshots of the budget are provided below:

#### **The budget by agency . . .**

- With a budget of \$266.6 million, the Department of Human Resources is the largest agency of the District Government in 1976 and shows the greatest increases—\$115.7 million—through 1980. Of these amounts, 40 percent of the department's 1976 budget and 50 percent of projected increases provide cash transfers for income maintenance, health and child support programs.
- Increases of over \$100 million give the Department of Environmental Services the highest budget growth rate over the planning period—almost three times the 11 percent city-wide growth trend. About 80 percent of the projected increase pays operating costs of the Blue Plains sewage treatment plant which arise from increased flows and more stringent treatment standards.
- The cost of subsidizing METRO bus and rail deficits will more than double in the next four years, growing from \$33 million in 1976 to \$80 million by 1980.
- Debt service costs to finance public facility construction will increase a total of \$79.5 million in the next five years reaching a total of \$145 million by 1980.

#### **The budget by program . . .**

- Education is the largest single District program and accounts for one out of every four dollars spent by the city. Education programs cost \$271.4 million in 1976 and increase to \$395 million in 1980.
- It will cost the city \$145.2 million to provide Health services in 1976. This represents 14 percent of the recommended budget.
- Twenty percent of the 1976 budget pays for programs contributing to Criminal Justice Administration goals.

- The share of the budget allocated to Environmental Protection programs changes significantly, growing from 7 percent in 1976 to 18 percent in 1980.

#### **The budget by client group . . .**

- Most client services are provided for the general population and thus are not allocated to any single client group. Fifty-eight percent of direct services serve the general population.
- Children and youth services make up almost one-third of direct client group expenditures. Education programs provide over half the budget for children and youth.
- The remaining share of direct client services goes to adults and senior citizens.
- Many programs—especially health care, social services and mass transit services—are either funded through Federal grants and thus were excluded from these estimates, or benefit residents in every age category and thus were shown under the general population. Hence, expenditures shown for any single age group *understate* the city's total funding commitment to special client groups.

#### **COST CONTROL**

Chapter III focuses on the issues surrounding long-term cost control in the District Government. These issues cut across all agencies, programs and client services. By identifying specific cost factors, analyzing their magnitudes over time, and examining policy options available for cost control, the District can provide a framework for making the difficult decisions that lie ahead. Toward this end, three budget growth factors are presented—Standard Growth Programs, Uncontrollable Growth Programs, and the Operating Impact of the CIP—with the following key findings:

#### **Standard Growth Programs**

- Standard Growth Programs represent the portion of the budget that pays for salaries and supplies and is primarily affected by pay raises and inflation in the purchasing



area. These programs make up 72 percent of the 1976 budget and 44 percent of the increases projected through 1980.

- Pay raises will cost the city about \$195 million between now and 1980. These increases will be difficult to control since 56 percent of the city workforce now receives prevailing Federal wages while most of the remaining employees negotiate for wages under bargaining procedures established in statute.
- Inflation will add almost \$60 million to the cost of supplies, equipment, and other materials between now and 1980.

#### **Uncontrollable Growth Programs**

- There are twenty Uncontrollable Growth Programs where the city is required by law, contract or legally binding agreement to provide services to persons meeting certain eligibility requirements (e.g., public assistance, retirement programs, unemployment compensation, medicaid, etc.).
- Uncontrollable programs make up about 20 percent of the 1976 budget with funding requested at \$233 million. As a result of the increases projected in these programs over the next five years, a total of \$372 million in the 1980 budget would fall outside the effective control of city officials.
- Public assistance payments of \$63.1 million make it the largest uncontrollable program in 1976, followed by the police and fire retirement program with a 1976 request of \$51.2 million.
- From 1976 to 1980, METRO operating subsidies increase at the rate of 25 percent annually, more than twice the growth trend of uncontrollable programs as a group. Medicaid increases of \$24 million result in the second highest growth—19 percent per year over the planning period.
- Long-term cost control in these programs, outside legislative restrictions in eligibility or benefit cutbacks, can be achieved through measures aimed at meeting

needs through program and administrative initiatives.

#### **Operating Impact of the Capital Improvements Program**

- The city's Capital Improvements Program (CIP) causes growth in future operating budgets to pay for debt service on capital financing and for staffing and supply needs of new facilities such as public schools, recreation centers, and college campus development. One-third of the total budget growth through 1980 is explained by a \$182.5 million increase in the operating costs of capital projects.
- Authorized Projects—those already in process—account for 85 percent of the increase projected in CIP operating costs. The rest pays for new projects recommended in 1976 and subsequent years.
- Debt service increases of almost \$80 million make up just under half of the total CIP impact. The largest portion of these financing charges goes for Public Schools, Environmental Services, and higher education projects, and debt service on METRO subway construction.
- New facility operating costs during the period amount to \$103 million for about 70 projects scheduled to open after 1976. Most of this increase—about 80 percent—is due to the Blue Plains Water Pollution Control Plant and will be partially paid for by other jurisdictions participating in the regional sewage treatment program.
- Cost control measures for reducing debt service charges involve greater use of municipal bonds and revenue bonds to finance capital construction.
- Controlling new facility operating costs requires early identification of additional staffing requirements and the ways to increase resource utilization through multiple purpose facilities and consolidation of services.

#### **SEVERITY OF FISCAL SITUATION**

Because cities are captives of the national and local economy, the final chapter examines the



impact of improving and worsening economic forecasts on the city budget. The sensitivity of fiscal gap projections to changes in economic conditions is shown based on three assumptions—optimistic, moderate, and pessimistic—for the future economy. The conclusion is that the city will continue to face significant revenue shortfalls—at least \$80 million in 1977 alone—regardless of how the economy changes in the coming years. Thus, the District of Columbia cannot count on improved economic conditions to ease the underlying fiscal pressures on the city budget. Highlights of the chapter include:

- Without discretionary increases to meet heavy demands and emerging needs, the 1977 budget is projected to be at least \$1,170 million—\$100 million above the recommended 1976 budget—but could go as high as \$1,200 million if the economy does not rebound quickly.
- By 1980, the budget could range anywhere from \$1,570 million to \$1,700 million, reflecting growth pressures amounting to 9-13 percent each year.
- Revenue yields under both current and proposed authority grow at a much lower rate than expenditures, averaging 3-6 percent annually during the projection period.
- As a result, the city's fiscal gap will be at least \$80 million in 1977 even if the 1976 revenue package is approved but could be as high as \$235 million under current authority.
- If projected growth trends prevail through 1980, revenue authority amounting to at least \$275 million would have to be added on top of the revenue program proposed in 1976 just to maintain program commitments. In the worst case, the city could need as much as \$660 million in additional revenue above what is estimated under current authority.

A critical point for proper interpretation and use of this report deserves re-emphasis at this juncture—potential fiscal gaps identified in the report will not actually occur because the District budget [by law] must be balanced with revenues. By showing the severity of the fiscal outlook, however, the report provides a base-

line for determining how fiscal balance can best be achieved, and what goals and programs should receive priority attention.

## THE FUTURE AGENDA

The report notes developments on national and local fronts which offer potential for not only easing but resolving many of the fiscal pressures facing the District. State and local officials have voiced concern over the effects of national economic conditions on the remaining partners in the federal system. Often the costs of meeting needs that are truly national in scope fall most heavily on lower levels of government. As a result, there is a heightened level of debate focusing on increased Federal assumption of financial responsibility in areas such as national health insurance, financial assistance to needy families, mass transit, and environmental pollution control. This is likely to produce Federal action which will ease the fiscal burdens on central cities within the next five years.

In the final analysis, major responsibility for maintaining a strong fiscal posture and effectively meeting needs of city residents rests with the District Government itself. The main message of home rule is that satisfactory resolution of the city's fiscal issues will require a plan of action for improving services within a realistic fiscal framework. Among the key items on the local agenda for action in the years ahead are:

- Obtaining the authority to tax non-resident income. Many states and cities already have the power to tax the income of non-residents who benefit from services provided within their jurisdictions.
- Conducting in-depth evaluations of the past and current effectiveness of all on-going programs.
- Undertaking a more intensive effort to obtain a higher degree of performance and productivity, both in terms of quality and efficiency, from agency service delivery operations.
- Making a greater investment in local economic development efforts to expand and strengthen the city's economic base.



## CHAPTER I

# The Need For Priorities and Cost Control

**BACKGROUND**

The enactment and implementation of home rule for the District of Columbia has opened a landmark chapter in the city's history, giving citizens the right of self-determination for the first time in a century. Now citizens will be able to play a far greater role in decisions which affect their daily lives and shape the future of this city. The challenges and responsibilities accompanying home rule take on a more important meaning today, however, because the District is entering this new era in the midst of a worsening "urban fiscal crisis." Having suffered the effects of our national economic problems over the past few years, cities across the country have become increasingly more sensitive to the long range fiscal consequences of current decisions and have begun re-examining priorities and program commitments to bring resource requirements in line with resource availability and needs.

At stake is the ability of central cities to provide for the growing needs of an urban population in a fiscal setting that is not likely to improve significantly in the years ahead. While steps must be taken now to overcome fiscal

pressures, fundamental changes in urban policies at the national, state and local levels cannot be made overnight. Urban administrators and legislators have long recognized that it may take years of serious discussion and planning before a genuine consensus on priorities can be reached. In view of the long term nature of this process, consideration of future policies for the District of Columbia should begin with an understanding of the forces behind the urban fiscal crisis and an identification of their major causes and future effects.

A recurrent pattern observed since the early 1960s explains the nature of urban fiscal problems and provides a backdrop for examining potential solutions. Simply stated, cities are engulfed in a continuing fiscal squeeze where costs of delivering basic public services rise at a much faster rate than revenues needed to maintain existing commitments. Over the last ten years, for example, cities have experienced an incredible growth in demands for services to meet needs in such areas as health and social welfare, mass transit, law enforcement, environmental protection and higher education. New programs, many of them funded with the help of Federal grants, were initiated to address



some of these needs while workloads in existing programs rose dramatically in response to additional service demands of urban residents. To maintain existing services, cities have had to pick up expiring Federal grants with local revenues and at the same time continue to fund existing programs that have grown in both size and cost over the years.

On the revenue side of the fiscal ledger, central cities have suffered losses in revenue growth as a result of rapid suburbanization over the last two decades. Given the structure of urban tax systems, restrictions on the natural expansion of a city's revenue base make it difficult to raise tax rates or add new taxes to offset lagging revenue yields. In addition, when suburban development causes a higher concentration of low income persons living in the central city, municipalities face heavier expenditures to meet basic human needs yet are left with proportionately fewer taxpayers able to afford higher tax rates. Since new revenue measures cannot be introduced indefinitely without weakening a city's competitive position, every municipality must identify the point beyond which further tax increases come at the expense of a viable local economy.

These forces underlying the urban fiscal crisis would have been felt even without the turbulence that has marked the national economy since the early 1970s. With it, however, the squeeze on municipal finances has become considerably more pronounced. As one of the largest consumers of goods and services, local governments throughout the country have been hit hard by simultaneous inflation and recession. Like other consumers, cities must pay higher costs for services—primarily salaries of public employees—as well as cover price increases for supplies, equipment, utilities and other materials governments buy.

Because of pressures such as these, cities frequently have no options for balancing municipal budgets other than budget cutbacks and tax increases. While differences of opinion may exist over budget and revenue strategies, there is general consensus on at least two objectives of fiscal policy: (1) jurisdictions should make the best possible use of existing resources, concentrating them on the most effective and highest priority programs; and (2) jurisdictions

should carefully scrutinize expenditure growth to determine areas where cost control measures can have the greatest impact.

## PURPOSE

The purpose of this report is to give citizens and city government officials better information on emerging fiscal trends and issues so decisions can be made on program priorities and fiscal policies for the city during the balance of this decade. It is presented as a special follow-up report to the *FY 1976-1980 Multi-Year Financial Plan* transmitted as part of the 1976 budget, and addresses a number of important long range policy questions which fell outside the scope of the earlier report:

- *How can spending priorities be established to meet current and future needs?*
- *What are the prospects for controlling projected budget growth?*
- *What is the potential scope and severity of the fiscal gaps facing the District in the coming years?*

This report identifies the key fiscal issues stemming from the long range projections contained in the *Multi-Year Financial Plan*. Like the plan which preceded it, fiscal trends presented in this report cover the five fiscal years beginning in July 1975 and ending in 1980 and show the fiscal implications of funding current programs recommended in the 1976 executive budget and the 1976-1981 *Capital Improvements Program*. Consequently, the report does not attempt to anticipate new budget and revenue policies that will be introduced in future years to meet emerging needs.

Regardless of the final action taken on the 1976 executive budget, chronic resource scarcity will not diminish but will continue to be an important factor in future decisions affecting this city. A searching review of program priorities and funding strategies must now be undertaken to determine how the city will meet high priority needs within limited resources. This report can provide the basis for open and informed discussion of policies and programs for the future of this city.



## CHAPTER II

# Establishing Budget Priorities

## INTRODUCTION

The annual budget establishes a government's priorities by allocating resources to accomplish important goals and objectives. Choosing among many worthwhile activities and competing budget needs is not a mechanical task of computing various cost estimates. Rather, it is a highly judgmental process requiring information on a wide range of needs, descriptions of activities under way or planned to help meet these needs, and an assessment of the benefits to be derived from such activities. Recognizing that no city has sufficient resources to completely satisfy all legitimate demands for service, priorities become the principal device for evaluating the relative importance of each governmental activity. This chapter presents a useful approach for reviewing priorities and resource allocation decisions in the District of Columbia.

Conducting an effective budget formulation and priority review process has been a complex undertaking in the public sector because programs addressing a given public objective often cut across agency lines and deliver services to every segment of the population. Given the enormous size and composition of a billion

dollar budget such as the District's, it is extremely difficult to see how all the individual elements fit together into a unified plan for addressing high priority needs. The limited amount of time available during the period of budget review precludes an in-depth examination of every program or a comparison of the costs and results of programs conducted by several agencies for the same basic purpose or for the same client population.

To help overcome these constraints, the city has developed three approaches for analyzing budget proposals, each adding an important yet different perspective to the identification of budget priorities. First, the five year financial plan is examined on an *agency* basis to show patterns of cost growth among major departments of the District Government. This analysis goes one step beyond the projections reported in the *Multi-Year Financial Plan* which highlight projected expenditures at the major appropriation level only. The second approach used to view budget priorities assembles agency activities into a *program* format. This method establishes the current and future "program mix" of the city by focusing principally on services and objectives rather than the agencies re-



sponsible for carrying them out. Finally, resource allocations are analyzed in terms of broad *client groups* that make up the District population. Youth and senior citizens are among the population categories that are used to identify programs specifically designed to meet direct service needs of District residents.

## I. ANALYSIS OF AGENCY EXPENDITURE TRENDS

Proposed spending plans are traditionally reviewed on an agency-by-agency basis because agencies provide the administrative and productive machinery required for program operations. In a governmental setting, agencies marshal resources required to perform tasks and can be held accountable for their success in meeting key objectives. By beginning the analysis of priorities on an agency basis, a frame of reference can be established for subsequent examinations of program objectives and direct client services.

The ten largest city departments together account for slightly more than 80 percent of the appropriation requests recommended in the 1976 executive budget. This leaves the balance of funds for a group of 50 smaller offices and contributions to local and regional organizations. Because of their importance in carrying out the major goals of the District Government, the focus of this section is on the largest operating departments.

