



# **BUILDING THE BEST CAPITAL CITY IN THE WORLD**

A Report by DC Appleseed and Our Nation's Capital

**WITH CONTRIBUTING AUTHORS:**

Alice Rivlin, Brookings Institution

Jon Bouker, Arent Fox LLP

Julia Friedman, The George Washington University

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**December 2008**



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–Walter Smith, Executive Director, DC Appleseed

–Dick Suisman, Chair, Our Nation's Capital



# PREFACE

## DC Appleseed

DC Appleseed is an independent nonprofit advocacy organization dedicated to identifying serious problems facing the National Capital region, researching and analyzing them, developing and publishing recommendations for systemic reform, and advocating for appropriate solutions. DC Appleseed has published four reports related to the fiscal health of the District: *The Case for a More Fair and Predictable Federal Payment for the District* in 1995, *The District of Columbia's Pension Dilemma – an Immediate and Lasting Solution* in 1996, *Criteria for Analyzing Proposals for Financial Assistance to the District of Columbia* in 1997, and *After the Control Board: The Chief Financial Officer and Financial Management of the District of Columbia in 2001*.<sup>1</sup> In addition, partly in an effort to draw attention to the issue that this report addresses, DC Appleseed served as counsel to the District of Columbia and the D.C. Council in a recent lawsuit challenging the constitutionality of the congressional ban on the District's ability to collect income tax from non-residents who work in the District.<sup>2</sup>

## Our Nation's Capital

Our Nation's Capital (ONC) was founded by a group of concerned D.C. Residents in 2003 with the primary mission of advocating fiscal fairness for the District of Columbia. Based on the belief that we are all responsible for our country's capital city, ONC works to raise public awareness of the unique fiscal challenges the District encounters and its historically special relationship with Congress. To this end, a variety of outreach efforts have been employed. These efforts include briefings with the media, dissemination of research on the District's critical needs, and informal and formal discussions with

District policymakers and stakeholders, congressional representatives, and regional leaders. ONC co-sponsored a regional Transportation Forum in June 2008 with the D.C. Department of Transportation, the Greater Washington Board of Trade, and the Metropolitan Washington Council of Governments. Panelists included the top transportation officials from D.C., Maryland and Virginia, and the Metro general manager. Representatives Tom Davis and Steny Hoyer as well as Senator Ben Cardin presented congressional viewpoints. In 2005, ONC commissioned, with the support of the Trellis Fund, *An Estimate of Long-Term Infrastructure Needs of the Nation's Capital*. As a follow, ONC funded this current report.

## ENDNOTES

- 1 All of these reports are available on DC Appleseed's website at <http://www.dcappleseed.org/projects/pastprojects.cfm>.
- 2 *Banner v. United States*, 368 F.3d 303 (D.C. Cir. 2005), cert. denied 547 U.S. 1143 (2006) (holding that the ban on a non-resident income tax does not violate the Constitution, and noting that "[t]he policy choices are Congress's to make"). We are not advocating in this report that Congress lift the ban on a non-resident income tax; rather, we simply note that the District should be somehow compensated for the lost revenue caused by this prohibition.

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This report is the product of the combined work of these scholars:

**Dr. Alice Rivlin**, Director of Greater Washington Research at the Brookings Institution, was the founding Director of the Congressional Budget Office from 1975-1983 and the Director of the federal Office of Management and Budget from 1994-1996; she was Chair of the D.C. Control Board from 1998-2001; and she is the author of numerous studies on the District of Columbia's finances and one of the preeminent thinkers on all issues related to the District.

**Jon Bouker**, a DC Appleseed Board Member, recruited a team of *pro bono* lawyers from his law firm, **Arent Fox LLP**, to analyze the legal history of the past congressional action on this issue. In addition, Mr. Bouker was Congresswoman Norton's Chief Counsel and Legislative Director until 2003, working with her while the Revitalization Act was being debated and approved.

**Dr. Julia Friedman**, Research Professor at the George Washington Institute of Public Policy, George Washington University, was the Chief Economist and Deputy Chief Financial Officer (now retired) to the District's Chief Financial Officer during the city's impressive turnaround from budget deficits to budget surpluses.

**David Garrison**, Senior Fellow with Greater Washington Research in the Brookings Metropolitan Policy Program, is an urban policy expert who works on a variety of issues facing the District of Columbia and the Washington metropolitan area.

**Brooke DeRenzis**, Research Analyst with Greater Washington Research in the Metropolitan Policy Program at Brookings, has authored or contributed to several reports examining the District of Columbia.

**Garry Young**, the Associate Director of the Institute of Public Policy at the George Washington University, is an expert on policy issues focusing on U.S. political institutions.

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***“Washington, D.C. is the Capital of the United States of America. Let us make it a city of which the Nation may be proud – an example and a showplace for the rest of the world.”***

President John F. Kennedy, 1963

***“America’s eyes and the eyes of the world constantly focus on Washington. ... Working together, we can and we must make Washington once again the proud face of America shown to the world.”***

President William Jefferson Clinton, 1997



Photo by Michael Bonfigli

# EXECUTIVE SUMMARY

## Introduction

The idea of making Washington, D.C. a showplace for the rest of the world is not just a dream or vision detached from reality. In the summer of 1995, then Speaker of the House Newt Gingrich attended a community meeting at Washington D.C.'s Eastern High School organized by D.C.'s non-voting delegate, Congresswoman Eleanor Holmes Norton. The District had reached rock-bottom financially the year before, posting a \$335 million deficit, and Congress had responded by asserting its authority over the city – creating the D.C. Financial Responsibility and Management Assistance Authority (the “Control Board”) to help get the District back on track financially.<sup>3</sup> But this group, gathered just blocks from the Capitol, recognized that the District is a unique city with unique obligations to the American people, and that the Nation in turn has a special responsibility to the city. At the end of that meeting, Speaker Gingrich therefore announced an ambitious goal: to make Washington, D.C. “the best capital city in the world.”<sup>4</sup>

Over the following two years, a bipartisan group, including Congresswoman Norton and others from Congress, members of President Clinton's Cabinet, and District officials worked together to enact the National Capital Revitalization and Self-Government Improvement Act of 1997 (the “Revitalization Act”).<sup>5</sup> Together, the Control Board and the Revitalization Act set the District on a course back to fiscal well-being. As President Clinton stated in his remarks announcing this economic plan for the District, “[t]he city is every American's home, and it should be every American's pride. Our Capital City must reflect the best of who we are, what we hope to become, and where we are going.”<sup>6</sup>

Even at the time, however, it was understood that the Revitalization Act alone would not be enough to build the best capital city in the world. To achieve that goal, additional action would one day be needed. In fact, Congress explicitly recognized this by inserting a provision in the Revitalization Act that allowed the Federal Government to act again at an appropriate moment to expand its partnership with the local leaders of the Nation's capital city.

This report calls upon the Federal Government to join with the District once again to embrace this vision, and move Washington D.C. toward becoming the best capital city in the world. While it may be difficult to achieve universal agreement on a precise definition of what would make the District the best capital, this report defines what a *great* city looks like, and describes the very significant steps the District itself has taken toward that vision since the Revitalization Act. But the report also shows that without an expanded partnership with the Federal Government, the District will continue to struggle to become the great capital city that the Nation expects. And it shows that this is the kind of support that other Nations give to their capitals. Americans deserve no less.

In providing the rationale for an enhanced federal partnership, the authors of this report present the following case:

- D.C.'s unique financial situation and the revenue limitations Congress has placed on it create significant obstacles to the city's becoming a great capital city.
- Congress has long recognized its obligation to support the District in its role as the Nation's Capital.

“Without an expanded partnership with the Federal Government, the District will continue to struggle to become the great capital city that the Nation expects.”



- The District has done its part by mounting a remarkable fiscal recovery, and has done so notwithstanding the unique revenue limitations it faces.
- The District's fiscal recovery masks the substantial deferral of needed investments in the city's infrastructure that impact services used by visitors, workers, and residents.
- Other Nations provide such support to their capitals; ours should do the same.

The District has made remarkable progress towards becoming a great city since its economic low-point in the mid-nineties. In particular, it has balanced its budget for eleven consecutive years.<sup>7</sup> But, despite the District's fiscal discipline, it does not have the revenue base to become a truly great city, given the unique economic burdens and revenue restrictions associated with being the Nation's Capital.

In regard to the fourth point above, the report notes that the District has had to impose strict fiscal discipline – suspending maintenance to aging infrastructure and, at times, foregoing investments in important services. Because it already has the highest debt per-capita rate in the country, the District has a very limited capacity to borrow more money to make the basic capital investments that have been deferred in the name of balanced budgets.<sup>8</sup> Even after ten years of increasingly strong performance in budget planning, budget management, and revenue growth, the District still does not have the fiscal capacity to support all of the key functions that are expected by the millions of people who live, work, and visit the capital city each year.

Congress' own investigative arm, the Government Accountability Office (GAO), has stated that, no matter how efficiently the District is run, and notwithstanding the

progress it has made, it cannot provide the services and infrastructure of a great city because it simply does not have the revenues to do so.<sup>9</sup> The GAO Report called this a “structural deficit” and estimated that when compared to the average level of services that other urban areas provide, the District had a built-in shortfall of up to \$1.1 billion per year.<sup>10</sup>

This report discusses three primary factors contributing to the structural deficit, and why, as a result, an enhanced Federal partnership is necessary in the Nation's Capital.

**First**, the District is expected to provide all of the services that states do without the broad revenue raising capacity that states have. Other large cities with the same problems as the District have the additional resources of a state government that can generate tax revenue in other parts of the state and redistribute those funds where the need is the greatest.

**Second**, Congress, by banning an income tax on non-residents, created a revenue-generating challenge that exists only in the District. Two-thirds of the income earned here is earned by non-residents, so the District's ability to generate revenue from those non-residents is severely limited, while the obligation to provide services to them is not.

**And third**, the District's biggest industry – the Federal Government – does not pay taxes, creating an additional, unique burden for the District. While the Federal Government provides other jurisdictions with payments in lieu of taxes for tax-exempt federal land, the District is excluded from these payments despite the fact that the Federal Government holds 42

## “At a minimum, the District needs around \$1 billion in additional annual operating budget to address its most basic infrastructure needs.”

percent of property in the District.<sup>11</sup> There are also a large number of other tax-exempt organizations located in the District because of the federal presence: embassies and consulates; international organizations like the World Bank, International Monetary Fund, and the Organization of American States; nonprofit entities, including several major universities; religious institutions; and hospitals. The tax-exemption for these organizations further exacerbates the District's lost revenue opportunities.

The report also explains why the new President and the next Congress should embrace the vision of making the District of Columbia the world's best capital city now.

**First**, for more than a decade, the District has achieved a remarkable financial turnaround. It has also installed the modern budgetary and fiscal processes necessary to manage the infrastructure projects that it must undertake to become a great city.

**Second**, the cost of beginning to move toward a great capital city – which our report shows is around \$1 billion annually – would be relatively small in the context of the Federal Government's budget. It would represent only three tenths of one percent of the federal expenditures for FY2009.<sup>12</sup>

**Third**, Congress is considering spending billions of dollars on infrastructure modernization in order to stimulate the economy now and increase

productivity and energy conservation in the long-run. Certainly there is no better place to start investing in the Nation's infrastructure than in our Nation's Capital where roads and bridges, public transportation, water and sewer systems, and schools are in serious disrepair.

**Fourth and finally**, as the United States commits itself to promoting democracy and alleviating poverty around the globe, its capital city should serve as a model for the rest of the world. Our Nation's Capital should showcase what is best about our country to dignitaries and visitors from around the globe. It should also be a city of which the whole Nation can be proud. And the Federal Government should support the District at least as well as other Nations support their capitals.

We have not attempted to precisely calculate the amount of additional funds required to create the “best capital city in the world.” However, we do quantify the revenue losses suffered by the District under its current revenue limitations and discuss some of the additional expenditures that are almost certainly required if the District is to move to the level of becoming a great city. At a minimum, the District needs around \$1 billion in additional annual operating budget to address its most basic infrastructure needs. This amount is also a very conservative estimate of the amount the District loses each year as a result of the restrictions placed on it by Congress and costs associated with the Federal presence. Specifically, we know that: (1) the District loses at least \$1 billion annually from the non-resident tax prohibition;<sup>13</sup> (2)

## “The next President has an opportunity to build on this work and to make part of his legacy the building of the best capital city in the world.”

it faces a minimum of \$1 billion annually in expenditures for state-like services it must provide, but for which it does not have state revenue-raising authority;<sup>14</sup> and (3) the size of the District’s “structural deficit” resulting from these circumstances is approximately \$1 billion per year.<sup>15</sup>

We urge the new President and Congress to embrace this vision of America’s capital becoming a model city around the world. Turning this vision into a reality will require the Federal Government to renew its partnership with the District. There are a variety of ways this could be done, and we do not in this report attempt to lay out the details of the appropriate next steps. The point of this report is to show why the new President and Congress need to fashion those steps now.

President Clinton helped move the city forward through the Revitalization Act. President Bush helped the city through his agreement to transfer federal land to the District for use in its economic development. The next President has an opportunity to build on this work and to make part of his legacy the building of the best capital city in the world.

### The Sections of the Report

This report features three chapters and two appendices. The chapters show that federal support is essential if the District is to become a great capital city, and that the current level of support falls short of that which other Nations provide to their capitals.

In **Chapter One**, Alice Rivlin, Director of Greater Washington Research and senior

fellow at the Brookings Institution, founding Director of the Congressional Budget Office, former Director of the Federal Office of Management and Budget, and Chair of the D.C. Control Board, describes the unique fiscal burdens and limitations associated with being the Nation’s Capital. First, the District’s spending needs cannot be compared to those of any other city in the country because it must perform the functions of both a state and a city without the financial support of a state. States have a larger base to draw revenues from and can distribute revenue from other, more affluent areas to cities with greater needs. Second, the District does not have the full taxing powers of a state, including the ability to tax non-resident income, which results in a loss of at least \$1 billion annually. Third, the District’s main industry—the Federal Government and embassies, international institutions, and nonprofit groups that locate here due to the federal presence—does not pay property tax. As Dr. Rivlin points out, “[t]hose federal installations require city services, but do not add to the tax base.”<sup>16</sup> Finally, the District was forced to neglect its infrastructure in order to balance budgets, resulting in a number of costly capital needs. Dr. Rivlin explains that, “even with a revived economy, improved leadership, and higher revenues in the current decade, the District still faces the daunting task of repairing, modernizing, and replacing an aging and outmoded infrastructure.”<sup>17</sup> She argues that, given these financial restraints, the District simply cannot become a great city without additional resources from the Federal Government.

In **Chapter Two**, Brooke DeRenzis and David Garrison of the Brookings Institution describe the typical characteristics of a great city, and discuss the types of investment in infrastructure and capital projects the District must make to achieve those characteristics. They explain that our Nation’s Capital falls short on many of the measures of a great city because much of the District’s infrastructure is in demonstrably poor shape. In order to balance budgets, the District deferred massive amounts of spending on important infrastructure improvements, including basic maintenance to schools, upgrades to fire stations, and repairs for bridges and roads. Ms DeRenzis and Mr. Garrison acknowledge that “[t]he District of Columbia is not unique in many of the infrastructure problems that confront it—older cities face similar challenges. However, as the Nation’s Capital, Washington is the only city in the country that does not belong to a state, and as such, must fund infrastructure improvements typically covered wholly or partially by states.” Deferring these improvements prevents the District from becoming the great capital city that it should be, and affects not only District residents and non-resident workers, but also the experience of visitors. It is difficult to put a price tag on these needed investments, but it is a financial undertaking that is out of the District’s reach acting on its own.

Finally, in **Chapter Three**, Garry Young, Associate Director of the George Washington Institute of Public Policy at The George Washington University, offers a comparison between the Federal support that Washington, D.C. receives and the support that 14 other countries give to their capital cities. He shows that these other countries recognize and compensate their capitals cities for the challenges that result from hosting the national government in ways that the United States does not. Indeed, comparable national capital cities do not have the same local budgetary obstacles placed upon them, or if they do, they receive

considerably more support from their national government in order to provide the services expected by their citizens and visitors. Mr. Young concludes that relative to the United States, all of “these 14 Nations do more to compensate their cities for the fiscal stresses created by the capital presence.”

The report’s two appendices present the strong historical case for a strengthened partnership between the District and the Federal Government by reviewing the Revitalization Act and the District’s past decade of fiscal accomplishments. The first appendix shows that the Congress agreed to reconsider its commitment to the District once it got its financial house in order while the second appendix shows that the District has in fact done that.

In **Appendix One**, Jon Bouker, former Chief Counsel and Legislative Director to Congresswoman Eleanor Holmes Norton and currently a partner at Arent Fox LLP, and others from his firm describe the work that Congress did in the 1990s to examine the District’s fiscal problems and provide some of the resources needed to move the District towards becoming a great city. This includes establishment of the Control Board and passage of the Revitalization Act. As explained in more detail by Mr. Bouker, the Revitalization Act ended the annual mandatory Federal Payment to the District and provided for the Federal Government to assume some of the District’s state-like functions. However, Mr. Bouker makes clear that the Revitalization Act “was (and remains today) an incomplete remedy because it alleviates only some of the expenditures that the District must bear uniquely as the National Capital, but it ignores the crippling federally imposed limitations on local revenue.” In fact, Congress was explicitly told at the time of the Act that ending the Federal Payment—while continuing to require the District to finance a number of state-like functions without addressing its revenue limitations—would mean that the

## “And the country deserves such a capital. Moving the city toward that vision should be a matter of pride for both political parties and all Americans.

District would never become a great city. Mr. Bouker demonstrates that at the time of the Revitalization Act's passage, Congress and the President knew that the solutions they put in place were neither sufficient nor final, and the Federal Government would one day need to reexamine the District's condition.

In **Appendix Two**, Dr. Julia Friedman, former Deputy Chief Financial Officer of the District and professor at The George Washington University, details the remarkable financial turnaround the District accomplished over the last ten years – moving from massive budget deficits to eleven years of balanced budgets and surpluses. She describes a government in such disarray in the early 1990s that “tax payments [were] characterized (only partly tongue-in-cheek) as gifts from civic minded citizens and businesses.” But between 1994 and 1997, the District went from a \$335 million budget deficit to a \$186 million surplus. And since then, the District has recorded eleven consecutive balanced budgets. As a result of the District government's hard work, the three major bond rating agencies have increased the city's rating from near junk status to approaching the highest rating available – showing Wall Street's optimism for the District's economy and allowing the District to access long-term capital at more favorable interest rates. In short, she shows that the District has made remarkable progress toward becoming a great city, particularly given its current fiscal constraints. Nevertheless, Dr. Friedman makes clear that under current circumstances the District, no matter how well-run, faces enormous challenges to becoming a great capital city because of the congressionally-imposed

revenue limitations.

Taken together, these three chapters and two appendices show (1) that D.C.'s unique fiscal situation creates significant obstacles to its becoming a great capital city; (2) Congress recognized its obligation to support the District in that effort and recognized further the need to revisit the issue once the District succeeded in getting its financial house in order; (3) the District has done that job; (4) the District lacks the local resources to make the infrastructure and capital investments needed for it to become a great capital city; (5) the District receives less support from the Federal Government than do capital cities of other democratic Nations; and (6) now is the moment for the Federal Government to address these circumstances and enhance its partnership with the Nation's Capital.

Creating a great capital city comes with a price tag. The chapters in this report all suggest that the needed investment to move towards a great Nation's Capital is around \$1 billion per year. This is the amount that the District spends on state-like functions for which other cities are not responsible; it is the amount that the District loses through the congressional ban on a non-resident income tax; and it is the amount that the GAO estimates as the District's “structural deficit.”

### Conclusion

The District should be proud of its recent economic success. But despite this success, under the current circumstances the District cannot alone make the needed investments to become a great world capital. In order to achieve the balanced budgets that

Congress and sound fiscal policy demand, the District has had to forego spending on needed capital investments and other services. These decisions impact not only District residents, but also millions of visitors to the Nation's Capital who are precluded from seeing a truly great city and millions of commuters who suffer from subpar services. And all Americans are denied a great capital that should serve as a symbol of democracy for the world.

The new President and Congress have an historic opportunity to partner with the District to create a capital city of which we can all be proud. Congress laid the groundwork more than ten years ago with the first Revitalization Act, and it is time for Federal leaders to take the next step. The District's performance over the last ten years shows that it can manage its budget effectively. But, as Alice Rivlin notes regarding the shortfall in infrastructure investment, “This small central city simply cannot carry that burden alone given its truncated tax powers, narrow tax base, and heavy state and local responsibilities.” In fact, the report shows that it will, conservatively, take a minimum of \$1 billion annually just to compensate the District for the unique burdens it faces as the Nation's Capital. The Federal Government recognized its share of the burden at the lowest point in the District's financial collapse. Now, at the highest point in the District's financial recovery, it is time for the Federal Government to renew its partnership with the District, and help make it the best capital city in the world. The country deserves such a capital. Moving the city toward that vision should be a matter of pride for both political parties and all Americans.

### ENDNOTES

3. The District of Columbia Financial Responsibility and Management Assistance Act of 1995, Pub. L. No. 104-8 (1995).
4. Robert Pear, *The Nation; Washington: Not Just Another Big City*, N.Y.TIMES, Aug. 6, 1995.

5. Pub L. No. 105-33 (1997).
6. Clinton, William J., Remarks Announcing the Economic Plan for the District of Columbia, (March 11, 1997).
7. The General fund is a fund into which general revenues are deposited and from which monies are appropriated to pay the general expense of the jurisdiction.
8. U.S. GEN. ACCOUNTING OFFICE, GAO-03-666, DISTRICT OF COLUMBIA STRUCTURAL IMBALANCE AND MANAGEMENT ISSUES 42 (2003) (“GAO Report”).
9. *Id.* at 40, 71. As the GAO report points out, the District already has such a high debt level and such high taxes, it could not effectively raise its debt or tax levels without endangering its borrowing capacity and driving residents away – thereby decreasing its tax revenue.
10. *Id.* at 8.
11. *Id.* at 9.
12. <http://www.whitehouse.gov/omb/budget/fy2009/pdf/budget/tables.pdf>.
13. A recent report from the office of the District's Chief Financial office has estimated that the ban on a non-resident income tax costs the District as much as \$2.2 billion in tax revenue. See Yesim Yilmaz, Senior Economist, D.C. Office of Revenue Analysis, Calculating the Impact of Federal Preemptions on the District's Tax Revenue 4 (DRAFT Mar. 5, 2008).
14. See *infra* Chp. 1.
15. See *supra* note 8.
16. See *infra* Chp. 1.
17. *Id.*
18. See *infra* Chp. 2.
19. See *infra* Chp. 3.
20. See *infra* App. 1.
21. See *infra* App. 2.
22. See *infra* Chp. 1.

CHAPTER ONE:

# THE FISCAL PROBLEM OF BEING WASHINGTON, D.C.

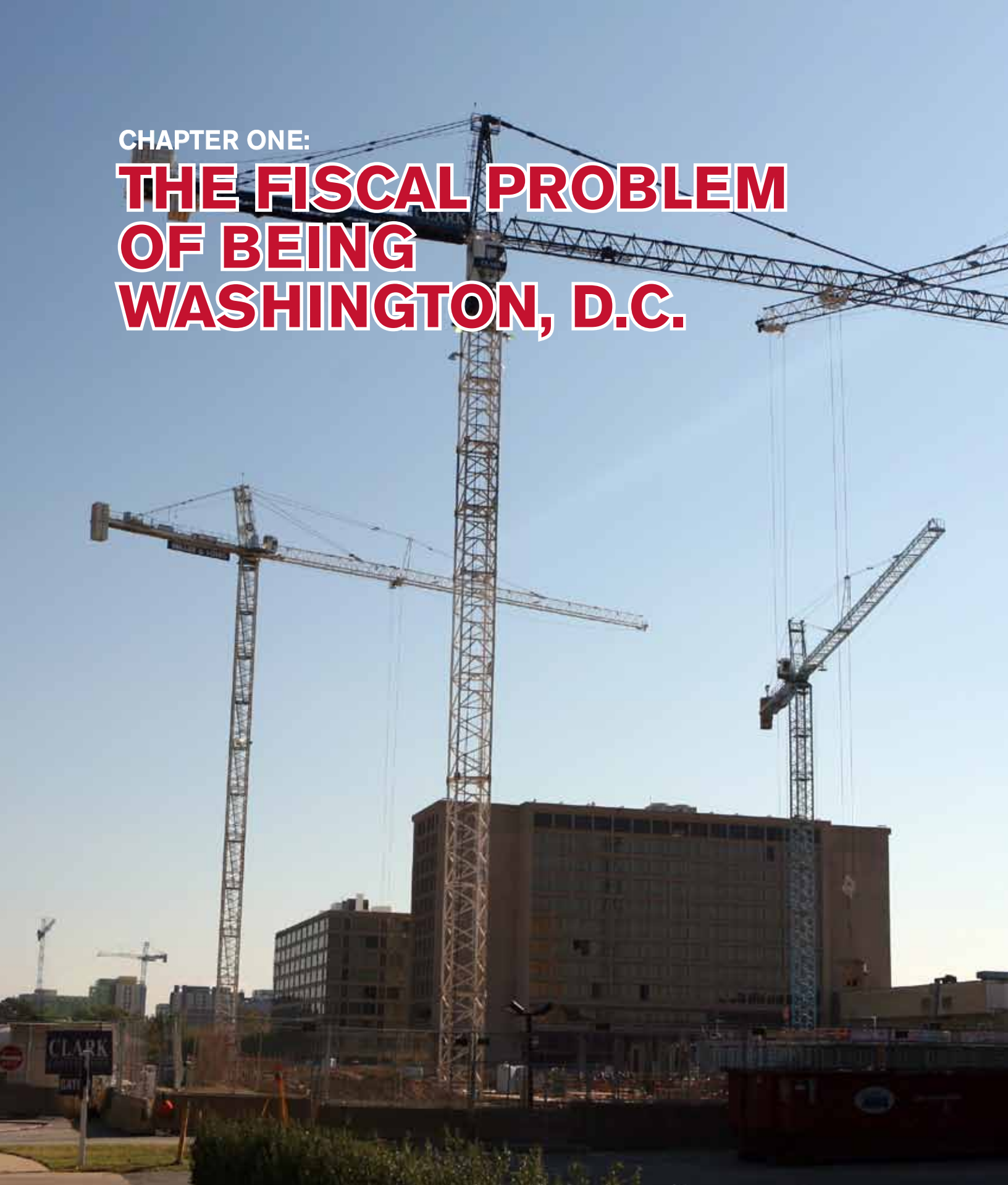


Photo by Michael Bonfigli

Dr. Alice M. Rivlin, [The Brookings Institution](#)

In the past decade Washington has recovered from virtual fiscal meltdown in the mid-1990s and is currently in sound fiscal shape. The budget has been balanced for the past eleven years, its general fund balance is over \$1 billion, and its bond ratings are high.<sup>23</sup> So, why worry about the finances of the District? The answer lies in the combination of unique fiscal limitations inherent in its constitutional status as a federal district and the way those limitations interact with the District's geography, economy, and history. These factors combine to make the District's fiscal outlook and undermine its ability to invest in the infrastructure needed to become a truly great city.

There are three big disadvantages that flow from the District's special status as the Nation's Capital. First, the District is not part of any state but must perform the functions of both a state and a city for its residents. Second, although it must perform state functions, it does not have the full taxing powers of a state. The Congress truncated those powers by prohibiting the District from taxing income earned within its borders by non-residents, a power that all states have. Third, because it is the capital of a large country with global responsibilities, its major industry, the Federal Government, dominates its economy and attracts large embassies, international institutions, and non-profit groups. This huge federal and federally-related establishment requires services but does not pay property taxes. These three limitations interact with the

District's geography and history to produce fiscal fragility. The District is a small central city located in a large metropolitan area. Like many other central cities, it has a far higher poverty rate than its surrounding suburbs and a relatively small middle class.<sup>24</sup> Its large low-income population imposes costs on the District government, such as income support, special education, housing subsidies, subsidized health care and child care, and expenditures related to crime and substance abuse. At the same time the lower income population contributes less to revenues than a higher-income population would. Although there are affluent areas within the District, most of the middle- and upper-income people who work in the District live in the Maryland and Virginia suburbs. Moreover, a long period of population decline and an eroding economic base (plus considerable mismanagement) left a legacy of neglected infrastructure that requires substantial reinvestment. The revival of population and job growth in the last few years (plus improved management) has brightened the prospects for the operating budget but has not been sufficient to fund the modernization and improvement of the city's infrastructure that a great city would require. These points are elaborated in the next few pages.

## A Small Non-State

The District of Columbia is very small. The founding fathers decided to carve a 10-mile square out of Virginia and Maryland to be the seat of the new capital of the United States. At the end of the 18th Century, when this decision was made, the 100 square mile land area seemed more than adequate for the capital of a struggling, largely agricultural nation. Indeed, the portion on the south side of the Potomac was later ceded back to Virginia. The truncated square that was left has an area of only 61.4 square miles.<sup>25</sup>

The decision that the capital should be a federal district, not a state, doubtless seemed sensible to the founding fathers at

the time. It kept any one state from having undue influence over the central government. It also kept federal employees from voting to keep the incumbent in power—an important consideration in the days before civil service, when all federal jobs were patronage jobs.

In those days, no one could have foreseen that Washington would become the capital of a powerful modern country with a high standard of living, the world's largest military establishment, and vast global responsibilities. Indeed, since World War II, Washington has become the most important capital in the world. It attracts companies that service the government and supply its technology. Most countries have their largest embassies in Washington and important international organizations with large staffs are located there.

This huge government-centered economy has far outgrown the District of Columbia and this has serious adverse fiscal consequences for the District that has evolved.

While the heart of the government remains in Washington, many government installations and government-related companies are located in the suburbs, and most of the employees of the government-related economy, including many of the best paid, live outside the District. If the founding fathers had made the District bigger—say, a thirty-mile square centered on the Capitol—it would now have an extraordinary economy and a tax base more than adequate to be a great city with world class services and infrastructure. In fact, the District is a small central city, in the middle of a thriving metropolitan economy with many typical central city problems. Yet it does not have the power to tax this broader economy or call for help on the surrounding states that do have that power.

### **State Responsibilities, Truncated Tax Powers, and No State to Turn To**

The District is responsible for all the services normally performed by local governments, such as schools, police and fire protection, and recreation, to name a few. It also performs functions normally carried out by states, such as motor vehicle licensing, mental health services, and higher education. In 1997, in recognition of the state-like burdens, the Federal Government assumed the costs of the court system and incarceration of long-term felons and increased the federal contribution to the Medicaid program. However, substantial state-like functions remain the District's responsibility. Indeed, a joint 2005 DC Fiscal Policy Institute and Brookings study counted \$1.1 billion in city funds devoted to state-like functions, such as Medicaid, child and family services, human services, higher education, and public transportation in addition to those previously mentioned.<sup>26</sup>

Because it has both state and local responsibilities, the District imposes the full panoply of local and state taxes—with the crucial exception that it cannot tax the income earned in the District by non-residents. It taxes income of residents, commercial and residential property values, general sales, alcohol and tobacco sales, and imposes a wide variety of fees. The combined tax burden on local residents, property owners, and businesses is comparable to that of neighboring Maryland and somewhat higher than that of Virginia. However, the crucial exception—the Congressional prohibition on taxing non-resident income—narrows the District's tax base dramatically because over two-thirds of the income earned in the District is earned by non-residents. In other words, this small central city in the midst of a thriving metropolitan area is deprived of two-thirds of the revenue it could raise by imposing a normal state income tax on income earned within its borders.

## **“Indeed, since World War II, Washington has become the most important capital in the world.”**

The prohibited non-resident income tax is often referred to as a “commuter tax” as though it were comparable to the low-level wage tax that some cities impose on commuters. Philadelphia has a wage tax that applies to non-residents and New York City had one until it was abolished by the State of New York. But “commuter tax” is not the right analogy. All states that have income taxes (including Pennsylvania and New York) tax the income earned by non-residents within their borders at the same rates that residents pay. Through reciprocity agreements, non-residents can normally offset the income tax liability imposed by the state of employment against the liability to their state of residence. If the District had normal state tax powers, it could raise enough revenue to be a great city and would certainly be able to reduce its tax rates substantially. A 2002 Brookings study estimated that the District could raise almost \$1.4 billion in additional revenues each year if it were to tax commuters at its then tax rate.<sup>27</sup> More recently, the Office of the Chief Financial Officer estimated that the District could raise almost \$2.2 billion in additional revenue each year if it were to tax non-residents at its current statutory rates, though this figure would be smaller if the city lowered its income tax rate.<sup>28</sup> Alternatively, if the founding fathers had chosen a thirty-mile square, instead of the 10-mile one, the District would have an ample tax base—even with the prohibition against a non-resident tax—to become a great city.

The District is not the only small central city in the middle of a more affluent suburban area. Baltimore City, for example, has similar problems—high costs associated with a large, low income population and a limited tax base. The difference is that Baltimore

receives considerable assistance from the State of Maryland, which has a broader tax base (including affluent Montgomery County, which is part of the Washington metropolitan area). Maryland carries a large part of the cost of Baltimore's schools, while the District's school system must be locally financed.

### **A Federal Establishment That Doesn't Pay Taxes**

Being the Nation's Capital is of course a huge advantage for the Washington metropolitan area as a whole. The Federal Government not only employs a large, highly educated workforce, it attracts visitors and tourists, as well as institutions and corporations that also employ a relatively educated and well-paid workforce. If Washington were not the capital of the United States, the vibrant, knowledge-based economy of the Washington area would not exist. The fiscal problem for the District stems from the fact that the founding fathers carved out such a small area in the middle to be the federal district. That small area contains a high share of the monuments, museums and government offices that make the government work. Those federal installations require city services, but do not add to the tax base. Nor do the embassies and international institutions and nonprofit organizations that the government attracts. The Office of the Chief Financial Officer estimates that taxing federal property at current rates would increase revenues by \$540 million.<sup>29</sup> The benefits of being the capital—the tax base created by the private corporations that service the government and the middle and upper income workers that they and the government employ—accrue mostly to the surrounding states and cannot be taxed by the District.