Figure 1 lists the ten major agencies of the District Government and their percentage share of the total 1976 budget. Seven of these agencies fall under the broad appropriation categories of Human Resources, Education and Public Safety. Appropriations for these categories together make up about 70 percent of the city budget. The Department of Human Resources obtains spending authority from the Human Resources appropriation, the only city department now included in this appropriation category. The Education appropriation claims two of the top ten agencies, Public Schools and Federal City College. Four agencies listed in Figure 1 are included in the city's appropriation for Public Safety: Metropolitan Police Department, Fire Department, Department of Corrections and the District Courts.

Funding for the repayment of city debt, the Department of Environmental Services and mass transit subsidies completes the list of the ten largest budgets.

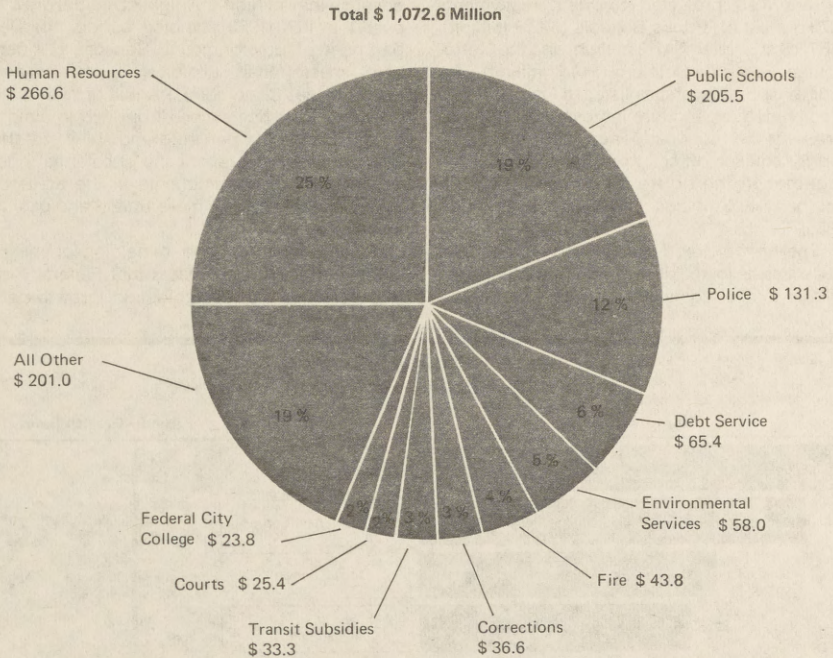
A closer examination of the allocation decisions behind Figure 1 reveals several important findings:

- *Twenty-five percent of the total budget goes to the Department of Human Resources (DHR). With a recommended budget of \$266.6 million in 1976, DHR is the largest single agency of the District Government. Almost two fifths of these expenditures—about \$100 million—takes the form of transfer payments which provide a variety of income maintenance, medical treatment and family support services for indigent residents of the District. The balance of the DHR budget pays for service operations conducted by the department and related administrative expenses.*
- *The Public School system receives the second biggest share of the city budget. A total of \$205.5 million is recommended for Public Schools in the Mayor's 1976 budget which represents 19 percent of the total District spending request. These resources finance primary and secondary education programs for the City's 130,000 public school students.*
- *Mass transit subsidies used to offset METRO bus and rail deficits experienced by far the greatest budgetary expansion in the past several years. Before the area's privately-owned bus companies were purchased by the Washington Metropolitan Area Transit Authority (WMATA) in 1973, the District had no direct responsibility for financing regional bus service. During the four years of public ownership, however, the city's funding commitment to METRO bus operations has grown to \$33.3 million, in effect becoming to eighth largest agency of the District.*
- *Federal City College is another agency that experienced rapid funding increases in recent years. Started in 1968, Federal*



Figure - 1

## Agency Percentages of Total 1976 District Budget



*City College is a four-year liberal arts school offering associates, bachelors and masters degrees in over 50 academic fields. In 1976, the college will have a projected enrollment of nearly 6,000 students (on a full-time equivalent basis) and a recommended budget of \$23.8 million, making it the tenth largest District Government agency.*

By the end of this decade expenditures for the city's major agencies will increase slightly from 81 percent to 85 percent of the total budget, reflecting the continued importance of these departments in delivering essential public services. Significant expenditure patterns over the period are displayed in Figure 2.

The largest single expenditure increase during the 1976-1980 period is projected for DHR which will require \$115.7 million of the estimated \$574.7 million increase in total budget authority needed to maintain 1976 program commitments. DHR cost projections reflect the impact of economic conditions on cash transfer programs (50 percent of DHR increases over the period) as well as on direct services provided by the department.

Projections show the Department of Environmental Services (DES) will require an additional \$103.3 million by 1980, the second biggest expenditure increase in absolute dollar terms. During this period, the portion of the city's total budget going to DES will double from 5 percent to 10 percent if plans to expand



and upgrade the Blue Plains Water Pollution Control Plant continue on schedule.

Significant expansions in budgetary authority are also projected for debt repayments (\$79.5 million), Public Schools (\$72.8 million), METRO subsidies (\$47.3 million) and the Metropolitan Police Department (\$44.7 million). The four remaining agencies listed in Figure 2 show a combined expenditure increase of \$47.3 million over the four year period. By comparison, the 50 smaller offices and agencies grouped together in the figure are expected to add another \$46.5 million to the budget through 1980.

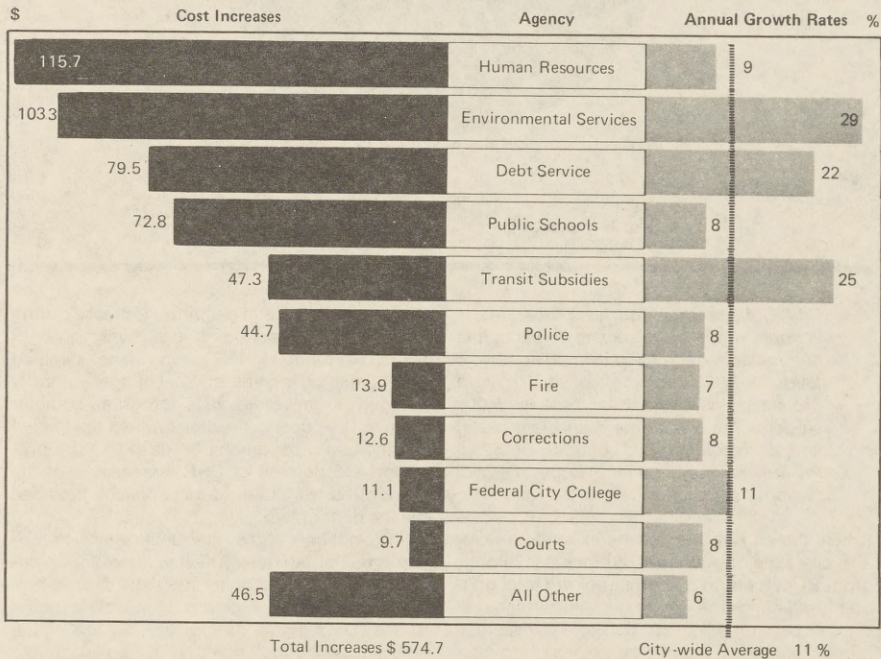
The growth trend portion of Figure 2 provides a basis for making individual comparisons of long-term budgetary growth among agencies

and for examining agency growth patterns in relation to the trend projected for the budget as a whole. Three items in particular stand out because they exhibit the highest annual growth over the 1976-1980 planning period: the Department of Environmental Services (29 percent), mass transit subsidies (25 percent) and debt service (22 percent). Annual growth rates for these agencies exceed from two to almost three times the 11 percent trend shown for the total budget, and reflect the substantial cost implications of commitments in the areas of wastewater treatment, mass transit and capital improvements.

A comparison of the remaining agencies shown in Figure 2 indicates that Federal City College follows the same annual growth pat-

Figure — 2

1976 — 1980 Agency Increases  
( In Millions )





tern as the total budget, while the final six agencies are projected to increase at rates ranging from one-third to one-fifth below the total budget. Finally, the 50 District agencies grouped together in the figure collectively grow at an annual rate of about 6 percent, nearly one-half the budget as a whole.

A complete listing of projected budget levels for all offices and departments of the District Government is provided in Appendix A.

## II. ANALYSIS OF PROGRAM EXPENDITURE TRENDS

Expenditure trends among agencies, such as presented in the foregoing section, have limited value in setting future priorities unless they can be translated into programs and services. Since several agencies may conduct similar activities for the same basic purpose, it is impossible to determine the city's total expenditures toward a given program objective by focusing solely on resource commitments at the agency level. In contrast, a *program* review of budget trends shows the efforts of city departments contributing to the same end purpose. A program based presentation of the budget, therefore, provides a way of surfacing issues on program and spending priorities. It does this by grouping activities according to the objectives they serve rather than the agencies performing them.

A structure of program goals and objectives was developed for this analysis to present information on program costs. At the top of the structure are nine broad areas of governmental activity which together make up the city's primary goals. These nine categories, called

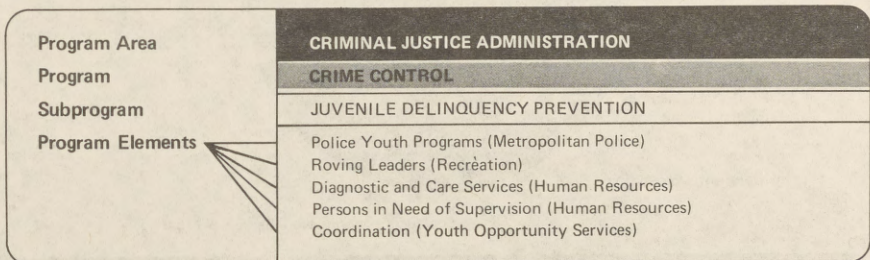
### Exhibit I District of Columbia Program Areas

Criminal Justice Administration  
Community Protection  
Social and Economic Well-Being  
Health  
Education  
Recreation and Cultural Enrichment  
Community Development and Transportation  
Environmental Protection  
Governmental Direction and Support

*Program Areas*, are listed in Exhibit I and identify the major needs addressed in the city budget. Below the Program Area level, the structure has three successive levels of detail—Programs, Subprograms and Program Elements—which further refine objectives and assemble specific activities carried out within each Program Area. The Program Element is the level in the structure where agency programs working toward a similar end purpose are identified and grouped together under their common objective.

The relationship of program elements to the entire program structure is illustrated in Exhibit II. As an example, programs designed to help prevent juvenile delinquency are conducted by four separate agencies. Activities of each of these agencies are grouped in the program structure under Juvenile Delinquency Prevention. In turn, Juvenile Delinquency Prevention is one of several Subprograms aimed at a larger objective, namely, achieving a higher level of Crime Control. Finally, the Crime Control Program contributes to the major goal of Criminal Justice Administration in the District

Exhibit II Relationship of Program Elements to Program Structure





of Columbia. A complete list of the Programs, Subprograms and Program Elements is provided for each program area in Appendix B.

This overview of program cost trends begins with the base year, 1976, and moves to a discussion of the implications of current program commitments over the 1977-1980 planning period. Figure 3 presents a breakdown of the 1976 program mix by showing the distribution of the recommended budget by Program Area.

- One-fourth of the city budget is allocated to Education programs. A total of \$271.4 million is recommended for primary, secondary and higher education programs in 1976.
- Criminal Justice Administration has the second largest share of city resources with one-fifth of the total budget. Resources invested in this category help provide services for a wide range of law enforcement activities, including crime prevention, adjudication and offender rehabilitation.
- Two major program categories—Health
- and Social and Economic Well-Being—serve the medical and family support needs of the city's population. With budget levels of \$145.2 million (14 percent) and \$115.3 million (11 percent), respectively, these program areas together make up one-fourth of the Mayor's 1976 budget request.
- Most of the remaining portion of the budget is allocated among programs for Environmental Protection (7 percent), Community Development and Transportation (7 percent), Community Protection (6 percent), and Recreation and Cultural Enrichment (3 percent).
- The final 7 percent of the 1976 budget proposal is earmarked for Governmental Direction and Support which contains activities that cannot be meaningfully attributed to any particular program. This program area includes \$19.7 million in 1976 to pay the full cost of pay raises approved in 1975 which could not be broken

Figure —3

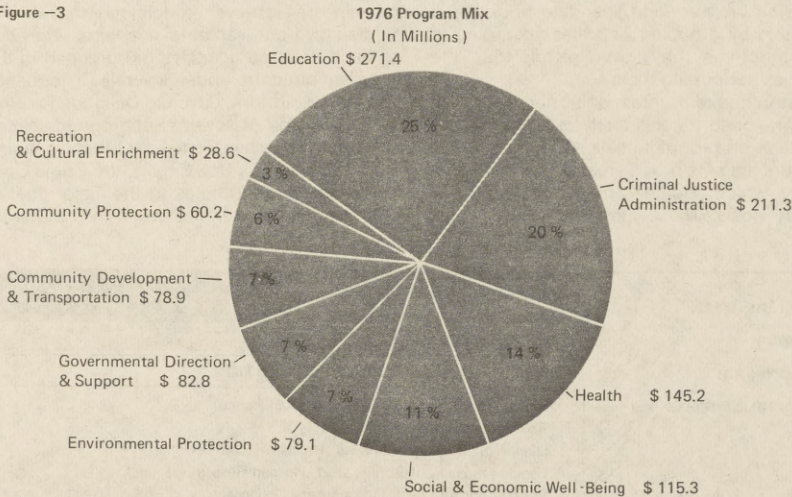
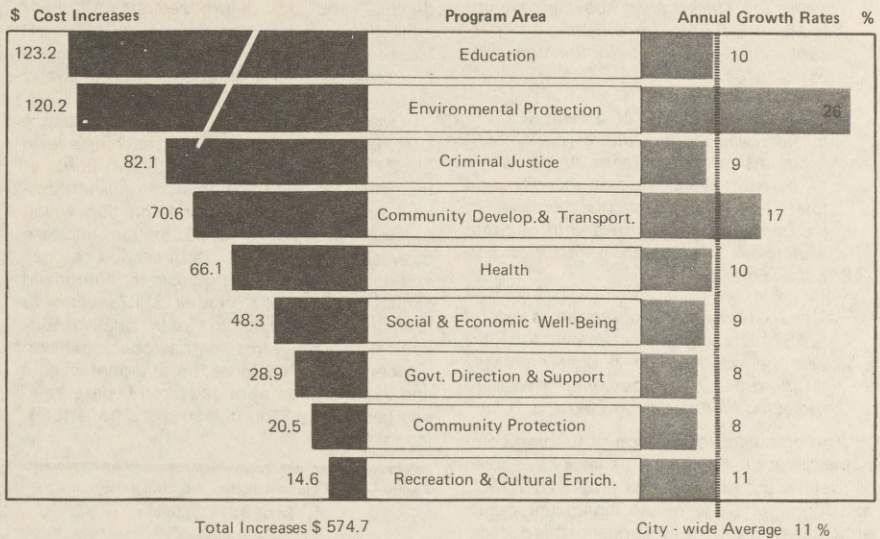




Figure 4

1976 - 1980 Program Area Increases  
(In Millions)

out separately for each major program.\* Had 1975 salary increases been allocated to the respective programs, funding for Governmental Direction and Support would have dropped below \$65 million in 1976.

Figure 4 illustrates the expenditure impact of the recommended 1976 program mix through 1980 in both absolute dollar increases and annual percentage growth rates. The largest absolute increase in expenditure requirements over the planning period is expected in Education programs (\$123.2 million), partly because this program area exhibits the highest spending base in 1976. The cost of maintaining Environmental Protection programs undergoes dramatic increases, over \$120 million, due largely to the expanded waste-water treatment program planned by the Department of

Environmental Services. Substantial cost pressures are also anticipated in the next four years in order to continue programs for Criminal Justice Administration (\$82.1 million), Community Development and Transportation (\$70.6 million), and Health (\$66.1 million). The remaining three major programs together share an additional \$91.2 million over the planning period.