## The Fiscal Problem of Capital Status

These revenue constraints of the District's status as a capital have resulted in a fiscal problem for Washington largely beyond its control. Numerous reports expound on this phenomenon, most notably the landmark 2003 GAO study.<sup>30</sup> The GAO reported that the District suffers from a substantial structural imbalance—a constant gap between its revenue capacity and the cost of providing typical public services. The GAO found that due to its restricted revenue base, Washington would need above-average tax rates to provide an average

level of both state and city services, even if they were delivered efficiently. The GAO estimates deemed most reasonable placed D.C.'s structural deficit at \$470 million to \$1.1 billion.<sup>31</sup>

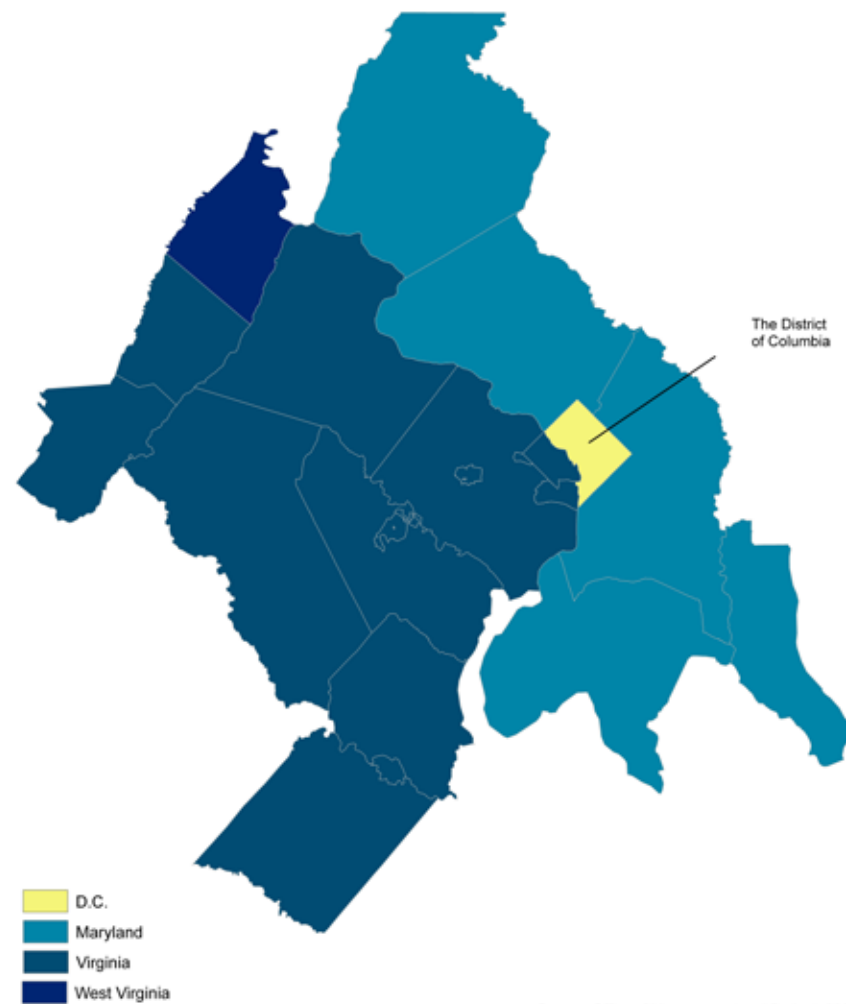
### Legacy of History

The basic problem of the District's fiscal fragility is not new. Indeed, the picture is far brighter than ten or fifteen years ago. In the decades following World War II, the Washington area experienced the same rapid suburbanization that affected other cities. Suburbs burgeoned as the middle class moved to them from

the central city, which, in the case of Washington meant Maryland and Virginia. The white middle class moved out first, followed later by the black middle class, leaving the poor (and some of the affluent) behind. Neighborhoods decayed, retail establishments closed or moved out, and the tax base deteriorated. While many central cities began to revive in the 1980s and 1990s, the population decline in the District of Columbia did not begin to turn around until the beginning of this decade. The concentration of poverty in Washington also continued to increase in the 1990s, although it diminished in most other regions.<sup>32</sup>

Throughout much of this period the infrastructure of the city suffered from serious neglect. New buildings were rarely built because a declining population did not justify new construction, and older buildings were not well maintained because tax revenues had to be devoted to providing at least minimal current services. Poor management also contributed to the decline. The fiscal meltdown of the 1990s, which caused the imposition of a federally appointed Control Board, took an especially heavy toll on the city's infrastructure. As a result, even with a revived economy, improved leadership, and higher revenues in the current decade, the District still faces the daunting task of repairing, modernizing, and replacing an aging and outmoded infrastructure. In order to bring its infrastructure to acceptable levels and keep it in good working order, the District would need between \$16 and \$31 billion over 20 years (\$800 million to \$1.5 billion a year), according to a 2005 Center for Washington Area Studies report.<sup>33</sup> This small central city simply cannot carry that burden alone given its truncated tax powers, narrow tax base, and heavy state and local responsibilities.

The Washington Metropolitan Area



Source: Office of Management and Budget, 2003

### ENDNOTES

- 23 Ending general fund balance in FY2007.
- 24 ALAN BERUBE AND TIFFANY THATCHER, THE BROOKINGS INSTITUTION, THE SHAPE OF THE CURVE: HOUSEHOLD INCOME DISTRIBUTIONS IN U.S. CITIES, 1979-1999 (2004).
- 25 U.S. Census 2000.
- 26 ED LAZERE & DAVID GARRISON, THE BROOKINGS INSTITUTION, A NEW FEDERAL CONTRIBUTION TO THE DISTRICT OF COLUMBIA? THE NEED, LIKELY IMPACT, AND SOME OPTIONS 3 (2005). Estimate based on 2005 local operating funds.
- 27 CAROL O'CLEIRACAIN & ALICE M. RIVLIN, A Sound Fiscal Footing for the Nation's Capital: A Federal Responsibility, (Washington: Brookings, 2002).
- 28 D.C. Office of the Chief Financial Officer, Office of Revenue Analysis, Calculating the Impact of Federal Preemptions on the District's Tax Revenue (Working Draft Paper, March 2008)
- 29 *Id.*
- 30 U.S. GEN. ACCOUNTING OFFICE, GAO-03-666, DISTRICT OF COLUMBIA STRUCTURAL IMBALANCE AND MANAGEMENT ISSUES (2003); O'CLEIREACAIN & RIVLIN, *supra* note 48; LAZERE & GARRISON, *supra* note 42.
- 31 GAO's structural deficit estimates are based on information from fiscal year 2000.
- 32 Paul A. Jargowsky, The Brookings Institution, Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s (2003).
- 33 Royce Hanson & Karen Melanson, The George Washington University, The Center for Washington Area Studies, An Estimate of Long-Term Infrastructure Needs of the Nation's Capital (2005). Figures are in 2005 dollar amounts.

CHAPTER TWO:

# BUILDING A GREAT CAPITAL CITY: OPPORTUNITIES AND OBSTACLES FOR THE DISTRICT OF COLUMBIA



Photo by Michael Bonfigli

**Brooke DeRenzi and David F. Garrison,**  
The Brookings Institution

As the Nation's Capital, the District of Columbia should aspire to be a great city. Vision statements and long-term plans produced by the city over the past decade demonstrate its ambitions to do so, and Washington's core of monuments, museums, broad avenues, green spaces, and unique vistas already provide remarkable experiences for millions of visitors. A preeminent capital city, however, cannot just be a great place to visit. It must also be a great place to live and work.

A truly great city has a strong local identity and special sense of place that distinguishes it from other cities and localities. Schools, recreation centers, libraries, and small businesses anchor vibrant, safe neighborhoods that are home to residents of different racial and economic backgrounds. Downtown and commercial corridors bustle with a mix of entertainment, cultural, civic, and business activities for residents, out-of-town visitors, and workers alike. An efficient public transit system runs through the city. Streets and bridges are in good condition and relatively free of heavy traffic congestion. Public spaces and parks are numerous and well-kept, while the city's natural resources are unspoiled and accessible to residents. Decent housing stock that can accommodate families of different types, sizes, and income levels exist throughout much of the city. Residents have access to quality education, health care, and jobs regardless of where they live. Additionally, a great capital city embodies the ideals and aspirations of the Nation as a whole.

Over the past decade, the District of Columbia has made huge strides towards this vision of a great city. The District's central core has undergone an impressive transformation: from the White House to the Capitol Building, Pennsylvania Avenue has become a Main Street in which the city and Nation can take pride, and restaurants, theaters, and entertainment venues have transformed downtown D.C. into a regional destination. At the same time, some neighborhoods that were once marred by abandoned houses and vacant storefronts are now home to new buildings, grocery stores, banks, and other amenities. These changes have attracted new residents, both downtown and in various neighborhoods, resulting in the growth of the District's population for the first time in half a century.<sup>34</sup>

Yet Washington faces serious challenges if it is to sustain its success. Rapid regional growth has aggravated traffic congestion and air pollution. Outdated sewer systems continue to pollute the city's major waterways. While faith in the city's government has been significantly restored, there are many essential services, such as public education, public safety, and primary health care, which require more modern facilities in order to operate effectively. Homeownership remains out of reach for many District residents, and in some neighborhoods, the rising rents and property taxes associated with revitalization have aroused anxiety among long-time residents. Other neighborhoods, particularly on the city's eastern side, are still distressed with high poverty and unemployment rates. The Anacostia waterfront, a natural feature with great potential for serving as a public gathering space and bridging the city's geographic and economic divides, is only in the early stages of development.

For the District to be a truly great city for residents and visitors alike, it must overcome these challenges. To become

## “The Federal Government needs to help the District invest in its public infrastructure if it is to become an exemplary city.”

a showcase capital city, the District must not only improve its long-neglected and badly deteriorated infrastructure, it must also modernize the facilities used to deliver essential services. Additionally, the District must invest in new capital projects to meet the needs of its growing and changing population and its daytime workforce, much of which is composed of federal employees. As the core of a burgeoning metropolitan area, the District must also contribute to regional infrastructure projects, particularly in the much-needed areas of public transit and the environment.<sup>35</sup>

The District of Columbia is not unique in many of the infrastructure problems that confront it—other older cities face similar challenges. However, as the Nation’s Capital, Washington faces revenue limitations that are not imposed on any other city in the country. The city’s unique revenue and debt limitations, combined with a legacy of infrastructure neglect, inhibit its ability to fund all of the large and costly projects that demand attention.

This chapter concentrates on the capital improvements Washington needs to be a great city—public works projects like transit systems, roads and bridges, sewer systems, and facilities—rather than on the quality of city services. Obviously, high quality services are crucial to a great city. However, while services within a city can be assessed, it is often difficult to measure and compare services across cities. This is because standard measurements for a variety of service delivery among “great cities” are not always available or clear. By contrast, we are able to identify basic infrastructure

elements required by a great city and assess the condition of D.C.’s current infrastructure accordingly.

This chapter begins by distinguishing qualities common to a great city in accordance with urban planning literature and planning documents for the District of Columbia. To the extent possible, the chapter also assesses how the District fares in each of these areas relative to standard data indicators, comparative analyses with other cities, or evaluations of D.C. systems.

We then identify some of the major capital improvements the city must make in order to achieve the characteristics of a “great city.” We have not reached for “pie in the sky.” Indeed, all of the projects we review have been widely discussed and there are detailed plans for many of them. By bringing them together in this chapter we hope to underscore the overall scale of the city’s need, potential, and aspirations.

The chapter also shows that federal restrictions on the city’s revenue are likely to limit the District’s ability to achieve its full vision. The District of Columbia has contributed millions of local dollars to many of the capital projects that we discuss. Nonetheless, because the District can only take on a limited amount of debt, many of the projects are currently underfunded and others lack current funding commitments. In short, due to its revenue and debt limitations, the District cannot support the types of capital improvements required to bring it to the status of a great city without compromising its fiscal health. We conclude that the Federal Government needs to help

the District invest in its public infrastructure if it is to become an exemplary city.

### Characteristics of a Great City

Urban planning literature reveals a list of common qualities that make a city great. Together, these characteristics maximize the quality of life for residents, and at the same time, offer a distinct and special experience to visitors. As reflected in the literature, they are:<sup>36</sup>

1. A unique local identity and sense of place: Development, architecture, and landmarks emphasize local culture, history, and ecology.
2. High-quality and convenient transportation: Public transit is efficient, accessible, and coordinated with land use plans in all areas of the city. Roadways have low traffic congestion. Major corridors are pedestrian and bike-friendly.
3. Clean natural environment, including water and air: The city’s pollution levels meet quality standards set by the Environmental Protection Agency.
4. Quality public education: Public schools provide all students with a quality education and a variety of higher education options are available to all residents.
5. A strong public safety system: Fire, emergency medical services, and police take preventative action on crime and disasters and are equipped to respond to calls and emergencies in an efficient and effective manner.
6. A variety of quality housing: There are decent rental and homeownership options for households of different types, sizes, needs, and incomes.

7. Healthy residents: Residents have good health outcomes supported by public services and adequate access to care.
8. Strong and stable communities: Poverty and unemployment are minimal and not geographically concentrated. Neighborhoods are not rigidly segregated by race. There are not gaping disparities between the city’s different social groups and neighborhoods.
9. A destination downtown: Multiple uses and a mix of entertainment, cultural, civic, and business activities are clustered in close proximity.
10. Open, accessible, and well-kept public spaces and parks: Parks and public spaces have scenic qualities, environmental or natural amenities, and recreational resources. They are integrated into the fabric of neighborhoods and are conducive to public gatherings.
11. Historic and cultural resources: Historic and cultural establishments are well preserved. Public spaces reflect neighborhoods’ identities often through design and artwork.
12. Vibrant neighborhoods: Public institutions like schools, recreation centers, and libraries serve as neighborhood anchors. Amenities, including grocery stores, banks, cleaners, and restaurants can be reached on foot or bicycle.

There is no one database or central depository of standard information that allows comparison of the District to other national capitals or great cities in each of these categories. For example, we found no clear way to assess if our parks and public transit systems are better or worse than those of Paris, Rome, or New York City. However, to the extent that they are available, we use standard and comparative data indicators to assess how D.C.



measures up in each of these categories. In other cases, we reference evaluations and analyses that have been conducted specifically in regard to the District.

While a unique local identity and sense of place certainly contribute to a city's greatness, we do not assess the District in regard to this quality because it is subjective and difficult to quantify. Generally, we support the premise that design aspects of capital improvements should reflect the culture, history, and ecology of Washington and its neighborhoods, and that fostering this local identity and sense of place is a key requisite for a great city.

A great city also has extensive historical and cultural resources, a quality that Washington already possesses as home to many of the Nation's historical treasures and cultural institutions, including the national monuments, the Smithsonian museums, and a variety of arts venues. This chapter does not review specific historical or cultural capital projects since

such projects are often integrated into other development efforts. However, we generally support the D.C. Comprehensive Plan's recommendation for the city to assist in developing, maintaining, and expanding affordable arts facilities, and to include public art in public buildings, infrastructure, and developments.<sup>37</sup>

Moreover, since the vibrancy of neighborhoods heavily depends on the other great city qualities identified, we review neighborhood conditions within the categories of high-quality and convenient transportation, healthy residents, strong and stable communities, and public spaces/parks.

### Capital Projects to Bring DC to a Great City Status

This section highlights a dozen specific capital improvements needed in Washington, D.C. to ensure quality experiences for residents, workers, and visitors. (Table 1, Matrix of Major Capital Initiatives to Help D.C. Achieve Great City

Major D.C. Capital Initiatives	High-quality and convenient transportation	Clean natural environment	Quality public education	Strong public safety system	Variety of quality housing	Healthy residents	Good economic and social outcomes	Destination Downtown	Open, accessible, and well-kept public spaces	Historical and cultural resources
1. Affordable Housing Investments					X		X			
2. Public Schools Modernization			X				X			
3. UDC Modernization/Community College			X				X			
4. Community Health Centers						X	X			
5. New Communities Initiative					X		X			
6. Anacostia Waterfront Initiative <sup>1</sup>	X	X			X		X			
7. WMATA Improvements	X	X						X	X	X
8. DC Intra-city Public Transit	X	X						X		
9. Parks and Recreation Centers						X	X		X	
10. Fire/EMS and Police Facilities Improvements				X			X			
11. WASA Improvements		X								
12. Public arts projects and cultural facilities										X

1. Includes road and bridge improvements for Anacostia Crossings  
 Note: a unique identity/sense of place and vibrant neighborhoods are also major components of a great city. They are not listed on the matrix although each of the capital initiatives would contribute to these components.

“The District of Columbia is not unique in many of the infrastructure problems that confront it—other older cities face similar challenges. However, as the nation’s capital, Washington faces revenue limitations that are not imposed on any other city in the country.”

**“The lack of a constant, secure source of funding has made it extremely difficult for WMATA to make the types of improvements necessary to sustain a world-class public transit system capable of effectively and efficiently serving the Nation’s Capital and many of the Federal Government’s essential**

Qualities). These projects fall into nine “great city” categories, though some are related to more than one: transportation; clean environment; public education; public safety; health care; housing; healthy residents; strong and stable communities; destination downtown; and parks, waterfronts, and other public spaces.

To ensure that the projects identified are realistic and feasible, we limit our discussion to capital needs already discussed or planned by the city government. The projects we review have different timelines—some will move forward in the next several years while others will be completed in a five- to 10-year timeframe. While we review an extensive list of capital projects, it is not a comprehensive discussion of all projects under consideration or underway.

We include estimates produced by planners that illustrate the magnitude of costs associated with these capital projects whenever possible. Since the cost estimates come from a variety of sources that use different methods, the dollar amounts shown are not always adjusted for inflation in the same way and therefore cannot be directly compared or tallied. Other projects that we have identified do not yet have cost estimates associated with them because they are not close enough to

implementation. Long-term cost estimates for capital projects are quite susceptible to change as inputs like energy sources and costs, building materials, environmental regulations, and population may be different 10 to 20 years from now. For all of these reasons, we do not provide a total estimate of costs for the improvements we review.

Even so, the estimates provide a sense of the magnitude of costs associated with improving the city’s infrastructure to the level worthy of a great city. These order-of-magnitude estimates make it apparent that, collectively, such improvements would cost billions of dollars.

**High-Quality and Convenient Transportation**

*Great cities have effective and efficient public transit systems, roads, and bridges. The District’s Metro system, one of the Nation’s best, is in serious need of repair and expansion due to aging infrastructure and increased demand if it is to maintain its status as a high-quality public transit system. Roadways that cross the Potomac and the Anacostia rivers—gateways to our Nation’s Capital—suffer from severe traffic congestion. Views of the Capitol Building, one of the greatest symbols of our democracy, are interrupted by a tangle of highways. Infrastructure improvements to*

**Table 2. Passenger Trips per Vehicle Mile, 2002**

	Rail Transit	Bus transit
<b>WMATA</b>	<b>4.65</b>	<b>3.9</b>
Highest	7.75	9.6
<b>National Average</b>	<b>4.50</b>	<b>2.8</b>
National Average excluding NYC	3.69	---
Lowest	1.66	0.7

Source: Report of the Metro Funding Panel, 2005.

**Table 3. Operating Cost Per Passenger Trip (Cost to carry each passenger)**

	Rail Transit	Bus transit
<b>WMATA</b>	<b>\$1.90</b>	<b>\$2.30</b>
Highest	\$4.47	\$5.10
<b>National Average</b>	<b>\$1.60</b>	<b>\$2.40</b>
National Average excluding NYC	\$1.73	---
Lowest	\$1.28	\$1.50

Source: Report of the Metro Funding Panel, 2005.

the city’s public transit system, as well as its bridges and major corridors, can remedy these problems.

*The Public Transit System.* The Washington Metropolitan Area Transportation Agency (WMATA) services the District of Columbia and the greater Washington region with an integrated bus and rail system. WMATA has the second largest heavy rail system in the country, second only to the historic rail system in New York City, and the fifth largest bus system.<sup>38</sup>

WMATA’s rail and bus systems perform well relative to other public transportation systems in regard to productivity and efficiency. A benchmarking analysis conducted by the 2005 Metro Funding Panel found that:

- WMATA’s bus and rail systems were both more productive than the national

average (Table 2, Passenger Trips per Vehicle Mile, 2002).