Expenditure growth rates provide another means of comparing differences in cost acceleration among programs and serve to identify potential cost issues for further analysis. Highlights of the growth trends illustrated in Figure 4 are summarized below:

- *Environmental Protection costs grow at the highest annual rate—26 percent—about 2½ times the city-wide average of 11 percent per annum. Expenditures through the end of the planning period are more than double the proposed 1976 level, growing from \$79.1 million to \$199.3 million by 1980.*

\*Pay adjustments projected after 1975, however, are reflected in the programs where they occur.



- *Community Development and Transportation programs experience the second highest growth trend between 1976 and 1980. The Mass transit subsidy payment to Metro is the key force behind a 17 percent annual growth rate for the remainder of the 1970s.*
- *The third fastest rate of growth is found in Recreation and Cultural Enrichment programs which increase at the same 11 percent overall rate as the city-wide total. This growth reflects increases in the cost of services provided throughout a network of recreation facilities and public libraries.*
- *The six remaining program areas exhibit below average growth rates over the four-year period. Average budget increases on the order of 8-10 percent per year are projected for these categories.*

The preceding discussion of funding commitments at the program area level has served to identify the program mix proposed in 1976 and highlight some of the significant trends anticipated during the remainder of this decade. To better understand the cost implications of the projections for each program, the report now turns to an analysis of funding patterns below the program area level. In addition to the following brief rundown on each major program, a comprehensive listing of expenditures for the entire program structure can be found in Appendix B.

### Criminal Justice Administration

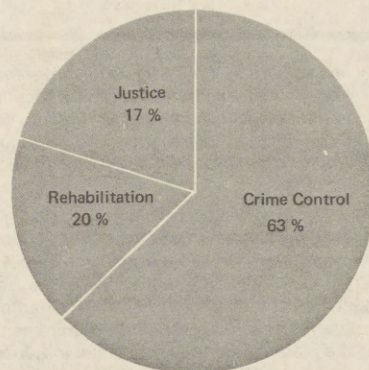
A funding level of \$211.3 million is proposed for Criminal Justice Administration in 1976. As Figure 5 illustrates, Crime Control is the largest single group of programs in this program area. In 1976, Crime Control programs such as crime prevention, juvenile delinquency prevention, and investigation and apprehension efforts make up nearly two-thirds (63 percent) of the program area total.

One out of every five dollars spent on Criminal Justice programs goes for the Rehabilitation of Offenders while the remaining funds are earmarked for the Administration of Justice

(17 percent). Administration of Justice activities focus on the adjudication process which involves pre-trial detention, prosecution and defense, and judicial proceedings. After adjudication, persons convicted of criminal offenses are placed in Offender Rehabilitation programs such as institutional programs and community-based rehabilitation services.

Over the planning period, Criminal Justice costs grow 9 percent annually, reaching a level of \$293.4 million in 1980. Nearly two-thirds of the estimated \$82.1 million increase is attributable to pay adjustments and inflation which together produce a \$55.3 million increase between 1976 and 1980. Debt service charges and new facility operating costs for authorized capital projects add another \$11.7 million to total program area costs. Finally, relatively uncontrollable programs such as police pension payments, legal defense for indigent clients and incarceration of offenders in Federal prisons, account for \$15.1 million in additional funding by 1980.

Figure —5 Criminal Justice Administration  
Total \$ 211.3 Million



### Community Protection

Several programs are aimed at protecting citizens from health and safety hazards in the community or keeping them from becoming victims of discrimination or other illegal practices. The cost of these services is estimated



at \$60.2 million in 1976. Included in this program area is funding for services such as Fire Protection, Highway Safety, Consumer Protection, Community Health and Safety, and Protection of Individual and Group Rights. Of these, Fire Protection is the largest category making up 70 percent of the total.

Remaining Community Protection resources are divided among the other safety and protection programs as illustrated in Figure 6. Highway Safety encompasses driver and vehicle safety programs, including permit control, driver education and vehicle inspection. Consumer Protection programs account for an additional 8 percent of total program area costs followed by programs aimed at removing health and safety hazards in the community (7 percent). Finally, the rights of individuals and groups are protected through enforcement of regulations governing discriminatory practices, wage-hour administration and related laws (5 percent of total).

Through 1980, Community Protection costs are projected to increase by one-third to \$80.7 million. Nearly three-fourths of the \$21 million increase is due to a \$14.9 million rise in projected salary and material costs resulting from pay adjustments and inflation. The rest of the increase is attributable to firemen's pension costs (\$2.9 million) and additional operating expenses associated with debt repayment and facility operations for new fire houses and a motor vehicle testing station (\$2.7 million).

### Social and Economic Well-Being

Programs to improve the Social and Economic Well-Being of city residents receive about 11 percent of the District budget, for a total of \$115.3 million in 1976. Stabilizing the social and economic position of individuals and families accounts for the largest portion of total program costs, about 72 percent, as shown in Figure 7. This amount is further divided among income maintenance programs (\$62.5 million), dependent child care services (\$10.3 million), and counseling and support activities (\$3.0 million). Besides helping dependent persons achieve stability, funding is provided to develop self-support potential through job training and day care (\$11.3 million), as well as to continue

Figure —6 Community Protection  
Total \$ 60.2 Million

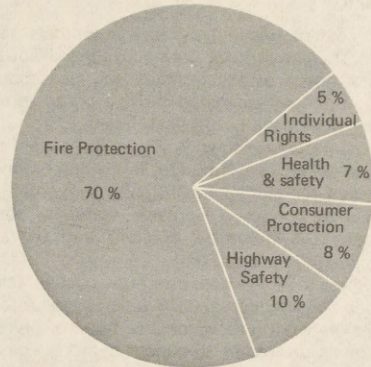
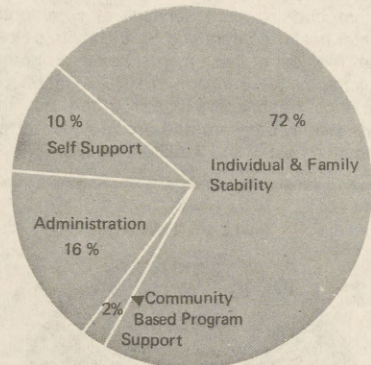


Figure —7 Social and Economic Well-Being  
Total \$ 115.3 Million



community-based action programs (\$2.8 million).

By 1980, projected costs for the entire program area grow to \$163.6 million, an increase of \$48.3 million over the 1976 budget level. Slightly less than half of this growth is attributed to increases in relatively uncontrollable costs, for example, income maintenance programs and foster care services. The remaining \$24.5 million increase is caused by the higher wage



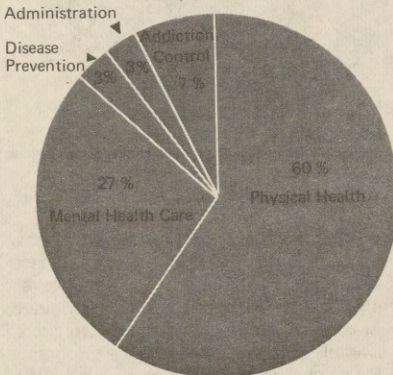
and price levels incorporated into the projections.

### Health

The cost of Health programs is estimated at \$145.2 million in 1976. Caring for the individual health needs of city residents requires about three-fifths of estimated 1976 program area expenses, making physical health care the largest program shown in Figure 8. The rest of the District's health budget is divided among services for mental health care (27 percent), addiction control (7 percent), communicable disease prevention (3 percent) and overall administration (3 percent).

Physical health care programs cost an estimated \$84.4 million in 1976 which pays for the city's network of community health clinics, hospitals and other treatment centers, emergency medical care, and private medical services provided under the city's Medicaid program. Mental health needs are met through programs at Forest Haven and through outpatient and inpatient services at community mental health centers and St. Elizabeth's Hospital. The cost of these mental health programs is placed at \$38.5 million in 1976. Alcohol and narcotics treatment services round out the city's Health program and are provided at an estimated cost of \$10.6 million in 1976.

Figure -8 Health  
Total \$ 145.2 Million



Total Health costs reach \$211.2 million in 1980 which represents an increase of some \$66 million over a four year period. Contributing to projected cost growth are increases of \$30.5 million to cover pay raises and inflation anticipated through 1980. The balance of the increase results from a projected \$32.7 rise in uncontrollable medical expenses (primarily Medicaid and St. Elizabeth's Hospital) and an additional \$2.8 million to meet operating costs associated with improved hospital facilities.

### Education

Investment in Education programs is the largest single expense of the District Government, estimated at one-fourth of the total budget in 1976. As Figure 9 shows, Education programs are divided into two major categories: Basic Academic and Career Skills (83 percent) and Advanced Skills (17 percent). The first of these categories primarily centers around elementary and secondary education and includes most programs of the Public School System along with related support costs such as debt service, special youth programs and the School Transit Subsidy. Total 1976 expenditures for this category amount to an estimated \$226 million.

The second category includes academic and professional programs leading to advanced

Figure -9 Education  
Total \$ 271.4 Million

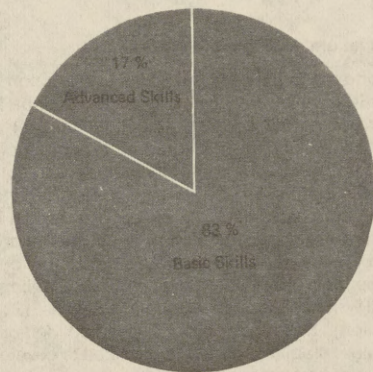
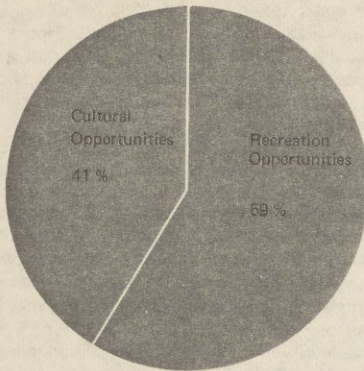
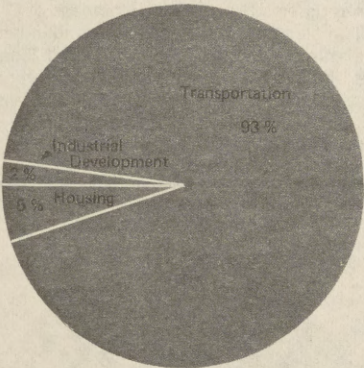




Figure -10 Recreation and Cultural Enrichment  
Total \$ 28.6 Million



Community Development and Transportation  
Figure -11 Total \$ 78.9 Million



degrees. The \$45.4 million 1976 funding level for this category includes the recommended budgets of the city's three institutions of higher education: Federal City College, D. C. Teachers College and Washington Technical Institute.

Education program costs will nearly double by 1980. The resulting \$123.2 million increase above 1976 funding is the largest increase of any program area. It is due primarily to higher pay and inflation costs, estimated at \$78.9 million. The balance reflects increases of \$39.7

million in debt repayment and new facility operations, and \$4.6 million in the Teachers Retirement Program.

### Recreation and Cultural Enrichment

One measure of the "quality of life" of urban areas is the range of opportunities available for leisure activities. The District of Columbia scores well on this index because of the variety of Recreation and Cultural Enrichment programs provided for its citizens. An estimated \$28.6 million is allocated to these programs in 1976.

Recreational Opportunities is the larger category with nearly three-fifths of program area costs as indicated in Figure 10. A total of \$16.8 million is recommended for recreation activities in 1976 of which about one-half is earmarked for city-wide programs such as aquatics and neighborhood recreation centers. The remaining recreation costs are divided among specialized programs for youth, adults, senior citizens and handicapped persons (\$1.6 million) as well as administration and support costs (\$6.8 million).

Cultural Opportunities available to city residents are provided through the library network and programs geared to the promotion and enjoyment of the arts. In 1976, the Mayor has recommended a funding level of approximately \$11.8 million for programs in this category, which accounts for the remaining 41 percent of total program area resources.

An 11 percent annual growth trend in this area produces a \$14.6 million expenditure increase during the 1976-1980 period, placing total program funding needs at \$43.2 million in 1980. The added cost of pay and inflation increases through the 1970s accounts for \$9.1 million or three-fifths of the total increase. The rest stems from the operating cost implications of the CIP which claims an additional \$2.4 million in debt service costs and \$3.1 million in staffing and maintenance funding for new recreation and library facilities.

### Community Development and Transportation

Approximately \$78.9 million in local resources has been recommended in 1976 for continued funding of Community Development and Trans-



portation programs. The relatively small share of funds devoted to this program area may be misleading, however, because Federal assistance has traditionally provided the bulk of funding for these programs. In 1976, for example, the District expects to receive an additional \$93 million in grant funds, thus more than doubling the amount of appropriated resources available for conducting community development and transportation activities.

Transportation services account for a full 93 percent of total program operating costs in 1976. This includes expenses for improving and maintaining the city's street and highway system, traffic control and mass transit programs. The cost of meeting mass transit needs alone represents two-thirds of Transportation expenses and about three-fifths of the funds earmarked for the whole program area. Housing and Physical Development programs, such as code enforcement, rent control, and land use regulation are funded at \$4.3 million, accounting for another 5 percent of 1976 program area costs. Industrial and commercial development activities add the final 2 percent of the program area total.

Through the end of this decade, Community Development and Transportation costs nearly double to reach a level of almost \$150 million in 1980. This translates into an annual growth rate of 17 percent, the second highest rate of increase exhibited among all major programs. Approximately four-fifths, or \$55.8 million, of the total increase is directly attributed to Mass Transit programs and will be used to pay for METRO operating deficits as well as debt service on rail and bus capital costs. The remaining 20 percent of the total increase is caused by pay and inflation (\$7.7 million), debt service on highway projects (\$5.1 million) and the operating cost impact of new highway capital facilities (\$2.0 million).

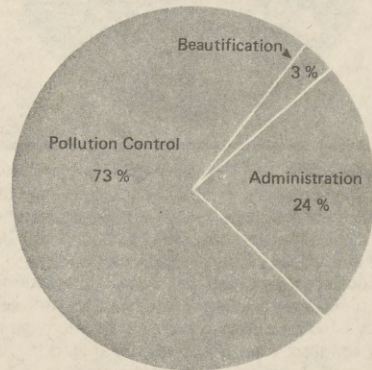
### Environmental Protection

The recent surge in public concern over the environment has produced significant legislation at the federal level and has influenced the city's costs for Environmental Protection as well. A total of \$79.1 million is recommended for environmental programs in 1976 of which nearly

three-fourths is allocated to Environmental Pollution Control. Funding of \$57.7 million for Environmental Pollution Control is used for air and water quality control (\$35.7 million) and solid waste control (\$22.0 million). Figure 12 indicates that the balance of program area expenses are needed for administrative services (24 percent) and Community Beautification programs (3 percent).

Over the planning period, the cost of Environmental Protection services will increase dramatically with the implementation of the Federal Water Pollution Control Act. Attempting to meet federal water quality standards, the Department of Environmental Services plans to expand and upgrade the sewage treatment program at the Blue Plains Water Pollution Control Plant. The additional operating costs associated with this project are estimated at \$78 million by 1980, assuming present construction plans continue on schedule. This accounts for approximately two-thirds of the \$120.2 million increase projected for Environmental Protection programs. An additional increase of \$23.1 million stemming from higher pay and inflation levels is also expected during the period. Finally, \$19.1 million will be required to finance higher costs of debt service and operating expenses for new facilities not included within the scope of the water pollution control plant program.