- In terms of operating costs per passenger trip, Metrorail is competitive with similar systems nationally and Metrobus is more efficient than the national average (Table 3. Operating Cost Per Passenger Trip (Cost to carry each passenger), 2002).

Nonetheless, WMATA faces serious operational challenges due to its aging equipment and infrastructure. A 2001 GAO report indicated that Metrorail experienced an increase in train delays and passenger “offloads” due to vehicle, track, system, and other problems.<sup>39</sup> The number of train delays due to these equipment or infrastructure failures increased by 64 percent from 865 in FY1996 to 1,417 in FY2000. Likewise, the number of passenger offloads increased by 55 percent from 783 in FY1996 to 1,212 in FY2000. More recent data indicate that



Photo by Michael Bonfigli

Metro's problems have not been resolved. In 2007, less than 95 percent of all trains arrived on time, with only 80 percent of trains running on schedule during the evening rush hour.<sup>40</sup> From July to November of 2007, mechanical and door problems caused nearly 60 percent of the 1,825 service disruptions.<sup>41</sup>

WMATA ascribes these equipment and infrastructure problems to age. According to GAO's 2001 report, 45 percent of Metrorail's 103-mile system is 17 to 25 years old and less than a quarter of the system has been constructed within the past eight years. WMATA's rail cars are also aging. WMATA estimates the useful life of its rail cars to be 40 years.<sup>42</sup> At the time of the GAO report, 39 percent of Metrorail's 762 rail car fleet had been in service for 25 years, meaning that well over a third were halfway through their useful life.

The Metrorail system also faces capacity challenges due to increased ridership. Trains are crowded, particularly during the morning and evening rush hours, when 70 percent of ridership occurs.<sup>43</sup> Metrorail's scheduled capacity meets ridership demand if there are, on average, 140 or fewer passengers in a car during the peak half-hour. According to GAO's 2001 report, WMATA observed peak trips over a six-month period and found that, on average, 15 percent of both peak morning and peak afternoon hour train cars were uncomfortably crowded (125-149 passengers). Moreover, an average of 8 percent of peak morning hour train cars and 5 percent of peak afternoon hour trains had "crush loads" (150 or more passengers). With rising gas prices, Metro has more recently experienced record-breaking ridership with an increase in train riders from FY2007-FY2008.<sup>44</sup> Metrorail ridership is projected to grow by 22 percent between 2010 and 2020, reaching one million trips a day.

The capacity of the 29 downtown

Washington stations in the Metrorail system's core is also compromised. Although they serve 60 percent of all customers and 90 percent of those who transfer between rail lines, they contain no more than 36 percent of the system's infrastructure.<sup>45</sup>

In September 2008, WMATA announced that it would need \$11.3 billion over 10 years (2010 to 2020) to address its infrastructure and capacity problems. WMATA would use the funds accordingly:<sup>46</sup>

- Over \$7 billion to maintain its current rail, bus, and paratransit system, which would include making repairs to tunnels, platforms, escalators, and replacing aging rail cars and buses.
- Nearly \$3.5 billion to increase capacity by adding more cars to trains, creating pedestrian tunnels between Metro stations, and adding new buses to the MetroBus fleet.
- Over \$700 million to make improvements for customers, such as additional security lighting and better station signage.

Historically, WMATA does not have a dedicated source of revenue for capital projects that secures future funds. Instead, it finances its capital projects with three funding sources: federal funds; contributions from state and local governments appropriated annually; and short- and long-term borrowing.<sup>47</sup> The lack of a constant, secure source of funding has made it extremely difficult for WMATA to make the types of improvements necessary to sustain a world-class public transit system capable of effectively and efficiently serving the Nation's Capital and many of the Federal Government's essential functions.<sup>48</sup>

Congress has responded to this problem by

passing rail safety legislation (H.R. 2095) that includes \$1.5 billion in federal matching funds over 10 years to support critical maintenance and upkeep of the WMATA system.<sup>49</sup> The \$1.5 billion in federal funds for WMATA was originally proposed by Rep. Tom Davis (R-VA) in a bill called the National Capital Transportation Amendments Act (H.R. 401), which stated that, "Metro, the public transit system of the Washington metropolitan area, is essential for the continued and effective performance of the functions of the Federal Government, and for the orderly movement of people during major events and times of regional or national emergency."

*Public Transit Alternatives.* In addition to making the stated improvements to the regional public transit system, the city must also address the need for efficient public transit within its borders. Currently, there are some neighborhoods of the city not served by Metrorail. Indeed, Georgetown, Bolling Air Force Base, much of Northeast D.C., parts of Anacostia, portions of the city's western edge, and parts of the northern section of the city are more than a half-mile away from a Metro stop.<sup>50</sup> Moreover, the lack of direct connections between Washington's neighborhoods adds to residents' commute times and contributes to crowding on the city's main metro lines.

Since it would be extremely expensive to add new underground rail lines in the District, the city and WMATA have worked together to plan transit alternatives. The D.C. Circulator, a new bus service that provides transit between downtown destinations and carries over 6,000 riders each day, is one example of an intra-city transit alternative.<sup>51</sup> Other alternatives are outlined in a 2005 plan called the District of Columbia Transit Improvements Alternative Analysis (DCAA):

- Improved local bus service
- Street cars, smaller rail cars that run on in-street tracks at traffic's grade level

- Rapid bus service including express buses in major corridors
- Bus rapid transit, which provides a similar level of service to light rail in regard to frequency and stop spacing with the flexibility of a bus

Together, these public transportation alternatives are meant to serve neighborhoods not currently accessible by Metro, ease travel time from one neighborhood in the city to another, and supplement the capacity of the WMATA system. The 2005 DCAA plan estimated a total capital cost of \$851 million (in 2005 dollars) for implementing this full transit system, a figure that will be updated soon. The DCAA is not currently funded, although the District does seek opportunities to fund elements of the DCAA through its annual subsidy to WMATA. For example, in 2007, the city was able to use some of the bus funds allocated to the District under the WMATA Metro Matters plan to support rapid bus service for Georgia Avenue/7th Street NW. However, given the transit agency's funding limitations for capital projects, the District cannot expect that WMATA dollars allocated to District-specific projects will cover all of the costs of implementing the DCAA transit plan.

*Roads and Bridges.* The District's roadway system is comprised of 1,153 miles of roadway, 229 vehicular and pedestrian bridges, and 7,700 intersections, 17 percent of which are signalized.<sup>52</sup> The city has been able to improve its roadways due to increased funds available for traffic maintenance since the mid-1990's.<sup>53</sup> However, with the majority of workers in the city commuting from outside of the District, the city still struggles with traffic congestion on its radial principal arterial roadways. North/South travel on I-95 feeding into I-295 and I-395 contribute to the city's congestion with these highways carrying the heaviest daily traffic volumes in the city.<sup>54</sup> The limited number of crossings over the Potomac and



Photo by D.C. Dept. of Transportation

Anacostia rivers also cause more congestion at these border crossings compared to those in the northern part of the city.<sup>55</sup>

The highways that cut across the Anacostia River obstruct vistas of one of the city's most symbolic buildings, the U.S. Capitol. Indeed, South Capitol Street is a central thoroughfare of the city's southern quadrants, and was designed to serve as a ceremonial gateway to the District marked by its path to the U.S. Capitol building.<sup>56</sup> Yet a maze of highway and railroad overpasses currently blocks the view of the capitol dome from the street. South Capitol's use as a local street is further diminished by its freeway characteristics with traffic jams during peak travel hours and high accident rates.<sup>57</sup>

Over the past several years, the District of Columbia's Department of Transportation (DDOT) has issued a number of studies to evaluate the current and future needs for Anacostia River crossings, as well as road access to nearby neighborhoods. These studies include the Middle Anacostia River Crossings Transportation Study, the South Capitol Gateway and Corridor Improvement Study, and the Anacostia Access Study, and are part of DDOT's contribution to the Anacostia Waterfront Initiative, which is discussed later in this chapter.

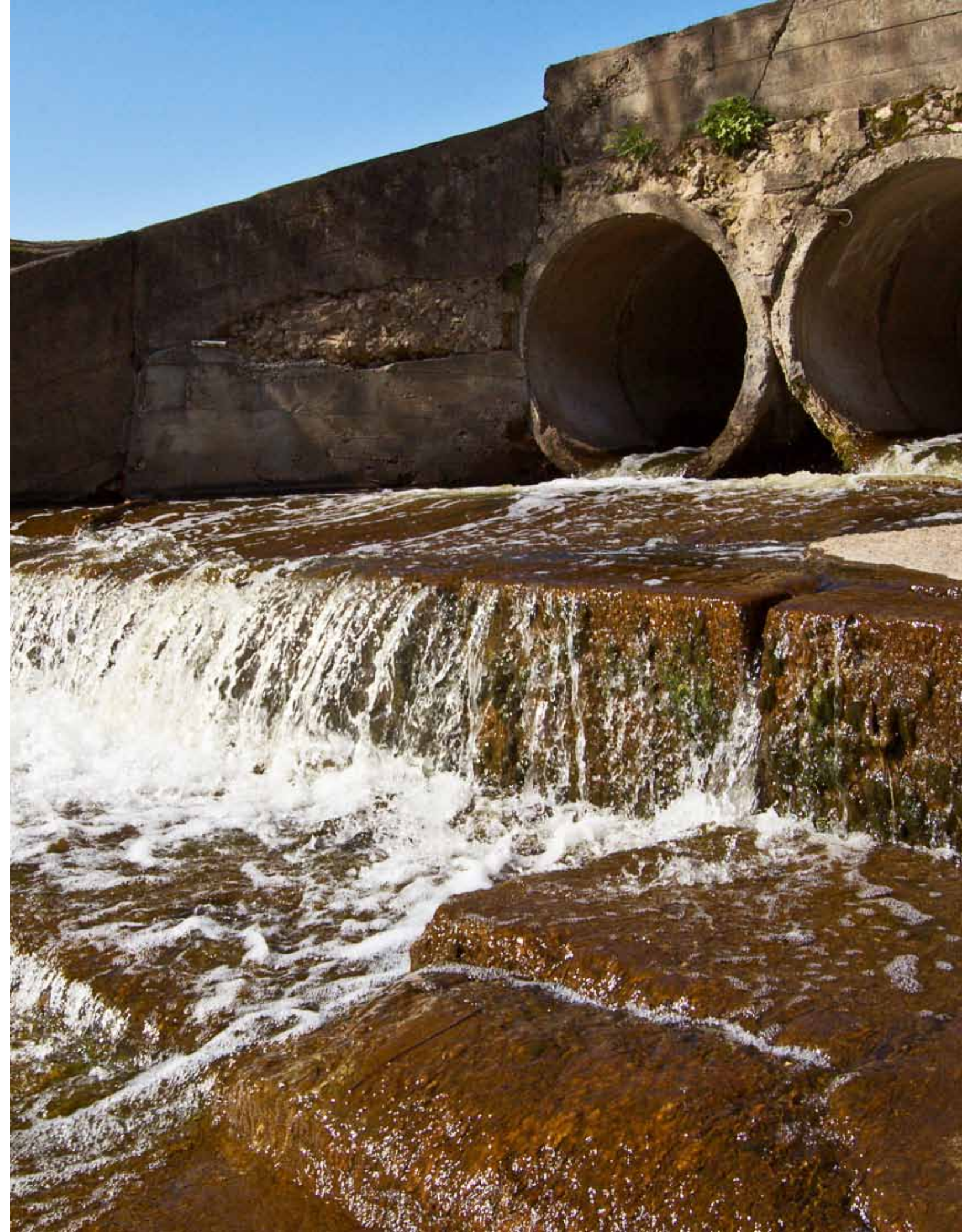
Using traffic demand data projected for 2030, the Middle Anacostia River Crossings study found that current deficiencies in the Anacostia River crossings will worsen if no improvements are made on major roadways, particularly Pennsylvania Avenue and the Anacostia Freeway, also known as I-295. The study identified a number of mid- to long-range projects to improve middle Anacostia crossings, the largest among them being improvements to the 11th Street bridges that connect the Anacostia and Southeast freeways and link traffic from the east side of the region to the city's core. Magnitude of cost estimates for all of the mid- to long-term Middle Anacostia crossing improvement

projects total up to as much as nearly \$800 million, an amount that includes a \$465 million price tag for the 11th Street bridges.<sup>58</sup> The city currently anticipates \$459 million of revenue for the 11th Street bridge rehabilitation project, which consists of \$200 million in G.O. Bonds from the East Washington Traffic Relief Act, \$60.9 million in dedicated parking tax revenues, \$200 million in Grant Anticipation Revenue Vehicles (GARVEE) Bonds, and \$17.6 million in federal appropriations.<sup>59</sup> With these available revenue streams, the city will complete a \$459 million scope of work on the 11th Street Bridge and Corridor project in the next several years and will finish the remaining improvements when more revenue is made available.<sup>60</sup>

The DDOT studies also outline major improvements to restore South Capitol Street's status as a gateway to the city's core of national monuments. The largest project initially discussed to achieve this vision of the South Capitol Street corridor was a new tunnel that would link I-295 and I-395 in order to accommodate regional through-traffic, thereby instating South Capitol and other nearby streets as grand boulevards. The 2003 South Capitol Gateway Corridor and Anacostia Access study estimated that such a tunnel would cost approximately \$1 billion.<sup>61</sup> Due to the large price tag associated with the tunnel, the District is currently reviewing less expensive means of returning South Capitol Street into a gateway to the Nation's Capital.

### Clean Natural Environment

*Visitors and residents of a great city enjoy its natural features, including good air quality that supports outdoor activities and waterways that can be used for swimming, fishing, and recreation. Motor vehicle emissions pollute the District's air while urban and upstream agricultural runoff and the combined sewer system contaminate its waterways. Increased public transit capacity can help address air pollution while major*



*infrastructure improvements to the city's sewer system and water treatment plant can improve water quality.*

*Air Quality.* Urbanization has damaged the District's water and air quality. The District and its surrounding region do not meet federal standards for air quality. Specifically, the Environmental Protection Agency (EPA) sets Natural Ambient Air Quality Standards that review six criteria pollutants as indicators of air quality, including ozone, nitrogen dioxide, sulfur dioxide, particulate matter, and lead. When an ambient air quality standard is not attained, a metropolitan area is designated as a "nonattainment area." The Washington, D.C. metropolitan area was designated nonattainment for ozone and particulate matter.<sup>62</sup>

Motor vehicle emissions are the greatest contributor to air pollution in the Washington metropolitan area.<sup>63</sup> Washington can make significant improvements to its air quality by investing in the capacity of its regional and local public transportation systems.

*Water Quality.* The District's rivers and streams have been polluted by raw sewage, as well as urban and upstream agricultural runoff.<sup>64</sup> Section 303 of the federal Clean Water Act establishes water quality standards. Under this act, states are required to develop lists of impaired waters, which do not meet water quality standards, even after point sources of pollution have installed the minimum required levels of pollution control technology. There are 25 waterbody segments on D.C.'s 2006 list of impaired waters.<sup>65</sup>

The Anacostia River's pollution is particularly severe, and has been well documented. Sometimes referred to as the "forgotten river," the Anacostia has been marred by riverbed sediment contaminated with toxins, high levels of bacteria, and trash. It has been deemed unfit for swimming or fishing. Indeed, the U.S. Fish and Wildlife Service found liver tumors in 50 to 68 percent of

the Anacostia's brown bullhead catfish, a species regularly exposed to the river's contaminated sediment.<sup>66</sup> Much of the pollution is caused by discharges from areas in Maryland through which the river flows before entering the city. Nonetheless, the Anacostia's clean-up is imperative if the river is to serve as a centerpiece for the Anacostia Waterfront Initiative.

While pollutants in the District's waterbodies come from a variety of sources and cannot always be traced to a particular point, certain types of pollution are derived from the District's wastewater system, including its sewers. As is the case with many older cities, the District is partially served by a combined sewer system that carries both storm water and sewage. In dry weather, the combined sewer system carries wastewater to the Blue Plains Treatment Plant. During storms, however, both rain and sewage enter the system, and raw sewage often overflows into the city's waterways. The D.C. Water and Sewer Authority (WASA) estimates that combined sewers overflow 75 times a year into the Anacostia and Potomac Rivers, releasing 1.5 billion gallons of combined overflow into the Anacostia and 850 million gallons into the Potomac.<sup>67</sup>

In 2004, WASA reached a legal agreement with the EPA and others on a long-term control plan to reduce its combined sewer overflow—its largest and most costly capital project.<sup>68</sup> The plan requires WASA to make a number of capital improvements, including but not limited to 12 miles of large underground tunnels that will stow storm water until it can be sent for treatment at Blue Plains. The plan's full implementation is expected to reduce combined sewer overflows into the Anacostia by 98 percent, and total combined sewer overflows by 96 percent. These reductions will substantially improve water quality in the city's waterways, and in particular, will contribute to the Anacostia's clean-up, which is a key component of the city's effort to develop the river's waterfront on both banks.