Figure —12 Environmental Protection  
Total \$ 79.1 Million

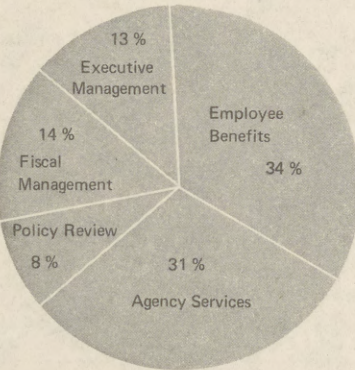




### Governmental Direction and Support

The final program area groups together all costs of the District Government that cannot be allocated to any single program mission because they support virtually all program areas or serve the city government as a whole. A funding level of \$82.8 million is estimated in 1976 for the five main categories of general government activities shown in Figure 13.

Figure —13 Governmental Direction and Support  
Total \$ 82.8 Million



Employee Benefits and Services is the largest category with slightly more than one-third of total program area expenditures. The largest single cost element in this category is the \$19.7 million needed to finance 1975 pay raises which would normally be distributed among the respective services where they fall. However, since these pay raise expenses have been budgeted centrally in 1976, their impact is shown in this category.

Agency Support Services share the next largest portion of program costs, an estimated \$25.5 million in 1976 or 31 percent of the total. It provides general housekeeping services such as transportation, facility management and material management support, to all city agencies. In addition, Executive and Fiscal Management activities receive 13 percent and 14 percent, respectively, of total program resources. The final 8 percent of program funding

goes to the Policy Formulation category which includes the Mayor and City Council.

Total program costs increase nearly \$29 million through the remainder of this decade, reaching a projected \$111.7 million level in 1980. Approximately two-thirds of the increase—\$20 million—is caused by the impact of pay raises and inflation on the cost of purchases included in the program area. Expenditure increases have also been projected to cover higher costs for Unemployment Compensation and Disability Compensation (\$2.9 million), and the operating impact of the CIP (\$6.0 million).

### III. ANALYSIS OF CLIENT GROUP EXPENDITURE TRENDS

Previous sections of this chapter presented agency and program views of expenditure trends as a basis for establishing future spending priorities for the District. A third approach is to view budget allocations from the standpoint of the city's most valuable resource—its people.

The annual budget can be thought of as the city's basic plan for service delivery, and as such, it bears a strong relationship to the special needs of all segments of the city's population. However, since the composition and needs of the population change over time, the budget must be capable of responding to such changes as quickly and effectively as possible. Thus, an examination of budget allocations and programs devoted to the special needs of city residents provides another useful perspective for establishing priorities.

This section presents a profile of 1976 budget proposals from the standpoint of certain segments of the population. The city's 750,000 residents have been divided into the following clientele groups for this analysis:

- Children and Youth who make up about 32 percent of the population with approximately 243,000 persons under 19 years of age.
- Adults between the ages of 19 and 64 years who make up 58 percent of the city's population—approximately 426,000 people.
- Senior Citizens over the age of 65 whose



71,300 members constitute an estimated 10 percent of the District's residents.

- General Population, a category encompassing citizens of all age groups, shows direct service costs that could not be assigned to any one specific group because they serve all persons regardless of age.

To understand and correctly interpret client group expenditure trends three points should be kept in mind. First, this is an initial attempt at a "client analysis" and should be viewed as an experimental approach for examining client services. Second, by concentrating on appropriated funds alone, this analysis does not reflect substantial amounts of Federal assistance programmed to meet special client group needs (e.g., Youth and Senior Citizen programs). And third, estimating exact portions of the total budget designated for specific client groups is impractical because not every item of expense included in the budget can or should be identified with a special client category. For example, allocating support costs (such as facility maintenance) or general service costs (such as police and fire protection) to each individual client group would be largely arbitrary and is not meaningful or illustrative. An explicit assignment of costs is possible in the case of *direct services* specifically designed to meet special needs of a particular age category. However, this approach *understates* the total level of effort and resources expended on behalf of any one client category because it focuses on the limited range of programs provided solely for a particular age group.

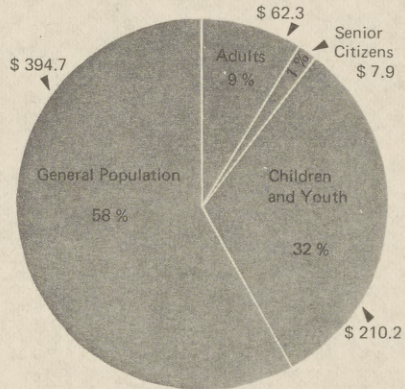
#### Client Group Comparison

Figure 14 shows that \$675.1 million included in the 1976 budget can be identified as serving particular client needs with an expenditure breakdown as follows:

- Programs for Children and Youth make up \$210.2 million—almost one out of every three dollars spent on client designated services in 1976.
- Approximately 9 percent of all direct program costs, \$62.3 million in 1976, is earmarked for Adult services.

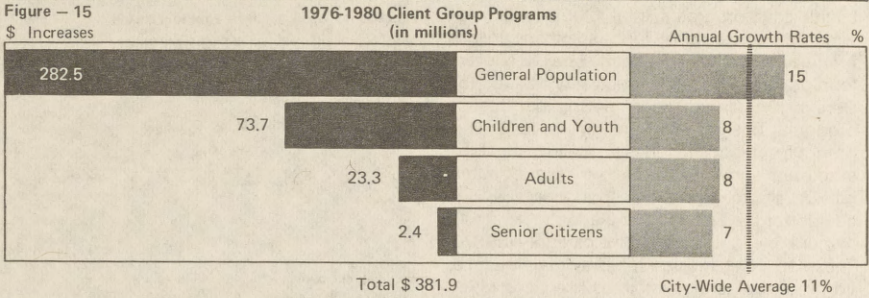
- Senior Citizens programs cost \$7.9 million or approximately one percent of the budget for services provided directly to specific age groups.
- The General Population category has the largest share of expenditures in 1976. More than one-half—\$394.7 million—of the total goes to services provided for all city residents regardless of age.

Figure —14 Direct Service Costs By Client Group  
Total \$ 675.1 Million



The impact of 1976 program commitments on future budget trends over the planning period can also be expressed in terms of cost growth in direct client services. Figure 15 shows absolute increases in client costs over the planning period as well as the underlying growth trends which these increases reflect. The total cost of providing direct client services will grow \$381.2 million through 1980. Three-fourths of this total goes to General Population services which increase \$282.5 million over the planning period. An additional \$73.7 million is projected to cover higher costs of meeting Children and Youth needs. This makes up one-fifth of the total increase projected for all client groups during the balance of this decade. The remaining \$25.7 million is divided between Adults (\$23.3 million) and Senior Citizens (\$2.4 million). Complementing budget increases, a com-





parison of long-term growth rates in direct service dollars allocated to client groups provides a trend basis for examining long-term client costs. As illustrated in Figure 15:

- *General Population expenditures are projected to grow at the highest rate (15 percent), almost twice as fast as growth projected for the other groups.*
- *Average growth rates of 8 percent are projected for Children and Youth as well as Adult services through the planning period.*
- *Senior Citizen programs increase at a projected rate of 7 percent each year.*

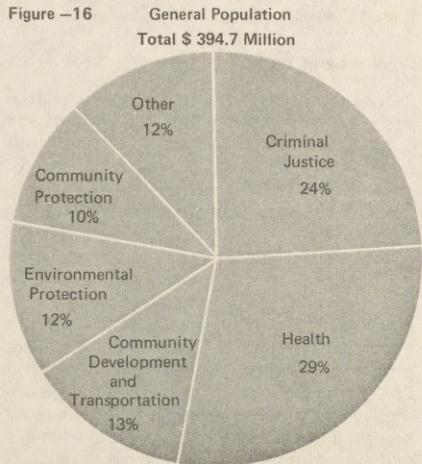
The principal factor behind projected cost trends in client services is differences in the mix of programs provided for each age category. Budget decisions are often made along functional or program lines, drawing attention to common needs shared by many citizens, such as housing, health, education, and the like. This approach, however, does not distinguish between the ways a functional need, like health, may differ among various segments of the population. For example, the services and resources required to meet the health needs of senior citizens will be quite different from those required for children and youth. If services are to meet the specialized needs of a particular client group, this critical distinction must be addressed throughout the various steps of planning, budgeting, program design and implementation.

An understanding of the range of programs designed for different age groups not only helps explain the underlying expenditure patterns

reported above, but also provides a different perspective on city programs described in the second section of this chapter. As a further refinement of the preceding presentation of budget allocations for client services, the remainder of this section identifies programs provided by the District Government for each age group.

#### General Population

Figure 16 shows the largest share of direct service costs for the General Population is ear-





marked for Health needs. Physical and mental health care programs total \$115.9 million or almost 30 percent of all funds spent on services for citizens of every age. Nearly one out of every four dollars spent on direct services for the General Population goes to Criminal Justice programs costing \$94.4 million in 1976. This program category includes police investigation, crime prevention and court services. Community Development and Transportation activities geared for the General Population make up 13 percent of client costs for this category in 1976. These activities include highway maintenance, traffic control, and mass transit services which benefit residents and non-residents alike. Twelve percent or \$48.2 million of all General Population expenses are earmarked for Environmental Protection in 1976 to provide such services as sewage treatment, solid waste collection and disposal, and water distribution. Community Protection services, such as fire prevention and control, highway safety, and consumer protection make up one-tenth of the direct costs assigned to this client group in 1976, approximately \$38 million. The remaining 12 percent of the total is divided among programs designed to improve the social and economic welfare of District residents as well as to provide leisure time and cultural opportunities through recreation and library services.

#### Children and Youth

Services specifically earmarked for Children and Youth are shown in Figure 17 and include Criminal Justice, Social and Economic Well-Being, and Education. Over one half the resources allocated to Children and Youth programs goes to Education services such as primary and secondary instruction, special education, and vocational training. Almost one-third of Children and Youth resources in 1976 is earmarked for improving the social and economic welfare of the city's Children and Youth population through day care and foster care programs. One out of every ten dollars spent on Children and Youth programs pays for law enforcement activities such as juvenile delinquency prevention, juvenile prosecution, youth centers, and after care services for delinquent rehabilitation. This gives Criminal Justice services the third largest share of Children and Youth pro-

Figure -17 Children and Youth  
Total \$ 210.2 Million

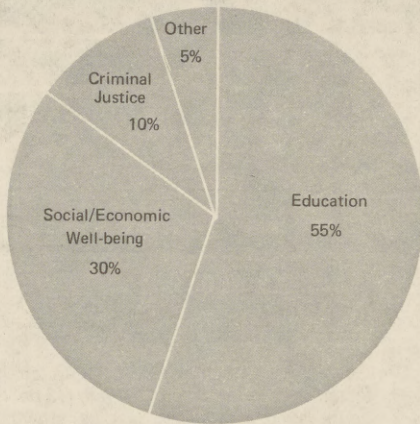
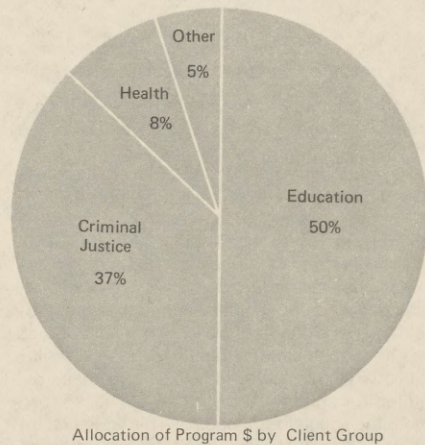


Figure -18 Adults  
Total \$ 62.3 Million



grams in 1976. Three program areas—Community Protection, Health, and Recreation—make up the remaining 5 percent of the city budget



for Children and Youth services in 1976. In addition, these areas receive considerable Federal assistance.

### Adults

Programs designed for the needs of Adults are illustrated in Figure 18. With one-half of Adult direct service costs, Education is the largest program category in 1976 and over the entire planning period. This is attributed to the wide variety of degree programs offered for adults by the city's institutions of higher education. Criminal Justice services such as adult prosecution, legal defense and offender rehabilitation make up 37 percent of all direct service expenditures for Adults. Health and Recreation programs have the largest share of the remaining resources earmarked for the Adult population.

### Senior Citizens

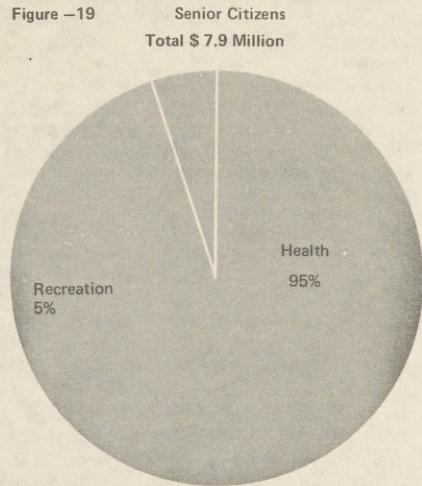
Approximately one percent of direct service expenditures is earmarked to programs designed for Senior Citizens. Although this percentage may appear disproportionate in relation to the size of the city's elderly population, it would be incorrect to conclude that only \$7.9 million is spent on meeting Senior Citizen needs. Many services provided for the entire city population—such as health care, social services, income support, and mass transit—benefit elderly residents of the District. In addition, Federal grant assistance, not included in this analysis, provides another source of funds for Senior Citizen programs. Thus, only city expenditures specifically designated for Senior Citizens programs are included in this category.

Figure 19 shows the distribution of Senior Citizen costs by program. The largest single item of expense is Health services, essentially programs at D.C. Village, which make up 95 percent of the total. The remaining 5 percent covers the cost of the Recreation Department's Senior Citizens program.

### CONCLUSION

Agency budget justifications traditionally have provided information on resources required to meet specific needs of citizens. However, this information is developed at such a detailed

Figure -19



level that it is often difficult to visualize the overall impact of budget recommendations in terms of broader program and fiscal policy directions. This presentation has attempted to overcome these limitations by summarizing 1976 budget proposals from the perspective of the major agencies, programs and client groups that compete for a share of city resources.

Looking ahead to the balance of this decade, program commitments already made and identified in this report will become the basis for future allocation decisions. Spending priorities should be established to help city officials guide budget decisions in the direction that best serves the needs of city residents.

Improvements are being planned to enhance the value of expenditure trend information for determining future priorities. From a program standpoint, the next step is to begin setting measurable service delivery objectives for key programs and subprograms so that budget decisions at the program element level can better reflect desired program accomplishments. In terms of client services, another approach for examining programs would be to group clients of city services on the basis of certain need characteristics, such persons with handicaps



or in financial need. Defining clients categories in this manner would give city officials a different view of budget priorities by showing resources allocated to specific needs of city residents.

As a complement to five-year expenditure projections, the feasibility of developing a "needs profile" of the District and forecasting changes in city needs over the same period should be explored. A project of this nature

would help bring together substantive planning activities conducted at the agency level and surface policy options for dealing with critical program needs which cut across agency lines. After assembling information on projected needs and the cost implications of meeting these needs, the city will be in a better position to coordinate programs, identify service gaps, and ultimately establish a meaningful basis for addressing future program priorities.



## CHAPTER III

## Prospects for Cost Control

## INTRODUCTION

The preceding chapter outlined cost implications of 1976 program commitments for the balance of the 1970s along agency, program and client group lines. While the primary purpose was to draw attention to the establishment of future city priorities, projected revenue shortfalls produced by an 11 percent annual growth in expenditures—compared to only a 5 percent growth in revenues—must be addressed in shaping fiscal policies. The most critical issue facing the District in the years ahead is how city officials will be able to reduce projected demands on the budget without compromising high priority goals and objectives. To combat rapid cost escalation effectively, an examination of budget growth factors is needed with a view toward long-term cost control.

The degree of control government has over budget growth depends on the character of anticipated cost increases—some cost factors can be influenced almost immediately through fiscal policies at the city's disposal, while others are controlled by external factors that limit the options open to policy makers in the short range. If a reasonable degree of expenditure

control cannot be realized, few opportunities will be available for shifting resources to high priority needs or for holding future budget requests down to levels that can be financed within available resources.

This chapter examines prospects for significantly altering cost growth patterns that are expected to place the greatest pressure on budgets in the immediate future. The range of strategies for controlling cost growth will be explored. In addition, the key fiscal issues that must be addressed before deciding which policies should be adopted are surfaced in this chapter. The analysis begins with a review of the main budget growth factors originally presented in the *Multi-Year Financial Plan* and then focuses on each factor in more detail.

## Summary of Budget Growth Factors

The *Multi-Year Financial Plan* report submitted as part of the Mayor's 1976 budget described three major causes of projected budget growth:

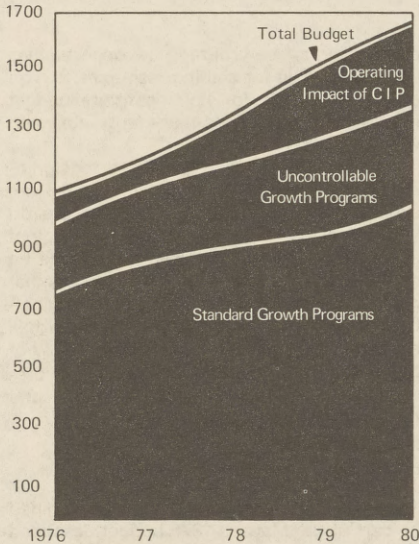
- Standard Growth Programs which are affected by prevailing wage and inflation levels.



- Uncontrollable Growth Programs whose future costs are primarily controlled by eligibility and benefit provisions spelled out in statute.
- Operating Impact of the Capital Improvements Program (CIP) which is largely determined by the size and scope of the city's construction program.

Figure 20 shows the funding levels projected for each of these factors over the four year planning period.

Figure -20 Expenditure Projections By Cost Factor (Million)

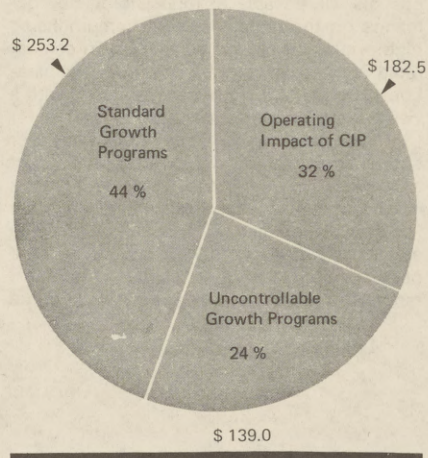


Standard Growth Programs constitute the largest portion of projected expenditures in 1976, and throughout the planning period. A total of \$774.3 million is estimated to finance programs included in this category, amounting to nearly three-fourths of the 1976 budget. Uncontrollable Growth Programs require funding of \$233 million in 1976, ranking behind Standard Growth Programs as the second major category of budget growth. Finally, the Operat-

ing Impact of the CIP adds another \$65.4 million to the recommended 1976 budget. This is the smallest cost growth factor in 1976, earmarked solely for the purpose of retiring debt created to finance construction of public facilities.

During the planning period, the budget is projected to increase a total of \$574.7 million over the \$1,072.6 million proposed in 1976. The individual amounts and percentage shares of the total increase attributed to each cost growth factor is illustrated in Figure 21. Standard Growth Programs again produce the largest absolute costs, with increases of \$253.2 million through 1980. However, this amounts to only 44 percent of the total growth in projected expenditures over the period, which represents a significant change from the large percentage share of the budget in 1976. This shift is caused by more rapid growth in the two remaining categories than that exhibited by Standard Growth Programs. Thus, Uncontrollable Growth Programs and the Operating Impact of the CIP together compete for proportionately larger shares of total budget increases than their 1976 funding levels would suggest.

Figure -21 Projected 1976 - 1980 Expenditure Increases By Cost Factor  
Total \$ 574.7 Million





Uncontrollable Growth Programs exhibit projected increases of \$139 million, nearly one quarter of the total budget growth between 1976 and 1980. This is slightly ahead of this category's 21 percent share of the District budget in 1976. More significant, however, is the dramatic growth shown for the Operating Impact of the CIP during the planning period. With increases of \$182.5 million, this category accounts for 32 percent of the total projected rise in operating expenses, a significant departure from its 6 percent share of the 1976 budget. Increases of this magnitude result from the city's implementation of a \$1.6 billion construction program and the operating cost implications of this undertaking will be felt in the years ahead through debt service and new facility operating cost increases. As a result, this category more than doubles its share of the operating budget during the planning period, growing to more than 15 percent of projected District costs in 1980.

The remainder of this chapter provides a comprehensive review of each of these major growth factors. Emphasis will be placed on the reasons for cost increases in each factor and ways of controlling these increases in the future.

### I. STANDARD GROWTH PROGRAMS

The cost of maintaining Standard Growth Programs throughout the planning period is influenced by cost increases for personnel and non-personnel resources included in the budget base. Thus, a large portion of projected increases in the total District budget reflects the impact of prevailing economic conditions on the cost of salaries and governmental purchases of supplies, materials, contractual services, and the like.

Inflation is an important economic force behind a municipality's cost pattern, dictating the level of city budgets in two primary ways. First, inflation affects city expenditures *directly* through its impact on the prices of materials and contractual services supplied to governmental agencies. In addition, as general consumer prices rise in response to inflationary forces, public sector wages are adjusted partly to help offset the effects of inflation on the purchasing power of employee salaries.

In view of the dual effects of inflation on the city budget, the approach used in the following analysis separates inflationary pressure on supply and equipment prices from its impact on future wage and salary levels. This distinction was made for two reasons: (a) it was important to differentiate between cost increases resulting from pay adjustments and those resulting from inflation in the purchasing area; and (b) the pattern of cost growth and cost control policies differ in each case.

Assumptions selected for the projections of pay adjustments and other inflation effects were developed through a review of published forecasts on future economic conditions, discussions with experts in these areas, and a review of actual cost trends in recent years. Generally speaking, inflationary increases for supplies and materials are expected to witness a higher growth rate than pay raises, mainly because the rising price of government purchases has outpaced growth in public salaries over the last several years.\* While maintaining a fairly high annual rate of 11 percent through 1977, inflationary pressures are assumed to decline toward the end of the decade, stabilizing at a rate about five percentage points below current levels. In addition to overall trend assumptions, the projections are based on holding government purchases constant in *real* terms (i.e., after inflation) over the planning period.

Assumptions governing future pay adjustments also follow a declining trend over time with close to a three percentage point spread between the initial years and the end of the period. This follows a pattern consistent with the federal salary assumptions published in the President's budget earlier this year. Pay projections are also based on maintaining a stable workforce through the remainder of the decade and achieving the Mayor's goal of financing 1976 pay raises through agency absorptions.

\*As a rule, prices paid by government for supplies and other goods do not follow the trend of household purchases as reported monthly in the Consumer Price Index. Instead, public sector costs generally grow at a higher rate than consumer prices because a larger portion of government purchases is for items that have experienced unusually high rates of inflation such as fuel, medical supplies, and utilities.



Figure —22 I — Standard Growth Programs  
Increases 1976 — 1980  
Total \$ 253.2 Million

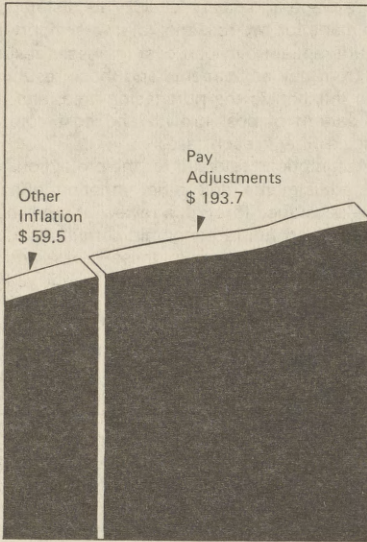


Figure 22 reports the amount of cost increases projected for pay adjustments and inflation through 1980. Increasing wage and salary costs account for \$193.7 million or about three-fourths of the total increase estimated for Standard Growth Programs. This makes pay adjustments the *largest single cause* of budget growth over the long run, since payroll increases exceed expenditure increases reported above for Uncontrollable Growth Programs and the Operating Impact of the CIP (Figure 21).

Although annual inflation rates for governmental purchases are projected to outstrip percentage increases in salary rates over the period, the cost implications are estimated at only one-third the amount of increases for pay adjustments through 1980. This is because the District Government is primarily a service institution, and as such, spends substantially more—about 4 times more, in fact—on labor costs than on materials and related purchases.

With increases of \$59.5 million through 1980, inflation accounts for about 25 percent of the added costs projected for Standard Growth Programs

### Cost Control Approaches

Strategies for controlling the long range cost impact of inflation and pay adjustments can concentrate on only two areas: (1) reducing the rate of price escalation, and/or (2) cutting back on the dollar amount of purchases or the number of District employees. In the case of inflation, it is virtually impossible for any municipality to influence changes in price levels. This places the full burden of controlling inflationary pressures on local policies for cutting back supply and equipment purchases. However, failing to purchase sufficient quantities of materials in critical areas like pharmaceutical supplies, police and fire communications equipment, street repair materials, and the like could have an adverse impact on the delivery of vital services. Thus, recommended cutbacks in this area should be preceded by careful analysis of the probable effect on services.

Since policies governing employee pay raises fall under the scope of local governments, public officials have some degree of flexibility in controlling pay adjustments through the wage setting process. It is important to recognize, however, that rapid unionization of public employees throughout the country in recent years has given municipal workers a greater role in the formulation of wage and work rule policies. The degree of control over future pay increases available to public officials should not be considered absolute, and will normally have to take into account external forces, such as prevailing economic conditions and salary comparability with other cities.

In the District Government, salaries for a large portion of the city work-force are presently tied to Federal wage rates while most of the remaining employees negotiate with the city over wages. Figure 23 shows the distribution of estimated 1976 salary costs among the four major groups of city employees.

General Schedule and Wage Board employees together comprise about 56 percent of budgeted salary costs in 1976. Pay scales for most employees in these two groups are now



set according to the prevailing Federal salary structure for comparable grade levels. This means that greater control over pay raises for these employees would necessitate fundamental changes in the way salaries are currently reviewed and adjusted. Whether such changes could be instituted before the city establishes its own independent personnel system as required under home rule is uncertain at this time, however. As a practical matter, the city must also compete with the Federal government for personnel which may impose further limits on the amount of flexibility in the salary area.

The remaining 44 percent of District salary costs go to employees whose pay is negotiated with the city through collective bargaining. Public School teachers and uniformed policemen and firemen represent the largest single groups of employees in this category with 20 percent and 17 percent of total 1976 salary costs, respectively. Legislation enacted last year established formal collective bargaining procedures for these employees, giving the City Council final authority for approving future pay adjustments. Since these collective bargaining provisions require assessment of cost-

of-living increases and changes in salary comparability *vis-a-vis* similar employees in other jurisdictions, the degree of control available to the City Council on these pay matters is not known. Should inflation continue at high levels as in recent years, for example, the city would expect substantial pressure at the collective bargaining table.

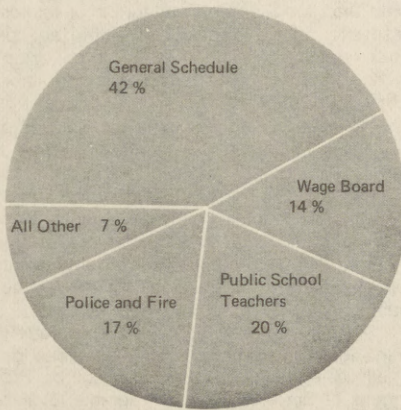
If strategies aimed at reducing pay increases below projected levels prove ineffective or undesirable, the only other option for lowering long-term salary costs open to city officials is to cutback workforce levels. Fiscal austerity measures of this kind have played an important role in the formulation of the District budget throughout the current decade. Since 1970, for example, more than 3,000 positions have been abolished at an annual savings of \$25 million. By focusing on vacant positions, these workforce reductions have been accomplished without resorting to mass employee layoffs that have taken place in other cities. Moreover, the Mayor has recommended that an additional 545 currently vacant positions be eliminated as part of his 1976 budget austerity program. Like cutbacks in purchasing, however, the effect of future reductions in the city workforce on the delivery of vital public services must be fully evaluated.

Job Evaluation is one method of achieving workforce reductions without sacrificing program objectives. This approach assists program managers in taking a hard assessment of their operations in terms of positions, skill qualifications and grade levels. Such evaluations result in position cutbacks through a more realistic match between position duties and the actual skills needed to perform them.

## II. UNCONTROLLABLE GROWTH PROGRAMS

Uncontrollable Growth Programs, the second category of budget growth, are funded at \$233 million in 1976 and rise to \$372 million by 1980. Despite increases of \$139 million over the planning period, this budget growth factor is not expected to compete for a proportionately larger share of the total operating budget in 1980 than its present level of 20 percent. This trend is contrary to experience at the Federal level where uncontrollable programs make up an increasingly larger share of the budget.

Figure -23 1976 Salary Costs Percentages For Major Employee Groups





Uncontrollable Growth Programs include services for which the types and levels of benefits provided as well as eligibility criteria are set forth in statute or regulations having the force of law. Such programs are considered relatively uncontrollable, especially in the short run, because financial obligations to eligibles receiving benefits must be met in the absence of changes in governing statutes and regulations. Examples of programs categorized as uncontrollable include unemployment compensation, school transit subsidies, medicaid, retirement programs and the like. In addition, long range financial obligations of the District arising out of contractual agreements fall under this category, such as the District's commitment to pay a fair share of METRO operating deficits.

As a result of these legal mandates, costs in this budget growth factor are more directly influenced by benefit levels, eligibility criteria or other provisions contained in legislation than by fiscal policies used in formulating the annual budget. Thus, a reduction in the cost of Uncontrollable Growth Programs, in the absence of declining program utilization, would normally require statutory changes or changes in regulations that have the force of law.

Aside from the difficulty of controlling program costs in a single budget cycle, Uncontrollable Growth Programs involve two additional long-term fiscal planning issues as well. First, since funding requirements depend ultimately on the actual number of beneficiaries and the level of benefits provided, it is extremely difficult to forecast future costs with great accuracy beyond one or two years. This is because program caseloads fluctuate considerably and assumptions about caseload changes become more risky over time. Second, the process of altering program costs through changes in benefit or eligibility provisions grounded in statute is a long-term proposition. Even if legislative changes were readily possible, however, these programs meet important needs of city residents and proposed changes in services, benefits and eligibility provisions would have to be evaluated from the standpoint of the social, economic, environmental and safety objectives of the city.

Although legislative factors play an important part in determining total costs, some meas-

ures can be taken within the current authority of the city to reduce the need for or reliance on these programs and thus reduce program costs. These cost control steps focus principally on program and fiscal policies related to the Uncontrollable Growth Programs. For example, strategies aimed at improvements in safety management and rehabilitation may have an immediate impact on the cost of disability compensation by reducing the number of injuries, thus reducing the number of claimants and duration of payments. The goal of these strategies is to influence factors outside mandated service levels which contribute to service demand and cost escalation.