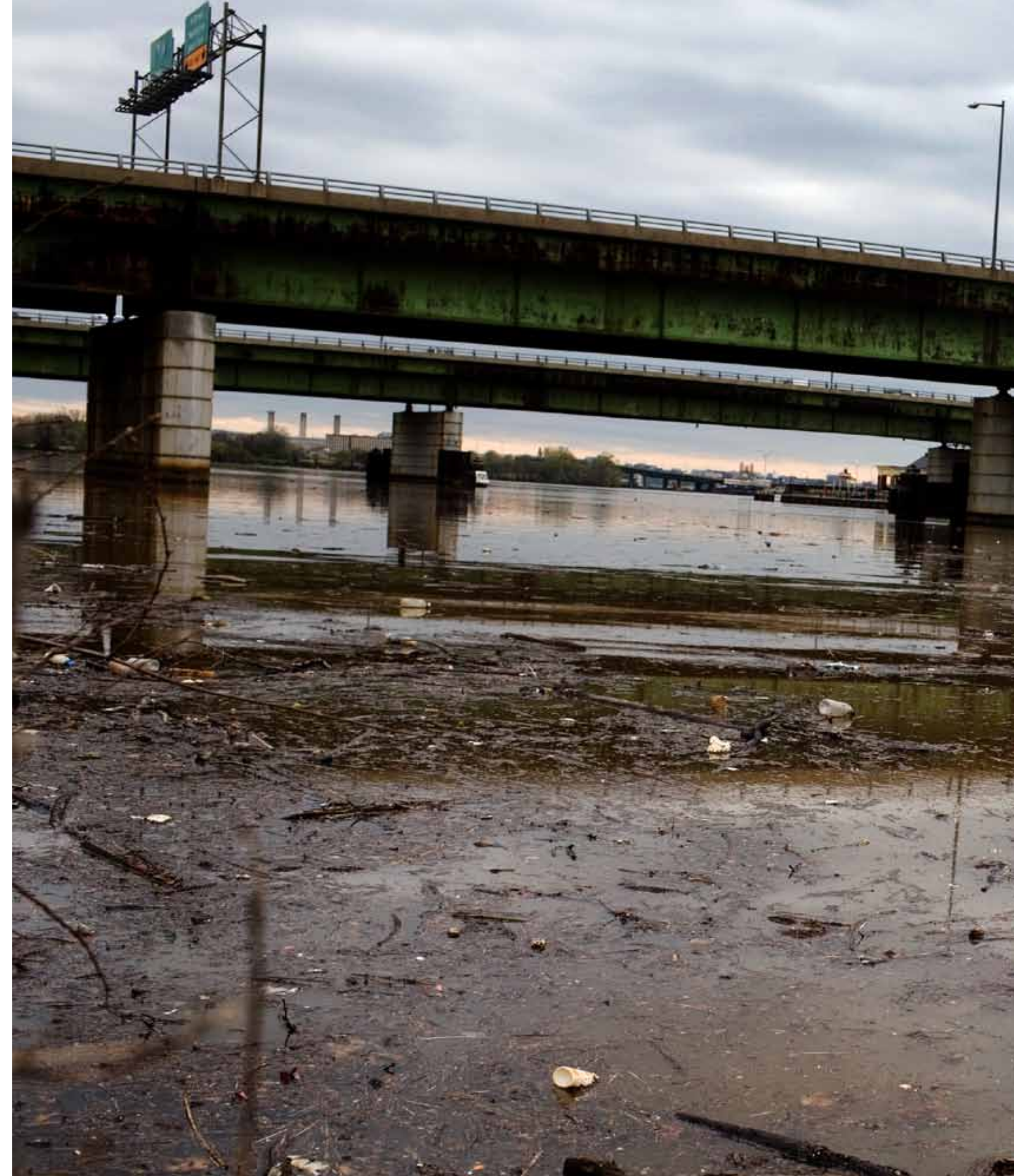


Photo by Michael Bonfigli

Overall, the long-term control plan will take 20 years to fully implement and will cost \$2.2 billion.<sup>69</sup> The Federal Government has thus far contributed roughly \$100 million to the long-term control plan through several one-time grants that required matches from WASA.<sup>70</sup> However, the Federal Government has not dedicated any future funding to this effort.

In addition to the long-term control plan, WASA must modernize its Blue Plains wastewater treatment plant to significantly reduce the amount of nitrogen discharged into waters to comply with EPA requirements. The presence of too much nitrogen in wastewater is problematic because it has adverse ecological and public health impacts. In April 2007, the EPA set new limits on the amount of nitrogen that the Blue Plains wastewater treatment plant can legally discharge as a means of improving water quality in the District and the Chesapeake Bay. To meet these new operating permit requirements, the facility must reduce nitrogen discharge from 8.5 million to 4.7 million pounds per year by 2016, and Blue Plains must be upgraded to reach this new level. The capital projects required for Blue Plains to achieve this new goal are projected to cost \$950 million (in 2007 dollars).<sup>71</sup>

As a public enterprise, WASA supplies water and sewer services to users who pay fees. WASA also issues its own bonds to cover its capital costs, and must pay the debt incurred from those bonds from its own revenue stream. Without federal assistance, costs of debt necessary to implement the combined sewer long-term control plan will be passed onto WASA's customers through large rate increases. Indeed, WASA estimates that without continued federal funding, a typical single-family residential bill will rise from \$29.83 in 2008 to almost \$110.30 by FY 2025—a 300 percent increase.<sup>72</sup> Costs for upgrading the Blue Plains facility to meet new nitrogen discharge goals will also largely

be felt by ratepayers. In short, these high rates will translate to an increased, and in some cases unaffordable, cost for the city's businesses and residents who already carry a heavy tax burden.

### Quality Public Education

*Great cities provide quality public education and a variety of public higher education opportunities to its population, delivered in safe and comfortable facilities. School facilities modernization is a major element of the District's endeavor to improve its public school system.*

*The Public School System.* The District's public schools perform poorly compared to other urban school districts with similarly disadvantaged populations. The National Assessment of Educational Progress (NAEP) Trial Urban District Assessment compares D.C. public schools (DCPS) to those in 10 other major cities. In 2005, the proportion of D.C. students at or above proficient in fourth and eighth grade reading and math in 2005 was lower than those of most schools included in the trial. A major effort is now underway to improve Washington's public school system, and facilities modernization is a chief component of reform.

Many of the District of Columbia's public school buildings, which were, for the most part, built by the Federal Government and turned over to the District in varying states of repair, are in serious need of modernization. A recent inspection of DCPS buildings found that only 10 percent of schools were in good condition and nearly 75 percent of the schools were in poor condition.<sup>73</sup> Shortfalls included lack of adequate science facilities, peeling paint, worn out carpet, dim lighting, windows that don't open or close, bathrooms with fixtures that do not work, and other problems associated with health and safety.<sup>74</sup> Additionally, many of the city's public charter schools are either located in former-DCPS buildings with similar modernization needs, or in space not designed for schools, such

**“Many of the District of Columbia’s public school buildings, which were, for the most part, built by the Federal Government and turned over to the District in varying states of repair, are in serious need of modernization.”**

as churches or repurposed commercial and industrial space. Such conditions are troublesome since research suggests that there is a relationship between the quality of school buildings and the level of student achievement and teacher success.<sup>75</sup>

This year, the District government released a new DC Schools Master Facilities Plan. The plan's first phase will use \$1.3 billion over five years to fully modernize every classroom and completely renovate high schools, spending approximately \$250 million a year on these improvements.<sup>76</sup> In accordance with the School Modernization Financing Act of 2006, roughly \$100 million of annual revenues from the operating budget will support these improvements in addition to over \$100 million of G.O. bonds.<sup>77</sup> The city will continue to make capital improvements to DCPS facilities beyond Phase One.

In addition to modernization activities, the District has performed a number of immediate repairs to ensure a safe and healthy environment for students and personnel in badly deteriorated schools. These additional facility improvements include items such as asbestos abatement, replacing heating ventilation and air-conditioning systems, roof and plumbing repairs, and fire safety upgrades. In FY2007 and 2008, the city spent \$600 million on immediate upgrades to school facilities.<sup>78</sup>

*Higher Education.* The District also needs to improve its system of higher education. Despite its high rate of college graduates (an estimated 46 percent of D.C. adults have a bachelor's degree or more), over a third of the city's adult population had a high school degree or less in 2006.<sup>79</sup> District residents with no education beyond a high school degree have much higher poverty and unemployment rates than those with a college degree.<sup>80</sup>

In cities across the country, community colleges play a critical role in preparing

residents for middle-skill jobs and further higher education. Yet of the 50 largest cities in the United States, Washington, D.C. is the only city without a freestanding community college.<sup>81</sup> Instead, the District has chosen to give its only public institution of higher education, the University of the District of Columbia (UDC), the dual mission of a state university and a community college.

Recent reports by Brookings, DC Appleseed, and the DC Fiscal Policy Institute argue that the District needs a fully-fledged community college in order to address education, income, and employment disparities, an issue supported by numerous city leaders.<sup>82</sup> Creating a community college in the District will impact UDC since the university currently carries out all of the city's public higher education functions. Moreover, UDC is still struggling to recover from the city's fiscal crisis when its budget, faculty, and programs were slashed due to financial distress at the university and in the city at large.<sup>83</sup> In order to fully recover, the city and UDC together must set forth a firm programmatic vision and mission for higher education in D.C.

Capital improvements to UDC should support and reflect its mission and programs. The university's campus, which includes over 900,000 square feet of buildings, sits on 22 acres of land in the city's Van Ness neighborhood.<sup>84</sup> Since eight of UDC's nine buildings were erected in 1976, the campus has lacked regular maintenance and has accrued a backlog of capital needs. Recent news articles and testimonies before the D.C. Council document UDC's run-down facilities, maintenance problems, and difficulty launching a capital campaign.<sup>85</sup> Although UDC does not have its own capital improvement plan, these issues suggest that, at the very least, UDC is in need of building systems and technology modernization. A new programmatic strategy at the University may require replacing some buildings with newer facilities capable of meeting modern



Marie Reed Community Center  
Photo by Michael Bonfigli



educational needs. Currently, there are less than \$50 million of renovations to the Van Ness campus included in the city's proposed FY2009<sup>3/4</sup>-FY2014 six-year Capital Improvement Plan.

In addition to modernizing UDC, if the city decides to expand its system of higher education to include a community college, it will need facilities, preferably on the city's east side, where most residents without higher education reside. Such facilities must be able to accommodate equipment and technology necessary to train students in high-demand occupations like construction, health care, and information technology. Capital cost estimates associated with building a new community college will be substantial and will be developed through a feasibility study currently underway.

#### **Strong Public Safety System**

*Public safety is a key component of any great city. Residents, workers, and visitors should be able to spend time in the city's various neighborhoods without a fear of crime. They should also have confidence that they would receive excellent protection and public safety services were an emergency or disaster to occur. Modern facilities for both the police and the fire department are necessary to accommodate contemporary equipment and support better service delivery for the Nation's Capital.*

The D.C. Fire and Emergency Medical Services (DCFEMS) operates from 40 different facilities with an average age of 57 years. Thirty-three of these facilities are neighborhood fire houses.<sup>86</sup> The last DCFEMS facilities assessment was conducted nearly a decade ago. Nonetheless, the District's capital improvement plan notes that, "the ravages of time, constant use and previously deferred maintenance, repair and modernization have taken their toll on each of these structures, their interior finish, and the built in systems required for their continued use."<sup>87</sup> Renovations of the city's firehouses will

accelerate over FY2009-2014 for eleven, or one-third of the city's 33 engine companies. The FY2009-2014 CIP also includes over \$30 million for maintenance and repairs at facilities not being renovated, as well as for facilities assessment and capital planning.

With support from the Federal Government, the city is developing a consolidated forensic and public health laboratory priced at nearly \$220 million.<sup>88</sup> The laboratory will help District agencies solve crimes by coordinating activities among the Metropolitan Police Department, the Department of Health, and the Office of the Chief Medical Examiner. From FY2005 to FY2009, the District invested over \$100 million in the consolidated forensic laboratory, providing two-thirds of the project's funding thus far. While the city plans to invest an additional \$50 million in the lab in FY2010, completing the project will require \$15 million from the Federal Government. The District has also identified the need to totally renovate the Daly Building, which serves as the Metropolitan Police Headquarters, for an estimated cost of \$100 million.<sup>89</sup> Built in 1939, the Daly Building has had very minimal maintenance over the years.

#### **A Variety of Quality Housing**

*Great cities have a variety of housing available to households of different types, sizes, and income levels. While the District's once-booming housing market has cooled, sale prices in many areas are still unaffordable for many low- and moderate-income families.<sup>90</sup> The District must expand its affordable housing stock if it is to attract and retain the diverse mix of households that make great cities vibrant.*

The District of Columbia has recently experienced an extraordinary housing boom. From the mid- to late- 1990s, increases in homes sales prices were relatively flat or modest. But from 2000 to 2005, sales prices for single-family homes and condominiums more than doubled, even after adjusting for inflation.<sup>91</sup>



Photo by Michael Bonfigli

Despite the recent slowdown in the city's housing market, homeownership is still out of reach to many low- and moderate-income households, including those supported by front-line workers essential to the city's economy, such as public service providers and health care workers. For example, families supported by home health aides and nursing aides earning less than \$30,000 are completely shut out of the city's home sales market. A household supported by a registered nurse (earning \$63,800 annually) looking to buy its first home could only afford 8 percent of all homes sold in the District in 2006, compared to 41 percent of all home sales in 2000. Likewise, less than one-fifth of homes sold in 2006 were affordable to a family supported by a medical and health services manager (with annual income of \$87,300) compared to over half in 2000.

In addition to affordability challenges, the types of homes being sold in the District may not accommodate larger families that wish to buy here. The share of home sales that are single-family fell from 65 percent in 2000 to 51 percent in 2006 with consecutive declines each year. Condominiums, which are less likely to house families with children in public schools, account for the rest of the D.C. sales market.

D.C.'s rents are also unaffordable to many. In 2006, the city's average rent of \$1,380 was higher than the metropolitan area average of \$1,226. A household would need an annual income over \$50,000 to afford the city's average rental unit in 2006. The average D.C. rent is 1.2 times the rent affordable to a licensed practical nurse and 2.6 times the rent affordable to a home health aide. Due to the District's high rent prices and the loss of rental units discussed in the earlier chapter, subsidized housing is especially important in the District. A recent report by NeighborhoodInfo DC estimates that in 2007, almost 35,000 units of federally and locally subsidized, affordable housing existed in the District or were in development.<sup>92</sup>

However, the affordability restrictions on approximately 68 percent of the city's total subsidized housing stock will expire over the next 14 years. Since owners can renew subsidy contracts, expiration does not necessarily mean that these units will be lost as affordable. However, given the large portion of affordability restrictions set to expire, the city should make plans to ensure that as much of this housing stock remains affordable as is possible.

The Comprehensive Housing Strategy Task Force identified a fifteen year goal for the city of increasing housing units by 55,000, one-third or about 19,000 of which should be affordable.<sup>93</sup> The Task Force recommended that the city preserve at least 30,000 existing affordable units and assist 14,600 additional extremely low income renter households. The Task Force called on the city to take steps to increase the homeownership rate in the city from 41 percent to 44 percent. Over the fifteen year period, the Task Force estimated that these and other related efforts would cost approximately \$6 billion, \$3 billion of which could be covered from existing sources of revenue, including current flows of federal funds for these purposes. The \$3 billion remaining balance would have to come from new sources of support.

### Healthy Residents

*Residents of a great city have access to decent health care that supports good health outcomes. Research indicates that one-in-five District residents have no usual source of health care. The District can expand the capital capacity of community health centers in high-need areas to improve residents' access to primary care.*

A recent report by RAND examined health status and access to care among adults and children in D.C. Over one-third (37 percent) of adult District residents have one or more chronic conditions, such as hypertension, asthma, diabetes, heart disease, and cerebrovascular disease, with hypertension

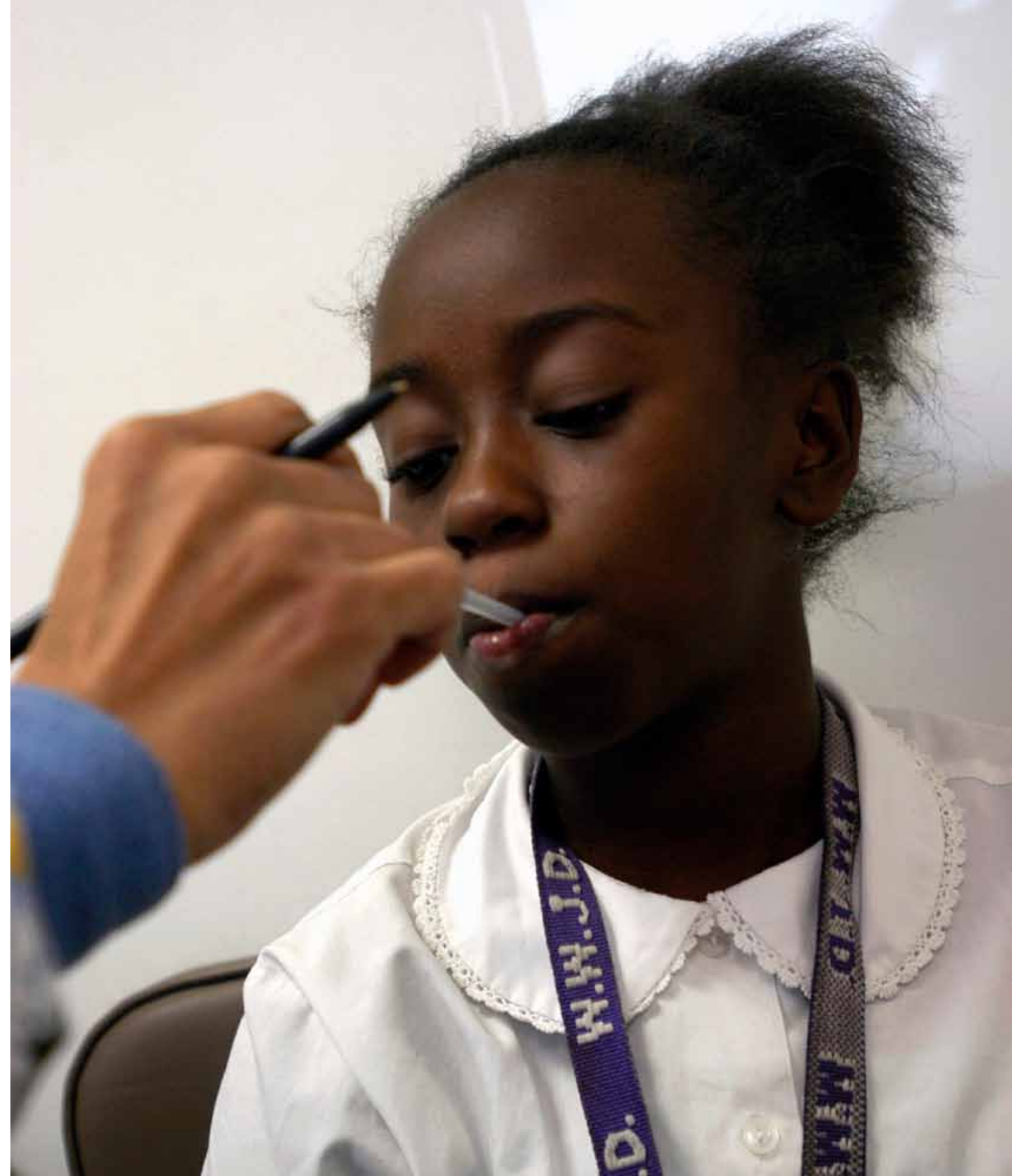


Photo by Michael Bonfigli

being the most common.<sup>94</sup> RAND found that District residents' measured health outcomes are comparable to those of benchmark cities with similar socio-demographic traits (Baltimore, Richmond, Philadelphia, Cleveland, Detroit, and Atlanta) with the exception of mortality rates from diabetes, which are higher in D.C.