By 1980, Uncontrollable Growth Programs are projected to reach \$372 million. This means that 23 percent of the total estimated 1980 budget will fall outside the discretion of city officials. If a reasonable degree of cost control is to be realized in the future, the city must start now to explore the future implications of present commitments and alternatives that are available for making changes in the future.

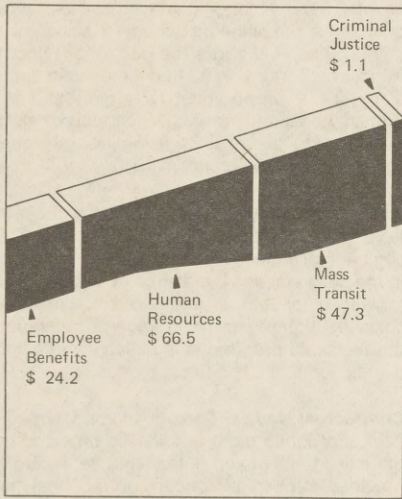
The remainder of this section examines the future cost implications of each Uncontrollable Growth Program and the factors contributing to expenditure growth. A review of the city's present commitments in Uncontrollable Growth Programs is critical because sound fiscal planning should begin with an understanding of the city's legal and social responsibilities along with their long-term expenditure implications. Issues raised in this analysis provide an agenda for examining the effects of future policy options and new legislation on Uncontrollable Growth Program costs.

The main assumption made in projecting resource requirements for Uncontrollable Growth Programs is that current laws authorizing programs included in this category of budget growth would remain unchanged over the planning period. Thus, projections indicate the "natural" growth underlying program costs which results from caseload changes, automatic benefit increases and other factors.

Since there are twenty separate programs in nine agencies, we have grouped them into four main categories: (1) Human Resource Programs, (2) Employee Benefit Programs, (3) Mass Transit Programs, and (4) Criminal Justice Pro-



Figure 24 II — Uncontrollable Growth Programs  
Increases 1976 — 1980  
Total \$ 139.0 Million



grams. As illustrated in Figure 24, Human Resource Programs demonstrate the largest cost increase—\$66.5 million—over the planning period. Almost one-half of the Uncontrollable Growth Program cost increases is attributed to this category. The cost of providing Mass Transit programs shows the second greatest increase over the planning period, accounting for one-third or \$47.3 million of all uncontrollable program cost increases. The category with the third largest increases is Employee Benefits. Increases in these programs over the planning period are projected at \$24.2 million above current funding levels. The final category, Criminal Justice Programs, exhibits relatively small increases over the planning period, only one percent of all Uncontrollable Growth Programs cost increases from 1976 to 1980.

Each category of Uncontrollable Growth Programs is examined in more depth below. The information presented on programs within each category includes their purpose and major features and the key factors contributing to projected cost levels.

### Human Resources Programs

Human Resources Programs make up the largest category of Uncontrollable Growth Programs totaling \$120.9 million in 1976. Among the items included in this category are: (1) public assistance programs providing income maintenance, emergency assistance and supplemental income to needy and dependent citizens, (2) medicaid, (3) contractual medical services for the medically indigent, and (4) board and care services for children who are wards of the city.

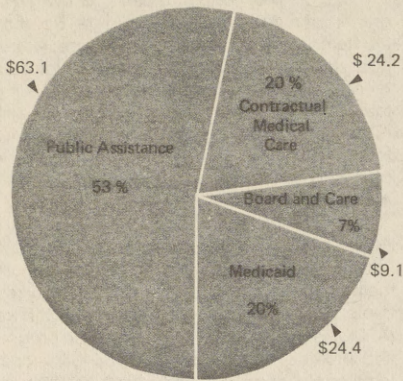
**Public Assistance Programs.** Public assistance includes seven programs which provide income maintenance for the financial needs of city residents. Aid to Families with Dependent Children (AFDC) is the largest public assistance program and provides income support for low income families meeting Federal eligibility requirements. General Public Assistance (GPA) is a non-federal program designed to meet the income needs of families and persons who are temporarily needy due to such circumstances as illness or injury but who do not qualify for any federally-subsidized assistance. Together these programs account for approximately 95 percent of all public assistance expenditures in 1976. The five remaining programs—income supplementation, aid to families with dependent children and unemployed fathers (AFDC-UF), emergency assistance service grants, supplemental security income and food stamp transaction costs—account for the remaining 5 percent of all public assistance expenditures in 1976.

As illustrated in Figure 25, public assistance programs constitute slightly more than half of all Human Resource Programs in 1976 with total expenditures estimated at \$63.1 million. Over the planning period, public assistance programs are projected to increase by \$29.6 million—almost one-half of the total increase for all Human Resource Programs. More than three-fourths of this increase will be caused by the two largest programs, namely, AFDC and GPA.

The primary factors influencing cost growth in public assistance programs are the number of people participating and the benefits they are entitled to receive. Program utilization is first



Figure 25 Human Resource Programs  
Total \$ 120.9 Million



of all determined by eligibility criteria for each program. The number of persons qualifying under these criteria, however, is dependent in part on broader social, economic and demographic patterns. The direct effects of these forces are exhibited in factors such as unemployment levels, birth rates and migration patterns. In addition, program administration factors, such as outreach efforts, the number of applications received and reviewed, and error rates in eligibility determination and recertification, will affect caseload size. Benefit levels determine the amount of cash grants allowed under a program and must be sufficient to meet the needs of the client population. Annual reviews are conducted to determine the cost of necessities but increases in benefits require legislative approval.

**Medicaid.** Under the medicaid program the Federal and D. C. Governments share the costs of providing medical care such as inpatient and outpatient services, skilled nursing care, and dental care for welfare recipients and the medically indigent. As illustrated in Figure 25, medicaid costs are second only to public assistance and are estimated at \$24.4 million in 1976—20 percent of the costs in the category. Over the planning period medicaid costs are projected to double, reaching a level of \$48.6 mil-

lion by 1980. This growth accounts for more than one-third of all Human Resource Program increases over the planning period.

Medicaid costs show the second highest growth trend among all uncontrollable programs over the planning period—a growth rate that is 50 percent above the rate for all uncontrollable programs. In addition, medicaid competes for a proportionately larger share of Human Resource Program expenditures over the planning period, increasing from 20 percent in 1976 to 26 percent in 1980.

Medicaid program costs are primarily influenced by eligibility criteria, the range of benefits allowed and the number of services used by eligible individuals, the number of participants in the program, and the source of medical care (private or public). In addition, since medical costs are highly sensitive to wage-price factors, the medicaid program is significantly affected by inflation in the health care industry.

**Contractual Medical Care.** In addition to medicaid and public medical services provided by the city, inpatient and outpatient health care is provided at hospitals under contract with the city. The medical charities program and funding for St. Elizabeth's Hospital are two programs for delivering health care on a contractual basis. The medical charities program pays for medical services administered by private hospitals for those ineligible for medicaid but have been determined to be temporarily "medically needy." The payment made to St. Elizabeth's covers the cost of providing mental health treatment for city residents at this regional facility.

Figure 25 shows contractual medical care accounts for 20 percent of all Human Resource program costs in 1976—a total of \$24.2 million. This places contractual services on a comparable footing with medicaid program costs. The cost of contractual services is expected to increase by \$8.5 million over the planning period which is about 15 percent of increases in the Human Resource category.

The cost level of these programs is determined by the number of persons receiving services, the number of services provided, whether the service is provided on an inpatient or outpatient basis, and the rate paid to reimburse institutions for such service.



**Board and Care.** The Board and Care program provides for the custody and care of dependent and neglected children who have become wards of the city. Many of these children are assigned by the Courts to the city on a temporary or permanent basis. Figure 25 shows the board and care program at 7 percent, or \$9.1 million, of all Human Resource programs in 1976. Over the planning period, this program increases a small amount in relation to the total Human Resource Program category.

With the decision to phase out institutional based care for dependent children, the city accepted a commitment to place all dependent children in community based programs such as foster and group homes. The factors which affect the costs of this program include the number of dependent and needy children assigned for placement, the monthly payment level of community-based home care alternatives, and the length of time such care is required.

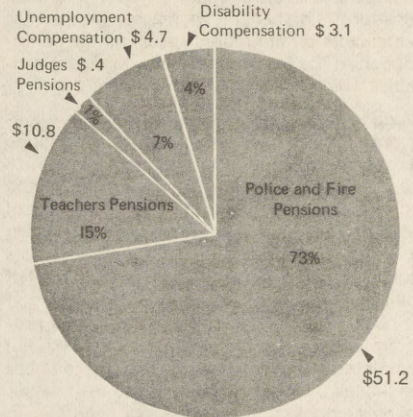
### Employee Benefit Programs

Employee Benefit Programs is the second largest category of Uncontrollable Growth Programs in total costs, but has the third highest increase—\$24.2 million—over the planning period as shown in Figure 24. Among the items included in this category are retirement programs for police and fire employees, teachers and judges, and compensation programs for unemployed and disabled District workers. Figure 26 shows that in 1976, \$70.2 million are allocated for these programs.

**Police and Fire Retirement.** The Police and Fire Retirement Program provides a pension for former city policemen and firemen as well as survivor benefits for their widows and dependents. As illustrated in Figure 26, police and fire pensions constitute the largest portion—almost three-fourths—of all Employee Benefit Program costs in 1976. The costs of this program also increase the most over the planning period. With increases projected at \$16.6 million, this program accounts for more than two-thirds of the total increase for all Employee Benefit Programs over the four year period.

Several factors have a significant impact on the cost of police and fire pensions: (1) the

Figure —26 Employee Benefit Programs  
Total \$ 70.2 Million



number of annuitants on the rolls, which is in turn affected by eligibility requirements regarding years of service and the number of active members eligible under these regulations, (2) the average benefit levels for all those on the rolls, (3) legislatively mandated automatic increases in benefits tied to uniform force pay raise adjustments, and (4) the percent of salary which can be received upon retirement. In addition to these factors, the method of financing the police and fire retirement benefits has a bearing on future costs. This is because the program is financed on a "pay-as-you-go" basis and thus interest earnings are not available to offset annual benefit payments.

**Teachers Retirement Program.** The teachers' retirement program provides pension annuities to retired public school teachers and their survivors. In 1976, appropriations needed to finance the teachers' retirement program total \$10.8 million—approximately 15 percent of all Employee Benefit programs—as shown in Figure 26. Appropriations for this program are projected to increase \$4.6 million which represents a total increase of 45 percent over the planning period.

Several significant factors contribute to the cost level reached by this program in the cur-



rent year and subsequent fiscal years. The number of teachers on the pension rolls, average benefit levels, number of years of service, cost-of-living benefit increases granted to annuitants on the retired rolls, and the contribution to the fund by the active force are variables which affect the program costs.

**Judges Retirement Program.** The judges retirement program entitles any participating judge to receive an annuity upon retirement. In 1976 and for the remainder of the planning period this program constitutes the smallest percent of all Employee Benefit Programs. As illustrated in Figure 26 judges' retirement program costs total approximately \$.4 million—one percent of all Employee Benefit costs.

Cost factors which contribute to this program include the amount of the annuity, the employee's percent contribution, the number of judges on the pension rolls and the number of new judges coming on the rolls each year. In addition, total program costs will increase over the planning period as salaries increase because the annuity is calculated as a portion of average salary at time of retirement.

**Unemployment Compensation.** The unemployment compensation program provides a source of income to former District employees who are temporarily unemployed but are actively seeking work. This program is the third largest employee benefit program in 1976 totaling \$4.7 million as illustrated in Figure 26. An increase of \$800,000 is projected over the planning period.

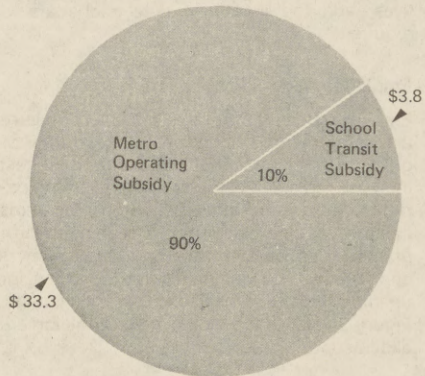
The factors contributing to the cost of this program include: (1) number of payments made, (2) the number of claimants, (3) the average duration of benefits, (4) the average benefit allowed for persons on the unemployment rolls, and (5) the type of separation. In addition, certain unpredictable outside forces such as the state of the economy, Federal, private and city job opportunities impact on program costs. If increasing budget austerity and fiscal policy force the city to reduce its work force, unemployment compensation costs may be driven up and offset potential budgetary savings.

**Disability Compensation.** Benefits to District employees who become disabled due to on the job injuries or to job related diseases are provided through the disability compensation pro-

gram. In addition, this program provides death benefits to survivors if a disability is fatal. As shown in Figure 26, disability compensation costs in 1976 are estimated at \$3.1 million, approximately 4 percent of uncontrollable employee benefit programs. By 1980, however, program costs are projected to increase by \$2.1 million which represents a 69 percent increase over 1976 costs, the largest percentage rise projected in the Employee Benefit category.

The primary factors influencing the cost level of the disability compensation program include the number of new claims added to the rolls each year, the number of continuing claims, the types of medical care required, and the level and duration of payments.

Figure —27 Mass Transit Programs  
Total \$ 37.1 Million



#### Mass Transit Programs

Figure 27 shows mass transit programs are budgeted at \$37.1 million in 1976. These programs increase an estimated \$47.3 million over the planning period, second only to Human Resource program increases. In percentage terms, however, mass transit programs exhibit the highest rate of growth by far over the planning period for all categories—23 percent—nearly twice the rate for all uncontrollable programs. Included in the mass transit programs are the METRO operating subsidy and the school transit subsidy.



**METRO Operating Subsidy.** The METRO operating subsidy pays the city's share of the deficits incurred in providing bus service and eventually rail service. As shown in Figure 27, a total of \$33.3 million is requested in 1976 for this program. Costs of the METRO subsidy are projected to increase \$47.3 million and reach \$80.6 million by 1980, growing at an average annual rate of 25 percent, more than two times the rate for all uncontrollable growth programs.

The central factor in the cost level of the METRO Operating Subsidy is the size of the deficit which is a function of ridership levels, the fare structure, receipts and total operating costs. This total deficit is then apportioned among the participating jurisdictions according to an allocation formula established by the Washington Metropolitan Area Transit Authority Board which is made up of officials from the participating jurisdictions.

**School Transit Subsidy.** The school transit subsidy reduces transportation costs for school children by paying 30¢ of the total regular adult fare of 40¢ for bus rides to and from school. In 1976, the school transit subsidy is budgeted at \$3.8 million as shown in Figure 27. Costs are expected to remain at the 1976 level throughout the planning period assuming bus fares are held constant.

Contributing to the cost level of this program are three main factors: the number of students who take the bus, the number of rides they produce, and the amount of the fare subsidy. While the fare paid by the eligible school age population is projected to remain at the current percentage of the adult rate, any change in this ratio or in METRO adult rates will impact subsidy costs.

#### **Criminal Justice Programs**

Criminal Justice programs are the smallest category of uncontrollable growth programs and include two programs: The federal institutions payment and the legal services for indigents program.

Figure 28 shows that uncontrollable criminal justice programs cost \$4.8 million in 1976. Increases of \$1.1 million for this category are projected over the planning period.