Health outcomes, however, vary across the city.<sup>95</sup> Adult residents of Wards 7 and 8 had higher rates of chronic disease, poor health status, and premature mortality. Children living in Ward 3 had better health outcomes than those in the city's other wards. Asthma was most prevalent among children in Ward 7.

In regard to insurance, RAND found that D.C. adults have a higher rate of health insurance coverage (91 percent) relative to other cities due to the locally-funded DC Healthcare Alliance program, which pays for health care for adults with earnings below 200 percent of the federal poverty line, as well as an expansive Medicaid program.

However, RAND's findings on health care access indicate a need to strengthen the city's primary care system, particularly in wards east of Rock Creek Park. Despite the high rate of insurance coverage, 20 percent of residents reported no usual source of care, meaning they do not have a regular physician or medical office. Adults in parts of Wards 5 and 6 were less likely to have a usual source of care than those in other parts of the city. Children in some of Wards 1 and 5, most of Ward 4, and all of Wards 7 and 8 had relatively low rates of a usual source of care.

Hospitalizations for ambulatory care sensitive (ACS) conditions are a commonly used indicator of the overall effectiveness of primary care (including access to and quality of care). ACS conditions are health conditions such as asthma and diabetes that can be treated in a primary care setting and should not result in hospitalization if patients receive appropriate medical care. ACS

hospital admissions among youth and adults aged 40-64 increased from 2000-2006. In 2006, ACS rates among adults were highest in Wards 7 and 8. Among children, ACS rates were highest in most of Ward 4 and some of Wards 1 and 5. Moreover, rates of emergency department visits for conditions that could be treated in primary care settings have increased since 2000. These indicators suggest that District residents' access to primary care has worsened.

In a separate report, RAND recommends seven capital expenditures the city could make to improve its health care delivery system by using \$135 million from the recent settlement of tobacco litigation.<sup>96</sup> One of the recommendations is to expand the capacity and improve the physical space of community health centers, which are nonprofit organizations with a mission to provide medical care regardless of the ability to pay. RAND notes that the Medical Homes project may be one natural way to achieve this expansion.

The DC Primary Care Association (DCPCA), the association of community health centers in the District, launched the Medical Homes DC project in 2004 with the aim of strengthening the primary care safety net. A major focus of the Medical Homes project is helping health centers improve their facilities through renovation, expansion, or new construction.<sup>97</sup> While some health centers are in attractive, well-designed spaces, others operate in substandard facilities that compromise their ability to provide high-quality care.<sup>98</sup> Additionally, some neighborhoods, particularly on the city's east side, do not have enough facilities. While health centers can (and do) fundraise and take on debt, they face serious challenges in raising sufficient funds for capital projects. They are modestly staffed and operate on thin financial margins.<sup>99</sup> DCPCA has calculated that a \$50 million contribution from the city would allow 12 health centers (five of which are in high-need

## “Capital projects already discussed may over time help reduce economic and social disparities among the District’s residents. Such projects include affordable housing development, as well as improved facilities for public schools and colleges, community health centers, and public safety agencies.”

areas of Wards 7 and 8) to move forward on their capital plans.<sup>100</sup>

### Strong and Stable Communities

*A great city is not rigidly divided by income or race and large disparities do not exist between its different social groups and neighborhoods. Despite its status as the capital of the world's wealthiest Nation, the District suffers from high and concentrated poverty and unemployment. Economic and housing development projects can help transform high-poverty neighborhoods into vibrant mixed-income communities.*

The District fares poorly on poverty and unemployment outcomes despite local and regional economic growth. In 1999, at 20.2 percent, the District had the ninth highest poverty rate of the 25 largest American cities.<sup>101</sup> Sadly, Washington's poverty rate has not declined since.<sup>102</sup>

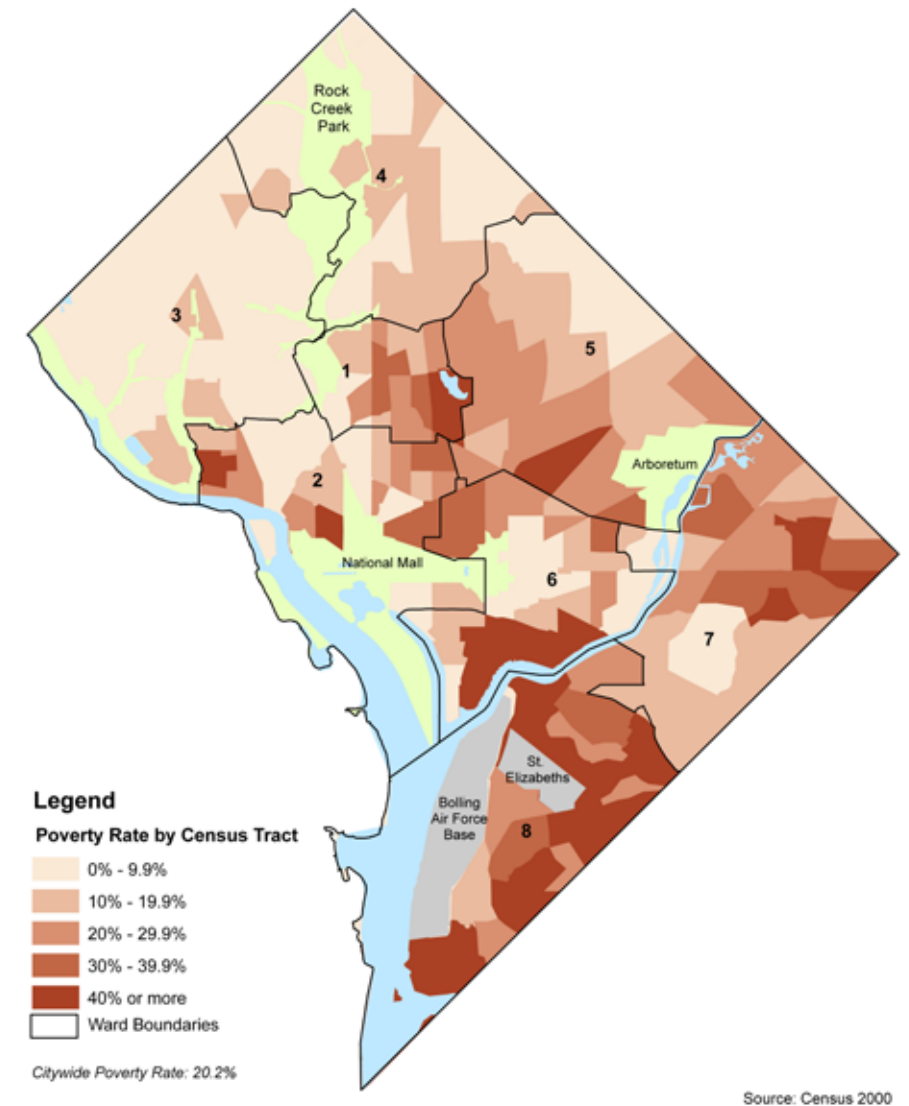
Not all neighborhoods are equally affected by poverty. The District's concentrated poverty rate, or the proportion of all poor individuals citywide living in extreme-poverty neighborhoods, was 23.8 percent in 1999 (the most recent year for which neighborhood-level data are available).<sup>103</sup> In other words, nearly a quarter of all the city's poor residents lived in neighborhoods that had poverty rates of 40 percent or more. The District's concentrated poverty rate was

the fourth highest among the country's 25 largest cities, exceeded only by Philadelphia, Milwaukee, and New York City.<sup>104</sup>

The city's poverty neighborhoods are located on its eastern side. We define “poverty neighborhoods” as census tracts where 20 percent or more of the population is living below the federal poverty threshold. As of 1999, wards on the west side of the city (Wards 3 and 4) had no poverty neighborhoods. By contrast, “extreme poverty” neighborhoods (with poverty rates of 40 percent or more) were prevalent in the city's most eastern wards (Wards 7 and 8). This east-west divide is also apparent in more recent data on the 2004 Earned Income Tax Credit (EITC) collections, which shows that zip codes to the West of Rock Creek Park had the lowest concentrations of working poor families while the zip codes to the East of the Anacostia River had the highest.<sup>105</sup> (See *Map 1: Neighborhood Poverty Rates in 1999, Washington D.C.*) Among the 25 largest cities in 2006, the District's 6 percent unemployment rate was the sixth highest, a troubling statistic given the steady job growth that has occurred in the city and the metropolitan Washington region.<sup>106</sup> In 2005, Wards 7 and 8 had the highest unemployment rates in the city at 13 percent and 21 percent respectively.<sup>107</sup> By contrast, the low poverty Ward 3 had an unemployment rate of only 2.1 percent.<sup>108</sup>



Photo by Michael Bonfigli



**The widespread distribution of poverty in the District highlights the need for targeted neighborhood development.**

In addition to being economically divided, Washington is also rigidly segregated by race. While many major American cities are not fully racially integrated, segregation between black and white residents in the District is particularly stark with large economic disparities existing between the two racial groups.

The index of dissimilarity is a standard indicator of segregation between two different racial or ethnic groups. Values between 0 and 100 can be interpreted as the percentage of one group that would

have to relocate to a different neighborhood in order to be distributed exactly the same way as the other group. In 2000, the District of Columbia had a white-black dissimilarity index score of 81.5, meaning that about 82 percent of one race group (blacks or whites) would have to move in order for whites and blacks to be evenly distributed across all neighborhoods.<sup>109</sup> The District's white-black dissimilarity index score was the third highest of the 25 largest cities in 2000, surpassed by only New York City and Chicago.<sup>110</sup> The city's black neighborhoods are located on its eastern side. Whereas neighborhoods

west of Rock Creek Park were less than 15 percent black, all except one of the neighborhoods east of the Anacostia River were 89 percent or more black.<sup>111</sup> Given that this rigid racial segregation reflects economic segregation, it is unsurprising that the large employment and income disparities that exist between the city's east and west sides also exist between its white and black residents.<sup>112</sup>

A number of the capital projects already discussed may over time help reduce economic and social disparities among the District's residents and communities. Such projects include affordable housing development, as well as improved facilities for public schools and colleges, community health centers, and public safety agencies. In addition, the city has planned two major initiatives—New Communities and the Anacostia Waterfront Initiative—which intend to reduce neighborhood disparities by cultivating mixed-income development in high-poverty neighborhoods, and by developing under-utilized neighborhoods on the District's eastern side. A discussion of these projects follows.

*New Communities.* The District government launched the New Communities Initiative as an effort to transform neighborhoods with high concentrations of poverty and violent crime into mixed-income communities anchored by integrated public facilities containing schools, libraries, and recreation centers. The city also plans to provide social service resources in the new communities as means of addressing residents' human capital needs in terms of employment and education. The initiative will redevelop four public housing sites, two of which are east of the Anacostia River.<sup>113</sup>

- Northwest One, formerly Sursum Corda Cooperative and Temple Courts
- Lincoln Heights/Richardson Dwellings
- Barry Farms/Parkchester
- Park Morton

The New Communities program is guided by four principles, and development is slated to occur in four to five phases in order to minimize moves and displacement for existing residents while creating a mixed-income community:

- One-to-one replacement of existing units to ensure that deeply subsidized housing is not lost
- Right to return or stay to ensure that families can continue to live in their neighborhood
- Mixed-income housing opportunities
- New housing on publicly-controlled land built prior to demolition of existing housing when possible to minimize displacement

Each New Communities development is expected to cost hundreds of millions of dollars, and will be financed through public and private investments. For example, the Northwest One community currently undergoing development is expected to cost approximately \$700 million with \$39 million in gap financing required from the District of Columbia.<sup>114</sup> In 2005, the city authorized \$16 million of the Housing Production Trust Fund to be used annually to support bond financing issued by the District for the New Communities Initiative. By securitizing this \$16 million over the next 30 years, the District anticipates that it will leverage \$200 million to be used for the first phase of New Communities. The city expects that this \$200 million will cover gap financing for the first phase of each of the New Communities developments.<sup>115</sup> The city also plans to use other sources, such as tax exempt bonds, new market tax credits, and low-income housing tax credits, to cover the rest of gap financing. However, there are no assured sources of funding currently available for New Communities gap financing beyond Phase One.

If these four projects prove successful in creating mixed-income communities,

deconcentrating poverty and crime, and improving the city's human capital, the District may want to consider applying the New Communities model to other distressed public housing developments in the city. Such a move would require additional funding that the city does not currently have available.

*Anacostia Waterfront Initiative.* In March 2000, 20 federal and District agencies that own or control land along the Anacostia River entered into a memorandum of understanding to revitalize the waterfront, resulting in the Anacostia Waterfront Initiative (AWI). The AWI includes plans for 6,500 units of new housing, 3 million square feet of new office space, 32 acres of new public park space, and a 20-mile network of riverside trails.<sup>116</sup> There are several key economic development initiatives associated with the Anacostia Waterfront Initiative that are expected to help revitalize nearby distressed neighborhoods and bring investment to the eastern side of the city. These projects have different costs and levels of committed funding:

- Poplar Point is a 130-acre site along the eastern bank of the Anacostia River in Ward 8 with a mile-long shoreline. The site, currently controlled by the Federal Government, will be transferred to the District of Columbia. The development program, which has not yet been finalized, will likely include new housing, retail, hotels, and office space in addition to a required 70-acre waterfront park.
- Kenilworth Parkside in Ward 7 will become a mixed-use and mixed-income neighborhood with 2,000 new housing units and 500,000 square feet of commercial and retail space. The development plan also includes a new pedestrian bridge to connect the neighborhood to the Minnesota Avenue metro station.
- Hill East is a 67-acre site along

the western bank of the Anacostia River slated to become a mixed-use community with two acres committed to new health care facilities.

- Southwest Waterfront is a 47-acre site along the Washington Channel. The development vision for the site includes street-level restaurants and shops anchoring housing, a new hotel, a cultural venue, marinas, 14 acres of parks and open space, and a riverfront promenade.
- Ballpark District will span 60 acres surrounding the new Washington National's ballpark, and will include a diverse mix of retail, entertainment, residential, and office uses.

Each of these projects also essentially forms a new neighborhood at a site that was formerly un- or under-developed. The task of building entirely new neighborhoods requires major infrastructure development as many of the sites lack updated water and sewer, power, and in some cases, road systems. But it will also help move the District towards becoming a great city.

So far, the city has used TIFs, PILOTs, and special assessments to fund major infrastructure necessary for economic development along the Anacostia Waterfront. While the city will eventually receive revenue from development of these sites that can be used to support its general fund, the initial revenues must be used to pay for these infrastructure developments. Just as importantly, the amount of TIFs and PILOTs the city can issue for future Anacostia Waterfront projects may be limited since the CFO has determined that the city should have only \$1.5 billion issued in tax-supported revenue bonds at any one time in order to keep its debt at a manageable level. Indeed, in a May 2008 fiscal impact statement on legislation proposing an approval of almost \$200 million in TIF and PILOT debt for the Southwest Waterfront development, the CFO noted that "issuing \$198 million for

this Project reduces the amount of available TIF, PILOT, and revenue bond debt for other projects.”

**Destination Downtown<sup>117</sup>**

*Great cities have downtowns that serve as a center for the regional economy and draw visitors from around the globe. The District's downtown has become a major destination for regional workers and residents as well as tourists.*

Once suffering from stagnation, Washington's downtown is now a destination for residents of the city and the region, as well as for tourists. The Downtown Business Improvement District (BID) covers a 140-block area. In 2007, it had only 19 sites available for redevelopment, compared to the 115 sites in existence a decade ago. The downtown BID projects that the area will be completely built out by 2014 or 2015. Though this density makes downtown walkable, it is also easy to travel within the downtown area through a new downtown bus service called the "Circulator." With seven different Metro stops servicing downtown, residents throughout the Washington area can easily access downtown through public transportation.

Downtown, D.C. is known for its strong office market, which is ranked second only to Midtown Manhattan on a number of performance measures. However, downtown D.C. is becoming increasingly mixed use. It is home to the new Washington Convention Center, the Verizon Center (host to three professional sports teams), 11 museums, over 8,600 hotel rooms, six performing arts theaters, and two cinemas. From 2000 to 2007, the Downtown BID area also gained over 3,000 new residential units.

Many tourists stay in hotels downtown when they visit D.C., a trend that has strengthened with the construction of the new Washington Convention Center. Over the past five years, hotels in the downtown BID have

experienced annual revenue increases of eight percent. Downtown also offers a number of cultural and entertainment options for Washington area residents and tourists alike. With over 9 million visitors in 2006 and 2007, attendance at the Verizon center and the Downtown BID area theaters, museums, and cinemas was at its highest point in a decade. The Downtown BID area contained 114 restaurants in 2007 with more openings slated for 2008, up from 93 restaurants located downtown just five years earlier.

In short, downtown D.C. has a growing mix of entertainment, cultural, civic, and business activities. The area's high-density development makes it walkable, and the Washington area's Metro system makes it easy for suburban residents to visit downtown. With these amenities, downtown Washington is transforming into a dynamic destination place drawing workers, customers, and visitors from the city, the region, and farther. Other than housing and transportation projects already discussed, the District's downtown does not require large public infrastructure projects as it has already become a local and regional destination. Similar development in the city's other major commercial corridors, including Georgia Avenue, H Street Northeast, Historic Anacostia, and the neighborhoods bordering the downtown BID area, could transform them into regional destinations as well.

**Public Spaces and Parks**

*A great city has green spaces, opportunities for indoor and outdoor recreation, and often waterfronts, all of which contribute to its unique sense of identity. The majority of the District's recreation centers are in serious need of repair with little funding available for renovation. Long under-utilized and inaccessible, the Anacostia waterfront will be transformed into a major centerpiece.*

*Parkland.* Washington, D.C. is a very green city compared to other cities with high population densities. The city's 7,600 acres

of parkland account for 19.4 percent of Washington's total land area, second only to New York City (19.7 percent) and much higher than the 11.9 percent average among 11 high-density cities.<sup>118</sup> Of these cities, Washington has the highest parkland-to-population rate, with 13.1 park acres per 1,000 residents.<sup>119</sup>

Eighty-nine percent of Washington's parkland, however, is managed by the National Park Service (NPS).<sup>120</sup> Nearly three-quarters of NPS park acres are natural, meaning that they can be used for passive recreation activities like walking, hiking, cycling, and picnicking rather than for active recreational uses like organized sports.<sup>121</sup>

Moreover, since the city's parkland is not distributed evenly across the city, not all residents have equal access to open space. To determine park acreage surplus and deficiencies across the city, the D.C. Department of Parks and Recreation (DPR) has developed a proposed "level of services" measure (LOS) for each ward. A comparison of 2005 actual to proposed LOS standards reveals that Wards 1, 6, and 8 have park acreage deficits (*Table 4, Current and Proposed Level of Services for Park Acreage per 1,000 Residents by Ward, 2005*). As of yet, the city hasn't acquired any new parkland

in these wards. However, Wards 6 and 8 should gain publicly-accessible park space through the Anacostia Waterfront Initiative. *Recreation Centers.* The District also has a relatively high number of recreation centers compared to other large cities. Among the 60 largest cities in the U.S., the District is secondly only to Minneapolis with 2.4 recreation centers per 20,000 residents.<sup>122</sup> This rate is much higher than the U.S. city average of 0.9 recreation centers per 20,000 residents.<sup>123</sup>

However, the majority of DPR's recreation centers are not in good condition. DPR's 2005 analysis of 58 recreation facilities revealed that over half were in fair to poor condition as of 2005 (8 in poor and 28 in fair condition).<sup>124</sup> The same analysis projected that more than 75 percent of DPR facilities will be in fair or poor condition by 2009 if they go without repair. Since that analysis, two of the recreation centers in poor condition, seven in fair condition, and three in good condition have renovations, rehabilitations, replacements, or expansions planned.<sup>125</sup> Five new community centers are also included in the city's capital improvement plan. Even so, over 40 percent of the city's recreation centers (27 in total) are still in poor or fair condition with no plans or funds for capital improvements.

*Waterfronts.* The District is a city with not

Ward	Current LOS	Proposed LOS	Difference
1	1.78	4.65	-2.87
2	22.46	21	1.46
3	19.39	17.26	2.13
4	20.48	9.92	10.56
5	16.19	15.19	1
6	4.24	16.64	-12.4
7	20.94	14.94	6
8	11.77	18.46	-6.69

Source: DC Department of Parks and Recreation 2005 Master Plan



Photo by Michael Bonfigli

one but two waterfronts: the Potomac and the Anacostia. Almost all of the Potomac's shoreline north of Hains Point is publicly accessible, and the waterfront boasts views of the city's monuments and cross-river vistas, as well as amenities like the C&O Canal Towpath, the Georgetown Waterfront Park, Thompson's Boathouse, and Theodore Roosevelt Island.<sup>126</sup> By contrast, the 22 miles of shoreline along the Anacostia River are underutilized, inaccessible, and unattractive, particularly on the river's eastern bank.<sup>127</sup> Though there are many open spaces along the Anacostia waterfront, they are not currently connected to one another or easy to access from nearby neighborhoods. As previously discussed, major highways and railroads further separate the Anacostia waterfront from the rest of the city.

In addition to the economic development efforts already discussed (many of which include public park or recreation spaces), the Anacostia Waterfront Initiative includes a number of plans for parks that will make public open space more accessible to D.C. residents and visitors, though cost estimates are not available:<sup>128</sup>

- Anacostia Riverwalk will be a 20-mile system of bicycle and pedestrian paths linking 1,200 acres of green spaces along both sides of the river. The D.C. Department of Transportation received \$10 million through a congressional appropriation to support the Riverwalk.
- Marvin Gaye Park is a mile-long shoreline along Watts Branch, the largest tributary to the Anacostia River within D.C. The city will restore the park's streams and ponds, improve woods and gardens, and develop a bicycle recreation trail.
- Washington Canal Park plans to transform three blocks of surface parking near the new Washington Nationals' stadium into a public park that will serve as the focal point of a high-density, mixed-use development.

- Kingman Island is a 45-acre island in the Anacostia River, the northern part of which is owned by the National Park Service and the southern part of which is owned by the District. The city government plans to restore the natural wetlands and wildlife habitat of Kingman Island and the nearby five-acre Heritage Island. The restoration will also include trails, canoe tie-ups, and a playground.

These waterfront projects can only be accomplished with committed funding, which is currently not available for all of them.

### **Financial Limitations on the District's Capital Improvements**

Revenue limitations imposed on the District make it difficult, if not impossible, for the city to fund large and costly capital projects. The District of Columbia issues long-term G.O. bonds, usually amortized over 25 to 30 years, to pay for the majority of its capital projects. The city uses its general fund to repay G.O. bonds (principal and interest) through semi-annual payments called "debt service." As such, the cost of debt service is accounted for in the city's annual operating budget. Since G.O. bonds are backed by the "full faith and credit" of the District government, bondholders can demand payment before the city makes any other operating budget expenditures. If the District were to take on more debt than it could afford, it would have to cut back on ongoing services or raise taxes. In addition to bond repayment, the cost of operating and maintaining new capital improvements also impacts the city's operating budget. In short, the number and scale of capital improvements the city can make depends on how much debt service and additional operating costs it can absorb given its revenue stream and other regular expenditures. Since the District's revenue base is constrained by its unique status as the Nation's Capital, the city can only incur a limited amount of debt if it wishes to retain its fiscal health.

**“The breadth of these projects demonstrates that the D.C. government is taking dramatic steps to foster a great city both worthy of our nation’s capital and capable of providing high-quality experiences for residents, workers, and visitors.”**

There are three common ratios used to determine a city’s capacity to manage its debt or incur additional debt: Debt Per Capita; Debt-to-Full Value (Property Value); and Debt Service-to-General Fund Expenditures.<sup>129</sup>

- Debt Per Capita measures the average amount of debt each resident would owe if it were equally distributed. At \$10,902 in FY 2008, the District had a higher debt per capita than other major American city. Washington’s high debt per capita is partly due to its status as a federal district—since D.C. must fund projects that are typically covered by states, its debt per capita measure includes debt not measured in other cities’ ratios.
- Debt-to-Full Value (Property Value) Ratio measures the amount of debt as a percentage of the value of taxable property. At 4.9 percent in FY 2008, the District’s overall debt-to-full value ratio was comparable to those of other major municipalities.
- Debt Service-to-General Fund Expenditures Ratio measures the percentage of the budget allocated to debt service. This measure indicates a jurisdiction’s ability to afford debt, as well as the degree to which debt limits the flexibility of the operating budget. The District’s FY 2008 debt service-to-general fund expenditures ratio was about 9.7 percent, which is acceptable by industry standards.

Wall Street rating agencies use these ratios, among other financial measures, to assign credit ratings to a city’s bonds. G.O. bond ratings signal the level of risk associated with a city’s ability to pay its debt service and determine interest rates on bonds. Cities with high bond ratings can borrow capital at a low cost, which makes investing in infrastructure more affordable. Credit ratings also reflect a city’s overall financial condition and health.

After years of hard work to get its financial house in order, D.C. has improved its bond ratings to the highest level ever with current “A” level ratings. While these ratings are investment-grade, they are still two categories below the highest “AAA” rating. The District’s Chief Financial Officer (CFO) has set improvement to the “AA” rating as an intermediate-to-long-term goal for the city.<sup>130</sup>

To fulfill this goal, and thereby sustain its fiscal health, the District must carefully manage its debt. Municipalities commonly use debt caps, often set through city charters or local ordinances, as a means of managing their debt. These debt ceilings are usually applied to either the debt service-to-general fund expenditures ratio or the debt-to-full value ratio.<sup>131</sup> The District has a Congressionally-set legal debt limit of 17 percent for its debt service-to-revenues ratio. However, the CFO maintains that there are two flaws with the Congressionally-set debt ceiling. First, it applies only to general obligation bonds instead of to all tax-supported debt, which is the type of debt measured by rating agencies. Second, the CFO asserts that it is too high to be a meaningful debt ceiling, although some city officials disagree with this assessment.<sup>132</sup>

Given its revenue restrictions and its unstable fiscal history, it is of course imperative that the District live within its means when it comes to capital spending. To maintain the city’s high bond ratings and ensure that it does not take on more debt than it can afford, the CFO recommends that the District adopt management debt targets.<sup>133</sup> Specially, the CFO suggests a target of 6 percent or less and an 8 percent firm cap on the District’s debt-to-full value (property value) ratio. The CFO also recommends a target of 10 percent or less and a firm cap of 12 percent for the city’s debt service-to-general fund expenditures ratio. The CFO has cautioned that while the 12 percent cap would allow the city to modestly increase its debt burden without endangering its current bond ratings, it could



preclude the District from further rating upgrades. To stay within these management targets, the CFO has recommended the city limit its G.O. bonds to approximately \$400 million each year, an amount that must cover the city's baseline capital costs in addition to new projects.<sup>134</sup>

The city also increasingly uses tax-supported revenue bonds to fund specific capital improvements associated with economic development. The debt service on revenue bonds is payable from a defined and limited revenue stream generated by the capital project. In D.C., tax-supported revenue bonds include revenue bonds for the Nationals stadium, tax increment financing (TIFs), and payment-in-lieu-of-taxes (PILOT) financing to name a few.<sup>135</sup>

Although tax-supported revenue bonds have an associated revenue stream, credit rating agencies still count these bonds as tax-supported debt, and as such, they are included in the debt portion of the city's debt ratios. To manage this type of debt, the CFO has recommended that the city limit the total amount of tax-supported revenue bonds issued at any one time to \$1.5 billion, which along with the other authorized debt, will ensure that the District does not exceed the 12 percent firm cap on its debt service-to-general fund expenditures ratio.<sup>136</sup> In a July 2008 letter to the Mayor and City Council Chair, the CFO noted that only about \$431 million of the \$1.5 billion had been borrowed so far.<sup>137</sup> However, this amount, combined with bonds that had been approved or are pending approval would make use of nearly \$1.4 billion of the \$1.5 billion ceiling recommended by the CFO.<sup>138</sup>

Because of the described significant limits on the District's ability to fund capital projects, the city has badly neglected its infrastructure. This legacy, however, does not have to continue. With federal financial support, the District would be able to make the infrastructure investments it needs to

become a great city and a capital in which Americans can take pride.

## Conclusion

This chapter has identified a dozen major capital initiatives that, if carried out as planned, would be chief components of the physical infrastructure that the District needs to achieve the qualities of a great city. The breadth of these projects demonstrates that the D.C. government is already taking dramatic steps to foster a great city both worthy of our Nation's Capital and capable of providing high-quality experiences for residents, workers, and visitors. However, in order to make this vision a reality, a more robust partnership with the Federal Government is needed.

Due to methodological limitations and a restricted amount of data, we cannot estimate the total cost of these improvements. Nonetheless, the information available suggests that improvements of this scale would cost billions of dollars, and that the city would not be able to finance all of these investments at the levels anticipated and in the time periods envisioned without compromising its fiscal well-being.

The District currently commits half of its approximately \$400 million G.O. bond target (or \$200 million annually) to two capital projects alone—public schools modernization and essential WMATA improvements. The city, therefore, only has \$200 million left each year within its capital budget for all other projects, whether to finance increments of projects approved in prior years or new initiatives. Beyond that, the city must use money from its annual operating budget to fund capital projects, as it is now doing for a portion of the school modernization work, an unsustainable approach for the long term given the vagaries of the city's local revenue sources. And while the city has issued TIFs and PILOTs to support infrastructure projects, including development for the Anacostia Waterfront and New Communities initiatives, the use of such tools is limited

by the CFO's recommendation to cap the aggregate of all tax-supported revenue bond issuances at \$1.5 billion, \$1.4 billion of which is already planned for use. Due to such limitations, each of the 12 major initiatives we describe currently faces funding constraints.

These facts suggest that the District requires substantial new resources if it is to build and sustain the infrastructure necessary to support a great city. Recurring federal support to the District of Columbia could significantly help the city realize the capital projects discussed in this chapter. In order to be most effective, federal support should be available for a considerable period of time and be predictable in amount and timing so that thoughtful capital project planning can take place.

Given the special role which the Federal Government plays in the city and the importance to the Nation that its capital achieve a level of greatness worthy of this country, the President and Congress should provide a dedicated, recurring source of support to the District.

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CHAPTER THREE:

# THE FISCAL RELATIONSHIPS BETWEEN CAPITAL CITIES AND THEIR NATIONAL GOVERNMENTS

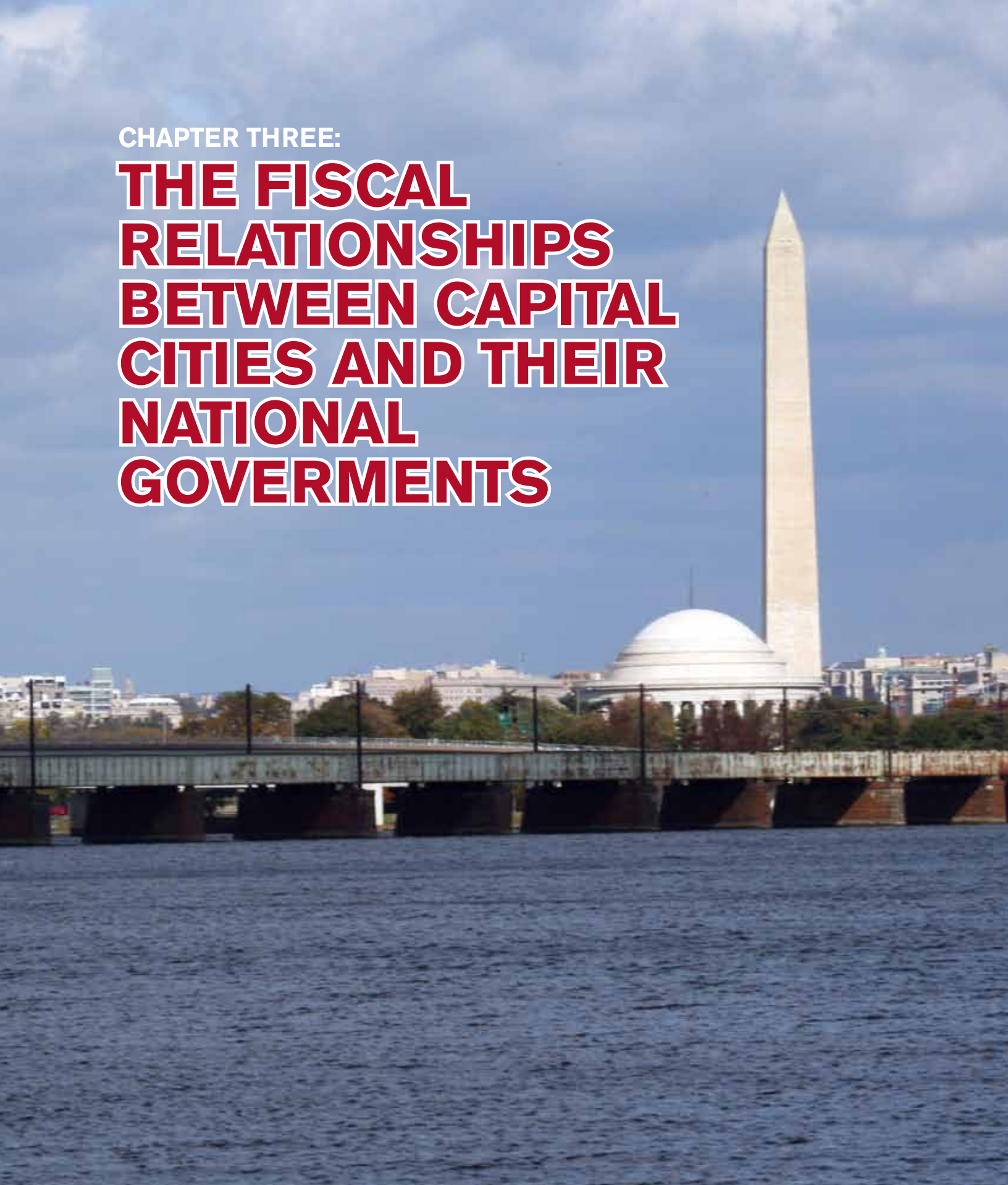


Photo by Michael Bonfigli

**Garry Young,**  
The George Washington University

amazing array of cultural amenities such as the Smithsonian museums, and presents the up-close spectacle of the world's most powerful government at work. On the other hand, the Federal Government's presence imposes tremendous functional and fiscal burdens on the District. The United States government also dramatically limits local governmental autonomy and even restricts the rights and powers of District citizens to receive representation before the Federal Government.

Hosting a Nation's government presents opportunities and challenges to any capital city. The national government can bring economic opportunities, cultural amenities, and a sense of being at the center of importance to a local citizenry. At the same time, the presence of the national government often imposes great fiscal and security burdens on its capital, as well as interfering with local governance and limiting the rights of its citizenry. The District of Columbia starkly illustrates these opportunities and challenges. On the one hand, the Federal Government strongly influences the city's economy, provides an

The purpose of this chapter is to place the challenges the District faces as the United States capital into a comparative context. How do different Nations address these issues? In keeping with the main thrust of this report, this chapter focuses on the fiscal relationship between capitals and their national government and examines how the United States treats its capital city relative to other Nations.