**Legal Defense for Indigents.** When a defendant is unable to pay the costs of defense, but the

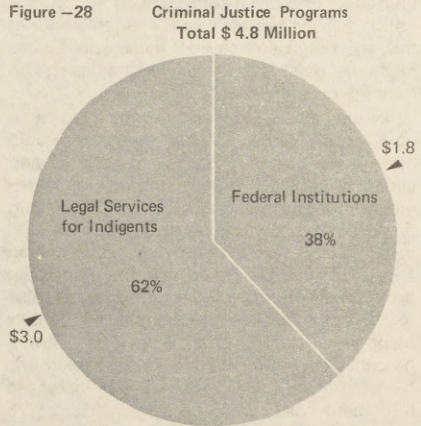
case cannot be handled by the Public Defender Service, the cost of representation is covered by the legal defense for indigents (Criminal Justice Act) program. This program comprises the bulk—almost two-thirds—of the uncontrollable Criminal Justice category, with funding recommended at \$3.0 million in 1976.

Contributing to the cost level of this program are two major factors: the number of eligible individuals requiring legal services, and the rate of reimbursement allowed for private lawyers for their services. The factors which affect the number of defendants include the number of cases that come to trial, the arrest rate, the seriousness of the crime committed and the number of cases that can be handled by the Public Defender Service.

**Federal Institutions Payment.** The Federal Government is reimbursed by the District for the costs of incarcerating D.C. inmates in Federal prisons. As illustrated in Figure 28, the federal institutions payment comprises slightly more than one-third of the category with \$1.8 million in 1976.

The cost level of this program is largely dependent upon the number of D.C. inmates assigned to Federal prisons and the average daily rate charged to the District for prisoners in Federal prisons.

Figure —28





### Cost Control Approaches

Due to the statutory basis for many of these programs, cost control in this budget growth area is extremely difficult within the fiscal policy framework of the annual budget review process. Nevertheless, two cost control strategies are available to slow down the rate of growth in uncontrollable programs, but both have drawbacks which limit their applicability and effectiveness in the short run.

The first and most direct method of control involves the process of revising program benefits and eligibility requirements through legislative changes. This would normally take place outside the budget cycle. However, the difficulty with this approach is that programs included in the uncontrollable category meet basic human needs—such as income support, medical care and transportation—and thus cutbacks in benefits and restrictions on eligibility would have a decided impact on the ability of private citizens to obtain these services on their own.

The second approach is a more indirect method of controlling long-term cost growth because it makes use of new program and administrative initiatives to reduce reliance on uncontrollable programs. The principal drawback of this strategy is that it may require a heavy initial investment to put new programs into effect and the results of such efforts may not be felt for several years. The remainder of this section illustrates how these approaches might be used with several examples drawn from the programs described above.

In the case of legislative remedies to rapid cost acceleration, primary attention would have to be placed on program benefits and eligibility criteria. Benefit changes in retirement programs might take the form of revising procedures for computing automatic increases in annuities. For example, the equalization adjustment in the police and fire retirement program allows the full amount of a pay raise for active employees to be passed directly along to all retired employees. Thus, the 16 percent pay raise awarded to policemen and firemen in July 1974 automatically increased retirement costs by 16 percent in fiscal 1975 and every year thereafter. Of course, some adjustment is needed in retirement annuities to

offset increasing consumer prices but the method of computing these adjustments has a significant impact on program cost.

Changes in eligibility provisions in the retirement area also have an effect on long-term retirement costs. Options for restricting eligibility would include changes in the minimum requirements governing such provisions as the number of years of service, the age at which retirement becomes effective, the seriousness of injuries for disability retirement, etc. Aside from cost considerations, the main issue surrounding potential changes is the important role retirement programs play in the ability to attract and retain qualified employees in government service. As the city moves ahead with its plans to design an independent merit personnel system under home rule, these benefit and eligibility issues should receive consideration at an early stage.

Program and administrative initiatives can also be used in certain instances to control cost growth. In disability compensation, for example, the city has mounted a comprehensive program to decrease dependence on disability benefits. The elements of this program include: (1) safety management to reduce the number of disabling injuries suffered by District employees, (2) rehabilitation and training to help seriously injured employees overcome their disabilities and learn new job skills, and (3) job development and placement to provide opportunities for rehabilitated persons to return to work. This approach to cost control is not a simple one but can produce long range benefits not only for the government but for the individual employees as well.

Another illustration of program initiatives is provided in the case of METRO operating subsidies. The amount of operating deficits experienced with the bus and eventually rail service can be held in check through measures aimed at encouraging additional ridership, particularly in off-peak hours, and improving operational efficiency. The city has taken steps in this direction through the recommended 1976 tax program which is intended in part to discourage automobile use, by supporting fare reductions for elderly citizens and a policy of holding the line on general fare increases, and through improved street and high-



way design to give buses greater mobility in the downtown areas. Continued attention should be given to identifying opportunities for improving the efficiency of transit operations in the future since multi-year projections indicate subsidy requirements will more than double in the next five years.

### III. OPERATING IMPACT OF THE CAPITAL IMPROVEMENTS PROGRAM

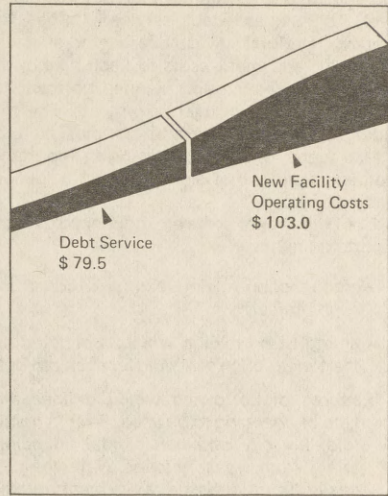
The District of Columbia's Capital Improvements Program (CIP) is the third factor producing growth in the operating budget over the planning period. In the last seven years, the city has mounted a comprehensive program of facility construction and modernization to make up for a period when the lack of borrowing authority severely restricted the number of improvements the city could initiate. Highlights of the city's accomplishments in the capital program during this period include significant expansion and upgrading of facilities for education (public schools and college campus development), transportation (METRO subway construction), criminal justice (new correctional and court facilities) and water pollution control. Thus, implementation of past and current construction plans makes it possible to focus the future direction of the city's building efforts on modernization of existing facilities rather than on new construction as reported in the 1976-1981 *Capital Improvements Program*.

Since the long-term effects of facility construction extend far beyond initial design and construction costs, this section treats the operating impact of the CIP as a separate factor of budget growth. This approach is useful for identifying the impact of improved public facilities on the cost of public services and examining policies and issues surrounding cost control in this area.

The Operating Impact of the CIP represents a smaller share of the budget than Standard Growth and Uncontrollable Growth Programs. In 1976, for example, the CIP operating impact is estimated at \$65.4 million, 6 percent of the total budget. By 1980, however, its share of the budget more than doubles because of growth that is nearly four times the city-wide average over the planning period.

Two cost categories—debt service and new

Figure —29 III — Operating Impact of CIP  
Increases 1976 — 1980  
Total \$ 182.5 Million



facility operating costs—produce the CIP operating increases shown in Figure 29. Debt service on capital borrowed to construct public facilities makes up the total amount of CIP operating costs in 1976. Over the planning period, debt service charges will increase \$79.5 million to \$144.9 million for projects already authorized and for new project starts recommended in the 1976-1981 CIP.

The cost of operating all new facilities opening in 1976 is not identified separately in the budget and thus has been shown in this analysis under Standard Growth Programs. Between 1977 and 1980, however, facility staffing and maintenance costs account for almost 60 percent of the total increases in the CIP category. Increases of \$103 million are projected to cover operating costs for all public facilities scheduled to open in the planning period.

The remainder of this section examines debt service and new facility operating costs at the agency level and identifies issues surrounding long-range cost control strategies.



## Debt Service

In the District of Columbia, debt service is budgeted in a city-wide Repayment of Loans and Interest account rather than at the agency level. To estimate debt service charges by agency, therefore, it was necessary to allocate total debt repayment costs to each agency in proportion to actual and planned borrowings needed to construct agency projects. The resulting allocation gives a more complete picture of *total*/agency costs by identifying an important program expense that is not reflected in agency funding levels.

Debt repayment costs are influenced by four important factors:

- amount of borrowing *required to construct each project.*
- timing of borrowing *which is dictated by the construction schedule for each project.*
- source of borrowing *which defines the type of financing to be used. Prior to home rule, the city obtained capital financing totally from Treasury loans. Now, the city has authority to issue tax-exempt municipal bonds for this purpose.*
- terms of borrowing *which include interest rates as well as the number of years established for repaying borrowed capital.*

To project debt service charges over the planning period, assumptions were made for these factors. The amount of borrowing used in this analysis was based on the total cost of each project reported in the CIP. The most recent construction schedule was used to estimate when funds would be needed for projects already in process while the timing of borrowing needs for new project starts was based on experience with similar projects in the past. Both sources of capital financing available to the District enter into the projections. Treasury loans were assumed as the source of borrowing for projects already funded since the home rule act authorizes loans for this purpose. However, all new project starts will be financed through municipal bonds as required by charter. Finally, the terms of all borrowing were set for a thirty year repayment period at interest rates of 7¼% for Treasury

loans and 6½% for municipal bonds. The difference in interest rates reflects the tax exempt status of municipal bonds and the lower interest costs associated with this source of capital financing.

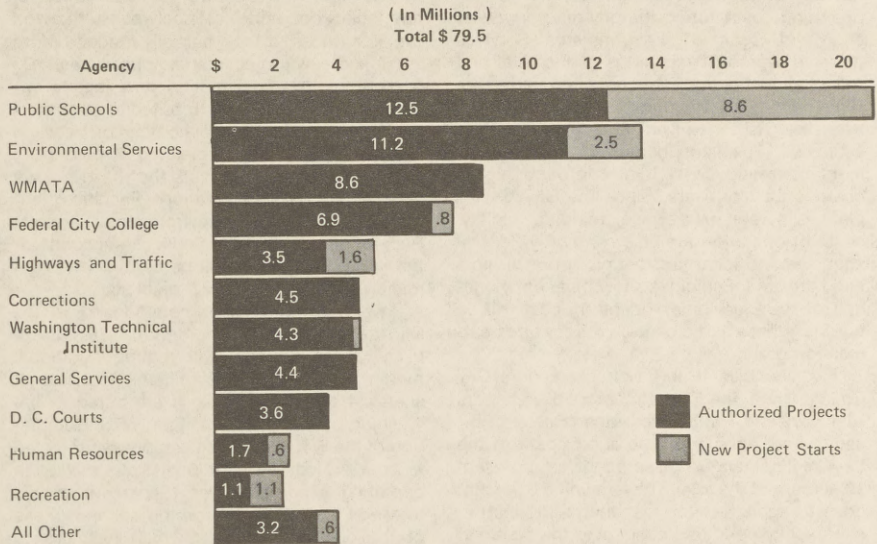
Figure 30 shows debt service increases over the planning period for agencies participating in the CIP. Three agencies—Public Schools, Environmental Services, and the Washington Metropolitan Area Transit Authority—account for more than half of the \$79.5 million debt service increase between 1976 and 1980. An additional 42 percent of the added cost of debt service payments is generated by the eight remaining agencies listed in the figure. The final three percent comes from the "All Other" category which includes five agencies with increases averaging less than \$.5 million over the planning period: A closer examination of Figure 30 reveals that:

- *Public School projects account for more than one-fourth of total debt service increases—\$21.2 million over the planning period.*
- *Environmental Services projects create an additional \$14.0 million in debt repayment costs through 1980.*
- *Increases of more than \$11 million are estimated for higher education which includes new campus development projects for Federal City College and Washington Technical Institute.*
- *Debt service charges on the METRO rail and bus capital program (Washington Metropolitan Area Transit Authority) increase \$8.6 million over the period. This estimate is based on the city's current commitments to METRO only and thus does not reflect any additional capital appropriations in the future to complete subway construction.*
- *Authorized projects for all agencies (i.e., projects at least partially funded through 1975) account for more than three-fourths, or \$61.1 million, of the total debt service increase.*
- *New project starts beginning in 1976 and beyond make up \$18.3 million of all agency debt service increases through 1980.*



Figure -30

## 1976 - 1980 Debt Service Increases By Agency



- *Public Schools, Environmental Services and General Services share nearly three-fourths of the debt service for new project starts with increases of \$8.5 million, \$2.5 million, and \$2.3 million, respectively.*

In addition to the \$79.5 million increase projected through 1980, debt service costs will continue to grow into the next decade to complete construction of all projects recommended in the CIP. An increase of \$32.1 million in new debt service costs is projected beyond 1980, of which about 40 percent is for currently authorized projects and the remainder for new project starts.

A complete listing of debt service projections through 1980 and beyond for each agency participating in the CIP appears in Appendix D.

#### New Facility Operating Costs

Over 150 projects are scheduled for completion during the planning period. Of this total, only 71 are expected to result in a request for

operating funds. The remaining projects can be opened with no additional resources because sufficient funds are available in the budget base. Operating cost increases for new public facilities are estimated at approximately \$103 million in 1980. This amount represents about one-fifth of 1976-1980 increases for the total city budget and more than half the increase estimated for the Operating Impact of the CIP.

New facility operating cost estimates were prepared by departments having responsibility for the projects upon completion. To compute total new facility operating costs on an agency basis, staffing and other operating needs were estimated for each project in the CIP. Since operating requirements were based on *current* wage levels and prices for utilities, equipment and supplies, adjustments were made to reflect pay raises and other inflationary increases projected before the scheduled opening date of each facility. Project completion dates were furnished by the agencies responsible for capital program management as reported in the 1976-1981 Capital Improvements Program.



The Department of Environmental Services has by far the largest share of new facility operating costs during the planning period as shown in Figure 31. Environmental Services projects represent four-fifths of the total and reflect almost entirely the cost of operating the Blue Plains Water Pollution Control Plant. However, the District will not have to finance the estimated \$78 million increase in sewage treatment operating costs totally through higher charges on city users. Since the Blue Plains plant is a regional sewage treatment facility, costs of operation are also shared by Federal agencies and local jurisdictions from Virginia and Maryland. Estimates show that nearly one-half of the Blue Plains operating cost will be borne by these participants in the sewage treatment program.

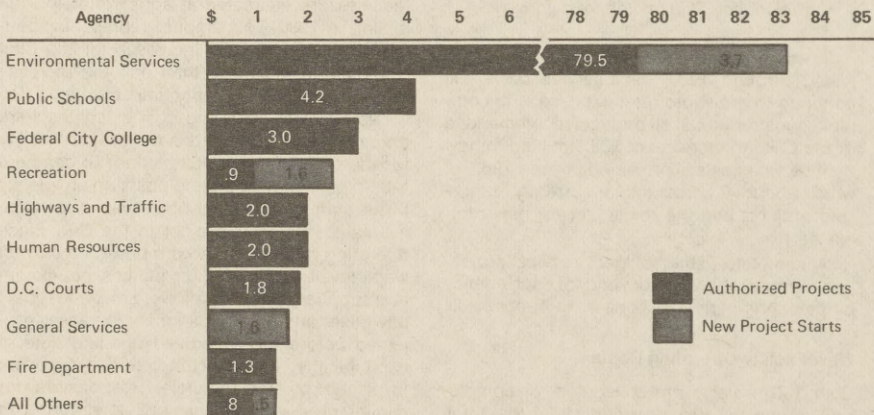
Five agencies—Public Schools, Federal City College, and the Department of Recreation, Highways and Traffic, and Human Resources—each show additional operating costs in the \$2-4 million range. These agencies represent 13 percent of the total. The remaining 6 percent goes to agencies with less than \$2 million in new facility operating costs over the planning period, including D. C. Courts, Department of

General Services, and the Fire Department.

The figure also shows the distribution of new facility operating costs between authorized projects (those at least partially funded before 1976) and new project starts. Approximately 93 percent of the \$103 million new facility operating cost increase is attributed to 41 authorized projects scheduled for completion between 1976 and 1980. The remaining 7 percent is needed for 30 new projects that have not yet received capital appropriations. Facilities planned by three agencies—Environmental Services, Recreation, and General Services—account for the major share (over 90 percent) of the \$7.4 million estimated for new project starts.

Twenty-six projects recommended in the CIP are scheduled to open after 1980. Collectively, these projects will require additional funding of almost \$32 million. The largest share of these increases is attributed to the Washington Technical Institute (WTI). Completion of the WTI permanent campus is projected to cost the city an additional \$27.5 million in operating expenses. Over 40 percent of this total—\$11.7 million—is for the second phase of the development plan which has already been authorized. The remaining \$4.3 million in

Figure—31 1976—1980 New Facility Operating Costs By Agency  
(In Millions)  
Total \$ 103.0





operating cost increases beyond 1980 are estimated primarily for new facilities planned by the Public School system (\$1.2 million), Federal City College (\$1.8 million), and the Recreation Department (\$.9 million).

A project-by-project listing of new facility operating costs for each agency is provided in Appendix E.

### Cost Control Approaches

One strategy for controlling long-term CIP operating costs is to reexamine proposed facilities for projects that can be scaled down, consolidated or modified within the scope of the city's building program. Of paramount importance in undertaking a review of this kind is the benefits of public facility improvements in terms of (1) better community services, and (2) stimulus for private residential and commercial development. Making the most of these benefits has been a primary objective of the city's facility improvement efforts over the past ten years and plans for future projects must be formulated with them in mind.

In evaluating proposals for scaling down projects or developing multiple use facilities (e.g., combining public school and library programs), it is important to take into account the present status of each project. With approximately 75 percent of all *authorized* projects now under construction and most of the remainder in the design stage, it would be both impractical and costly to consider making major structural revisions in projects already in the pipeline. Thus, the main focus of a re-examination of capital facility needs must be directed at *new project starts* recommended in 1976 and beyond. However, these projects represent less than 15 percent of the \$182.5 million increase in CIP operating costs projected through 1980. Since the impact of new project starts will largely come *after* 1980, efforts aimed at scaling down the CIP should be considered long-term cost control approaches.

Several options show potential for dealing with the effects of new capital facilities over the long run. In the case of debt service costs, for example, one policy the city will explore is the feasibility of using municipal bonds to finance authorized projects as well as new project starts. This would enable the city to take advantage of lower interest charges on tax-exempt bonds. The relative merits of refinancing out-

standing Treasury loans through the sale of bonds will also be evaluated in this context.

A related option for cushioning the effects of debt service costs on the operating budget is to use revenue bonds to finance projects capable of generating revenue, such as water and sewer facilities. This approach will probably not reduce total debt service charges and may actually impose heavier debt repayment burdens since revenue bonds generally carry higher interest costs than general obligation bonds. The major advantage of this method of raising capital is that it establishes a mechanism for meeting debt retirement costs through the proceeds from revenue-producing facilities rather than from general revenues. Whether the benefits of revenue bond financing outweigh the added cost must be determined before this approach is considered feasible, however.

Options for controlling new facility operating costs are limited chiefly to a project-by-project analysis with a view toward economizing on resource requirements. This type of analysis usually occurs at the time when funds are requested in the operating budget for a project nearing completion. By developing and presenting initial estimates of staffing and material needs during the planning and evaluation stages, however, there is ample time to conduct a thorough cost review of each project before capital appropriation decisions must be made. This approach to facility planning should help the operating departments as well as central budget staffs of the executive and legislative branches examine opportunities for making the best possible use of base resources and for considering other economy measures, such as multiple use facilities and consolidated services.

### CONCLUSION

Substantive analysis of cost issues and evaluation of ongoing programs provide the only effective means of controlling cost growth in the long run. While certain austerity measures, such as position freezes and purchasing restrictions are available for balancing the budget in one fiscal year, they offer only temporary relief from the underlying trends examined in this report. Thus, reliance on these methods alone will not be sufficient to close the gap between expenditures and revenues on a long-term basis.

The District of Columbia has made a conscious and deliberate effort to bring analytic improvements into the resource allocation process with noteworthy success in recent years.



The very fact that the future implications of current and proposed policies can be anticipated well before they occur gives city officials a head start on avoiding unintended effects of their decisions. City departments have also strengthened their analytic base and are now in a better position to focus on program results and shift resources to higher priority activities. The significant number of redirection proposals made in the 1976 budget and in previous years gives ample evidence that these efforts are beginning to bear fruit.

The cost pressures and issues identified in this chapter underscore the need to intensify and broaden the scope of the city's resource management improvement program. As needs of city residents change and new ones emerge, programs must be capable of responding

quickly to the most pressing demands for services. Not only must needs be well-documented to do this effectively, but ongoing programs must be evaluated on a regular basis to identify activities no longer serving current needs and to find more effective ways of delivering service. Finally, improving productivity is a necessary approach for making more efficient use of existing resources which permits managers to meet rising workloads without commensurate increases in cost.

Clearly, there are no simple answers to the difficult fiscal questions that lie ahead. But today the District of Columbia is better prepared to deal with these complex issues in a constructive and substantive manner as a result of its firm commitment to improved resource management.



## CHAPTER IV

## Impact of the Economy on the Budget

## INTRODUCTION

Expenditure and revenue trends in the District of Columbia are heavily influenced by national and local economic conditions that are both uncontrollable and unpredictable. Since the city's fiscal health depends in large measure on the economy, the concluding chapter of this report investigates the link between overall economic conditions and multi-year expenditure and revenue projections.

Expenditure and revenue forecasts published in the *1976-1980 Multi-Year Financial Plan* gave one example of how the economy can affect fiscal trends in coming years. Expenditures are projected to grow at an annual rate of 11 percent through 1980, while revenue yield increases only 5 percent each year. This long range disparity between expenditure and revenue growth produces fiscal gaps ranging anywhere from \$100 million in 1976 to \$500 million in 1980. (These gaps are based on *current revenue authority*.) Therefore, additional revenue authority of \$500 million above current levels would be needed by 1980 to maintain programs at existing levels of service. Although the Mayor recommended a revenue package to

close the 1976 gap, it alone is insufficient to avoid a revenue shortfall in the following years. In 1977, for example, a \$107 million deficit is projected that would grow to \$400 million by 1980 if the planning assumptions hold throughout the period.

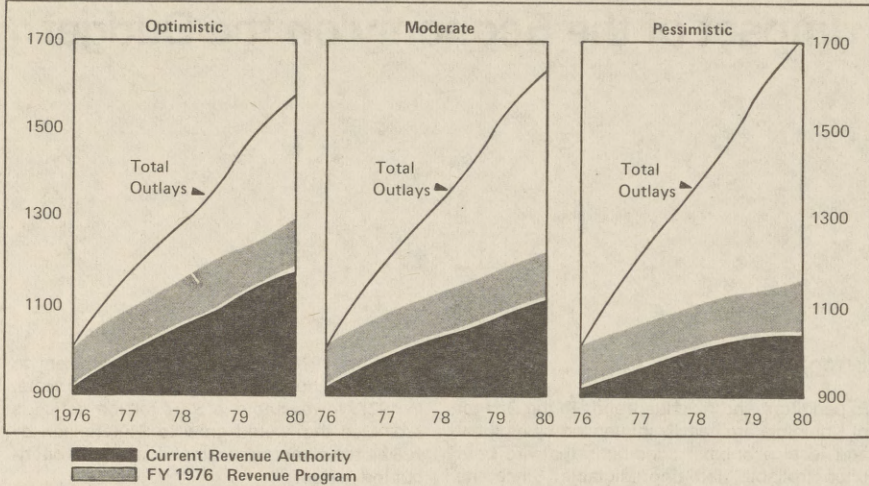
These projections are based on one set of assumptions about the state of the economy and its effect on both expenditures and revenues during the balance of this decade. Given the enormous uncertainty surrounding economic predictions, however, it is conceivable that actual economic conditions will follow a different recovery pattern than the one assumed for this forecast. Thus, while the projections contained in the *Multi-Year Financial Plan* bring the magnitude of future fiscal pressures into sharper focus, they do not indicate the extent to which the city's fiscal outlook would change if actual economic performance proves to be better or worse than assumed in the plan.

In order to determine how heavily the city's fiscal situation depends on economic conditions, this chapter compares expenditure and revenue trends under three different assumptions about the future state of the national and local economy. Assumptions selected for the



Figure 32

## Expenditure — Revenue Trends Under Different Economic Conditions



previous forecast are considered *moderate* and quite reasonable given information available at this time. A second set of projections using *optimistic* assumptions is introduced to show the expenditure and revenue effects of improved economic conditions. And finally, expenditure and revenue projections based on *pessimistic* assumptions are presented in the event that economic recovery is sluggish in comparison to the moderate outlook.

Although District revenues come from both local collections and Federal contributions, differences in revenue yields reported in the following section are attributed solely to fluctuations in the city's local revenue base and do not reflect varying levels of Federal support to the city. In each assumption, combined revenues from the annual Federal Payment and General Revenue Sharing program are estimated at \$279 million in 1976, and are assumed to increase to \$325 million in 1978 and remain stable thereafter. Only one pattern was used because contributions from these Federal sources are authorized in statute, and are therefore relatively insensitive to prevailing economic conditions.

Figure 32 illustrates projected outlays during the planning period along with revenue trends based on current authority and the recommended 1976 revenue program. Two striking patterns are observed in examining the figure from left to right: (1) total expenditures are not only higher but also increase at a steeper rate under less favorable economic assumptions; and (2) revenue yields under both current and proposed tax authority flatten out as assumed economic conditions become progressively worse. The major highlights of expenditure and revenue trends shown in the figure are summarized below.

#### Expenditures

- The projected city budget in 1977 falls within a \$30 million range, from \$1,170 million to \$1,200 million.
- By 1980, the city budget is projected to reach \$1,570 million at the low end but could go as high as \$1,700 million under pessimistic economic conditions.
- Expenditure projections reflect annual growth rates of 9 percent in the optimistic



case, 11 percent for moderate assumptions, and 13 percent in the pessimistic forecast.

- Between 1976 and 1980, the budget grows a total of \$550 million, \$610 million, and \$680 million for the optimistic, moderate and pessimistic assumptions, respectively.

#### Revenues—Current Authority

- Projected 1977 revenues reach \$990 million under optimistic conditions, but could fall as much as \$30 million short of this mark under a pessimistic economy.
- Fiscal 1980 projected revenues fall within a \$145 million range, from \$1,180 million at the high end to \$1,035 million if pessimistic conditions prevail.
- Average revenue growth rates of 6, 5, and 4 percent are projected for the optimistic, moderate and pessimistic economic conditions, respectively.

#### Revenues—1976 Revenue Program

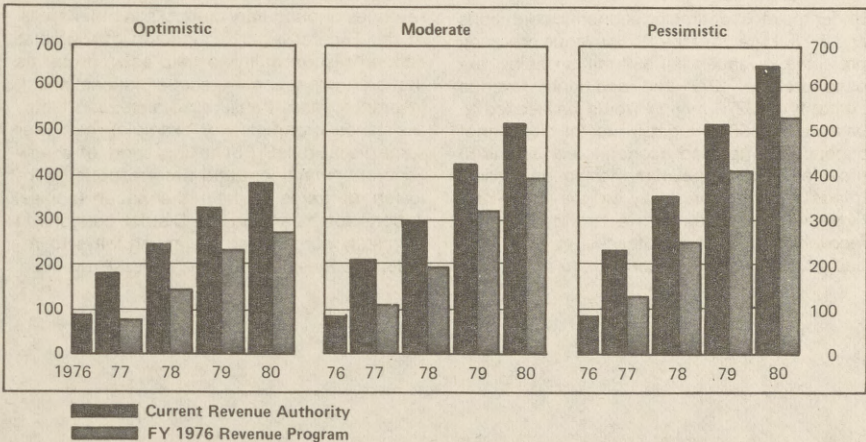
- With the 1976 revenue program included, the three assumptions yield revenues av-

eraging \$100-\$115 million more per year than under current authority.

- Projected 1977 revenues range from a high of \$1,090 million under optimistic assumptions to a low estimate of \$1,060 million in the pessimistic case.
- At the end of the period (fiscal 1980), total collections could reach \$1,300 million, but could yield receipts of only \$1,032 million in the pessimistic assumptions hold.
- Over the planning period, revenue growth follows the same trend exhibited under current authority—6 percent, 5 percent and 4 percent, respectively.

The difference between expenditure and revenue trends shown in Figure 32 indicates the potential fiscal imbalances facing the city during the next five years. Gap projections showing the magnitude of these differences are presented in Figure 33 on the basis of both current authority and the recommended 1976 revenue program. The main message from this illustration can be summed up in three important points: (1) a considerable gap exists between expenditures and revenues in the

Figure 33 Fiscal Gaps Under Different Economic Conditions





optimistic case, but grows still wider as the economic outlook worsens; (2) within each set of economic assumptions, the gap widens significantly over time; and (3) the gap under the 1976 revenue program is substantially less than projected on the basis of current revenue authority. The examples highlighted below support these general findings.

#### Fiscal Gaps

- *Estimated fiscal gaps for 1977 range from \$180 million to \$230 million under current revenue authority.*
- *By 1980 the size of the shortfalls under current authority increases to a range between \$390 million and \$660 million.*
- *During each year of the planning period, the fiscal gap based on current authority grows another \$70-\$140 million depending on the economic assumptions used.*
- *Including additional revenues recommended in 1976 into the total reduces the gaps shown for current authority by about \$100-\$115 million each year. However, there will still be a significant revenue shortfall in the range of \$80-\$135 million in 1977 to \$275-\$530 million by 1980.*

#### CONCLUSION

Under the most optimistic economic conditions and the full effects of the 1976 revenue program, projected revenues fall \$80 million below expenditures in 1977 and additional revenue authority of \$275 million would be needed to balance the 1980 budget. Thus, the city cannot depend on improved economic conditions to provide substantial relief from the general fiscal trends reported originally in the *Multi-Year Financial Plan*. Even with a strong economic recovery and major cutbacks in the 1976 budget, the District will continue to experience

the same pressures that have marked the city's financial situation over the last several years.

This report has focused attention on the expenditure side of the budget and raised a number of issues surrounding future priorities and cost control strategies. On the revenue side of the balance sheet, the Mayor has recommended several approaches for tapping new sources. The 1976 revenue program, for example, attempts to share responsibility for financing city programs among a broader range of taxpayers. In addition, the Mayor called for authority to tax non-resident income derived from District of Columbia sources beginning in 1977 as a way of further spreading tax burdens more equitably among those who benefit from public services. Finally, the city is reviewing the feasibility of stimulating economic development and incorporating new sources of revenue, such as lotteries and pari-mutuel betting, to expand the District's revenue base.

Aside from the effects of changing economic forces, the actual magnitude of future revenue shortfalls will also be affected by new policies and program decisions made at the local and national levels. For example, discretionary improvements in the level or quality of services—not included in these projections—would place additional demands on future resources which would have to be financed through higher revenues or budgetary cutbacks in other areas. At the Federal level, recognition of a greater Federal responsibility to help solve problems that are truly national in scope (national health insurance, mass transit assistance, and family assistance programs, for example) may offer some fiscal relief. But falling short of a new Federal commitment and a corresponding infusion of funds to help the nation's cities, options for balancing the District budget will ultimately come down to finding ways to re-order priorities, cut costs and increase revenues.