As "data," the chapter primarily relies on the findings of several recent studies. Though organized differently and analyzed at differing levels of depth, Wolman et al,<sup>139</sup>

**“On the one hand, the Federal Government strongly influences the city's economy, provides an amazing array of cultural amenities such as the Smithsonian museums, and presents the up-close spectacle of the world's most powerful government at work. On the other hand, the Federal Government's presence imposes tremendous functional and fiscal burdens on the District.”**

Boyd and Fauntroy,<sup>140</sup> and Harris et al<sup>141</sup> present comparative case studies of various capital cities.<sup>142</sup> The fourteen cities in the studies are: Berlin, Bern, Brasilia, Brussels, Canberra, Caracas, London, Mexico City, Ottawa, Paris, Rome, Stockholm, Vienna, and Wellington. These are all from Western industrialized democracies and thus represent the type of capital city most comparable with Washington, D.C. They represent a range of governance types and contexts. Eight<sup>143</sup> are cities with large and diverse economies that play a key role in the international economy. Their economies are not heavily dependent on their national government's presence. Five<sup>144</sup> are cities contained within unitary systems. In unitary systems all local governments (including all cities) are subservient to the national government. All governing powers a city exercises (taxation, regulation, etc.) are granted (and subject to removal) by the national government. Nine of the capital cities are within federal systems. In a federal system, a constitution grants sovereignty to both the national government and to smaller governments within the Nation (such as states, city-states, or provinces). Five<sup>145</sup> of the cities in federal systems lie within special federal districts or territories comparable to the District of Columbia. In these cases, the special districts do not enjoy sovereignty but are subject to national government rule in much the same way as cities in unitary systems. Ottawa and Bern are cities within a state – and thus subject to regulation by their respective state. Berlin and Vienna are city-states.

### **Fiscal Support for Capital Cities**

Aside from the specific case of capital cities, the fiscal relationship between cities and their national governments varies enormously around the world. This makes it quite difficult to accurately compare two capital cities. What is possible, however, is to analyze how a given capital city is treated versus other cities in the same Nation. We can think about compensation along two categories.

The first is compensation for the additional expenses caused by hosting the Nation's government in categories such as security, transportation, sewage and water, and other infrastructure. The second is compensation to replace revenue lost due to restrictions on the capital city to tax, such as with exempt property. Both of these categories apply directly to the Washington, D.C. experience.

Given such a comparison, it is clear from the studies that two general conclusions can be made: 1) Seven of the fourteen Nations provide special compensation to their capital cities to make up for the added burdens of hosting the capital and/or to make up for revenue lost to exempt property; and 2) The revenue schemes used in the Nations that do not provide special compensation appear more advantageous for the capital cities relative to Washington, D.C.

### **Compensation to Capitals**

*Washington, D.C.* receives no routine payments from the Federal Government directed towards compensating the District for its capital burdens. While the Federal Government did provide such a payment at one time – \$660 million in FY 1996, for example – the payment was dropped completely in FY 1999 as a consequence of the Revitalization Act of 1997. In return, the Federal Government took responsibility for some District functions, such as the prison system and the District's pension system. The Federal Government does sometimes provide special payments to the District for burdens associated with special events, such as presidential inaugurations. However, these payments are ad hoc, often unpredictable, and unreliable.<sup>146</sup> Like virtually any other jurisdictions within the United States, the District can receive a variety of federal formula-based funds. As a single example, the District (along with all 50 states and various territories) is eligible to apply for federal matching funds to support HIV care. Likewise, the District can receive funding that is not formula based – such as

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**2) The revenue schemes used in the nations that do not provide special compensation appear more advantageous for the capital cities relative to Washington, D.C.”**

earmarks. However, the District's lack of full representation in Congress, especially its lack of representation in the Senate, places it at a decided disadvantage relative to the fully represented states in receiving earmarks.<sup>147</sup>

Given the District's circumstances, how do the Nations we are using as comparisons treat their capital cities? Do these cities receive compensation from their national government to help defray the burdens of hosting the capital or to compensate for revenue lost due to their capital status? Of the fourteen, seven receive compensation: Berlin, Brasilia, Brussels, Canberra, Caracas, Ottawa, and Paris.

Germany provides special funding to *Berlin* to address security, capital city related infrastructure, and cultural amenities.<sup>148</sup> While it appears that Berlin does not receive full 1:1 compensation for all its costs related to serving as the capital city, the special compensation is still substantial. For example, according to Wolman et al, Berlin received €38 million towards its approximately €100 million in security costs in 2006.<sup>149</sup>

*Brasilia* receives a direct federal general subsidy accounting for about 7% of its budget,<sup>150</sup> while *Canberra*, or more precisely the Australian Capital Territory (ACT), receives specific subsidies accounting for about 6% of its budget.<sup>151</sup> The Australian government compensates the ACT for its capital status in three main ways. First, it receives compensation for carrying out municipal services, such as water and sewage, which are related or affected by the federal presence. The ACT received \$33 million (AUD) for this purpose in FY 2007. Second, Australia compensates the ACT for state functions such as police, roads, and recreation that are directly affected by the capital presence. This compensation totaled \$23.7 million (AUD) in FY 2007. Finally, the ACT receives additional revenue meant to compensate for its inability to tax

the Australian government's property and workers. This additional compensation totaled \$103.7 million (AUD) in FY 2007.

It is worth noting that both *Brasilia* and *Canberra* resemble Washington, D.C. in many ways. For example, both cities were created by their governments expressly to serve as capital cities and in both cases the Nations carved federal districts out of relatively unpopulated and undeveloped portions of existing states. Australia created the Australian Capital Territory in the southern part of New South Wales, roughly midway between the rival cities of Sydney and Melbourne. Brazil created its capital federal district out of the state of Goiás in the Nation's center. Much of the economic development problems, governance issues, and current fiscal stresses of both capitals mimic the Districts, though Canberra's level of poverty is much lower than the District's and Brasilia has the highest per capita income in Brazil. Also like the U.S. case, both the ACT and Brazil's federal district were created as enclaves of the national government orphaned from their Nations' states in federal systems. Indeed, Brasilia lacked representation in its National Congress until 1986. For many years the ACT lacked any representation in the Australian parliament. Quite limited representation, on par with what the District currently receives, was added in 1949. In increments over time representation was expanded so that today the ACT enjoys something close to the representation received by other parts of the Nation.<sup>152</sup>

*Brussels* does not receive special compensation for its capital obligations (though it does for its European Union obligations). However, Brussels does recover from the national government about 72% of tax revenue lost to exempt property.<sup>153</sup>

According to Harris et al,<sup>154</sup> greater Caracas contains two federal districts that receive

substantial support from the national government to compensate for lost property tax revenues and other costs associated with hosting the capital. About two-thirds of these districts' funding comes from such compensation though the overall impact on the Caracas budget is clearly much less.<sup>155</sup>

*Ottawa* does not receive special compensation for addressing security or other functions related to its capital status. It does, however, receive payment in lieu of taxes for property tax revenue that fully, or nearly fully, compensate for lost revenue.<sup>156</sup> According to Harris et al, these payments constitute "more than 35% of the city's revenues."<sup>157</sup>

*Paris* receives revenue redistribution from its national government under the same formulas as other French cities.<sup>158</sup> However, Paris does receive special "funding for equipment and operation of the national capital," though Boyd and Fauntroy do not provide amounts.

Aside from these cities both *London* and *Mexico City* are special cases needing clarification. There is no formal or explicit remuneration that goes to London because it is the capital city. However, London may enjoy advantages in funding because so many governmental officials and Members of Parliament reside in the city.<sup>159</sup> For example, over 11 percent of the House of Commons represent parts of London. Yet, this advantage seems more related to London's size and status as a major international city than its capital status and obligations. Legally Mexico is required to compensate Mexico City for exempt property, though the Nation apparently does so inconsistently.<sup>160</sup>

### Revenue Schemes in Comparison

While only half of the fourteen capital cities receive direct compensation due to their capital status, it is misleading to then conclude that the other seven cities suffer "unfunded mandates" on a par with

Washington, D.C. The District, like most other local governments in the United States, relies quite heavily on locally generated own-source revenue, such as the property tax. Real property taxes provided 29% of the District's local revenues in FY 2006-2007.<sup>161</sup> However, largely due to the federal presence, the amount of exempt property in the District far exceeds that in other cities. At least \$29.1 billion in federal property is exempt from property taxes, fully 32 percent of the value of non-residential property in the District as a whole.<sup>162</sup> Consequently the District relies more heavily on other forms of own-source revenue, notably income taxes on residents, than other cities.

Many of the 14 Nations in the study fund their cities quite differently and this difference makes problems, such as exempt governmental property, moot or less acute. For example, in the United Kingdom the property tax on non-residences is a national tax that is then redistributed to local governments in ways that do not penalize the communities that have extensive exempt property.

While such schemes differ in detail across the Nations, their general redistributive nature dramatically lessens the type of problem of exempt property that Washington, D.C. faces. Furthermore, in the cities where exempt property clearly is an issue - such as Brasilia, Brussels, Canberra, and Ottawa - the national government directly compensates for the lost revenue.

### Local Fiscal Autonomy

Aside from compensation to its capital cities, what level of fiscal autonomy do the capital cities in Washington, D.C. and the fourteen comparison Nations enjoy? Can they make decisions about taxation and spending without interference from the national government?

Legally Congress has authority over the District's fiscal policy. District budgets



## “In comparison to other capital cities in major democracies, the District of Columbia receives far worse fiscal treatment from its national government.”

require congressional approval and the District functions under strict federal constraints. While on a daily basis the District has some autonomy in decision-making, those decisions are subject to congressional override.

*Mexico City's* budgets also require approval of the Mexican Congress.<sup>163</sup> Thus in this sense as well, Mexico City most closely resembles Washington, D.C. In the other 13 cases, the cities need not obtain budgetary approval from the national government. Nor is there evidence in any of these 13 cases that the national government overtly interferes with or influences local fiscal decisions.

It is also necessary to note that the national government has the technical power to interfere in many of these cases. For example, in all five unitary Nations (*London, Paris, Rome, Stockholm, and Wellington*), the national government can interfere with local decisions. However, this power applies to all local governments in these Nations, not just the capital cities. Thus in this sense the capitals are not singled out for special treatment. (London is an exception, in some respects, but not because it is a capital but rather because it comprises such a large proportion of the Nation's population, economic activity, and political power.)

In some of the other cases, the national government does have the power to directly interfere. This is most true in the unitary forms of government and in the cases of the four federal districts. In the unitary cases, there is no evidence that the capital cities are treated any differently than other

cities within the given Nation. For example, France places restrictions on Parisian taxing authority, but it places the same restrictions on all municipalities. The closest comparison to the District case is Canberra. While Wolman et al found some evidence of interference in Canberra, this interference was on social policy, not fiscal policy.<sup>164</sup>

### Taxing Commuters

For the District, a key constraint on its fiscal autonomy is its inability to tax non-residents employed in the city. States have the constitutional basis to tax non-residents who earn income in that state. Thus, for example, the state of New York taxes Connecticut and New Jersey citizens who work in New York City. New York City then benefits from state spending coming in part from such taxes. In some cases state legislatures allow individual cities, Philadelphia for example, to tax the income of commuters. As another example, drivers into New York City from New Jersey via the George Washington Bridge pay a toll. *London* and *Stockholm* now charge a congestion tax and many capital cities charge tolls of one sort or another.

Congressional prohibitions prevent the District from acting as a state and taxing District workers who reside elsewhere (primarily in Maryland and Virginia). If charged at current District statutory rates, a non-resident income tax would produce an estimated \$2.26 billion in annual revenues. More realistically, the ability to tax non-resident employees would allow the District to lower its statutory rates (for residents and non-residents alike) and still bring in more revenue.<sup>165</sup> Aside from the non-resident

income tax issue, certain congressional opposition inhibits the District from charging tolls on bridges entering the District from Virginia or otherwise imposing commuter or congestion taxes.

## Conclusion

Table 1 provides a side-by-side comparison of each city. Each of the capital cities examined differ in a variety of important ways. Yet, two common themes emerge in all the studies about these cities. First, tension always exists between capital cities and their national governments. There is no way to fully resolve these tensions simply because the preferences and priorities of the local citizenry will sometimes clash with the preferences and priorities of the national government. Second, with little exception, these 14 Nations do more to compensate their cities for the fiscal stresses created by the capital presence. Indeed, interviewees in most of the cities studied by Wolman et al expressed general satisfaction with the fiscal treatment of their city.

This satisfaction is obviously not shared by residents of the District and the evidence here suggests that the dissatisfaction has a good basis. (Indeed, recent reports that the U.S. has spent more than \$4 billion dollars to reconstruct Baghdad, the capital city of Iraq, only heighten that dissatisfaction.)<sup>166</sup> In comparison to other capital cities in major democracies, the District of Columbia receives far worse fiscal treatment from its national government.

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**Table 1  
Capital Cities in Comparison**

City	Nation	Governance System	Fiscal Support	Fiscal Autonomy
			<i>How is the capital city compensated for capital burdens or revenue losses due to capital presence?</i>	<i>Does the capital make decisions about taxation and spending without interference from the national government?</i>
WASHINGTON, D.C.	United States	federal district within federal system	The national government takes responsibilities for some functions, such as prisons, but otherwise the capital receives no compensation for national burdens. The capital receives no compensation for exempt national property and is prevented from taxing non-resident workers.	No, the capital's budgets require approval from the national government and the capital functions under strong legal and political constraints.
BERLIN	Germany	city-state within federal system	The national government provides special funding to Berlin to address security, capital city related infrastructure, and cultural amenities.	Yes, the capital has the same fiscal autonomy, including taxation, as other states.
BERN	Switzerland	city with a state within federal system	The city receives some national compensation primarily directed towards security. The city is heavily funded by its state (canton). The city cannot tax non-resident employees.	Yes, the national government has little control over the capital city.
BRASILIA	Brazil	federal district within federal system	The national government provides direct subsidies for capital burdens. It also provides compensation for exempt property revenue losses.	Largely yes, the national government has the technical power to interfere with fiscal autonomy but in practice does not.
BRUSSELS	Belgium	federal district within federal system	While the capital receives no direct compensation for federal burdens, it does reimburse the capital for most of revenue lost to exempt property.	Yes
CANBERRA	Australia	federal district within federal system	The national government pays for capital related expense such as security and infrastructure. It also compensates the capital district for its inability to tax national government property and employees.	Yes, while the national government has the technical power to interfere with capital territory fiscal decisions in practice it does not.
CARACAS	Argentina	federal district within federal system	The capital receives substantial compensation for national burdens borne and recompense for exempt property revenues lost.	Yes, while the national government has the technical power to interfere with capital territory fiscal decisions in practice it does not.

See text for sources

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Capital Cities in Comparison**

City	Nation	Governance System	Fiscal Support	Fiscal Autonomy
			<i>How is the capital city compensated for capital burdens or revenue losses due to capital presence?</i>	<i>Does the capital make decisions about taxation and spending without interference from the national government?</i>
LONDON	United Kingdom	city within unitary system	The capital city receives no special compensation but, as with other municipalities in the nation, receives revenue on a national redistribution basis and thus suffers little handicap from exempt property. The capital also charges a congestion tax.	No, but the limits placed on local fiscal autonomy are the same as with other cities in the Nation.
MEXICO CITY	Mexico	federal district within federal system	The national government is legally required to compensate the capital for revenue lost to property exemptions.	Technically no, the capital city's budgets require approval of the national government.
OTTAWA	Canada	city within a state within a federal system	The capital receives payments in lieu of taxes to compensate for exempt property. The capital participates as a regular municipality in its state's revenue redistribution scheme.	Yes.
PARIS	France	city within unitary system	The capital receives formal payments for capital burdens and otherwise receives redistribution from its national government under the same formulas as other cities.	No, the national government places limits on city fiscal autonomy, such as taxation powers, but under the same rules as other cities in Nation.
ROME	Italy	city within unitary system	The capital receives formal payments for capital burdens and otherwise receives redistribution from its national government under the same formulas as other cities.	No, the national government places limits on city fiscal autonomy, such as taxation powers, but under the same rules as other cities in Nation.
STOCKHOLM	Sweden	city within unitary system	No, but otherwise the capital receives redistribution from its national government under the same formulas as other cities.	Yes. The capital also charges a congestion tax.
VIENNA	Austria	city-state within federal system	No, but otherwise the capital receives redistribution from its national government under the same formulas as other cities.	Yes.
WELLINGTON	New Zealand	city within unitary system	No, but otherwise the capital receives redistribution from its national government under the same formulas as other cities.	Yes.

See text for sources



APPENDIX ONE:

# THE D.C. REVITALIZATION ACT: HISTORY, PROVISIONS AND PROMISES



Photo by Michael Bonfigli

Jon Bouker, Arent Fox LLP

When Congress granted home rule to the District of Columbia in 1973,<sup>167</sup> Rep. Charles C. Diggs, Jr., then chair of the House D.C. Committee, declared that Washington's residents had become "masters of their own fate."<sup>168</sup> Led by a democratically elected mayor and city-council, the District was not quite its own "master" but a semi-autonomous, unique, government entity with city and state functions and limited power over its own budget and laws.<sup>169</sup> However, a mere two decades later, the District's limited home rule was in crisis. As the District government's financial position reached its nadir in the mid-1990s, residents' frustration and anger mounted as the District was unable to deliver efficiently the most basic services to its citizens, and the city's congressional overseers began calling for a partial or even complete elimination of home rule.

After enjoying relative financial stability for most of the 1980s, the District began operating at a deficit in 1994, and by 1995 the accumulated deficit had ballooned to \$722 million. To make matters worse, Wall Street dropped the District's bond ratings to "junk" levels, prompting Moody's to brand them risky and "speculative."<sup>170</sup> As a result, the city was unable to pay its vendors, to render basic services, or to obtain a simple line of credit. District residents, tired of dealing with ineffective and inefficient services, underachieving schools, and high crime rates, fled to the Maryland and Virginia suburbs in droves – 53,000 District

residents, representing 22,000 households, left between 1990 and 1995. This flight contributed to the erosion of the District's tax base and exacerbated budget shortfalls.<sup>171</sup> It was a vicious cycle that was driving the city toward insolvency.

The growing economic crisis would soon come to the attention of the Clinton Administration and the newly elected Republican Congress. Despite their myriad differences on the wide range of national issues facing the country, the President and the Congress would have to come together to prevent the Nation's Capital from sliding into bankruptcy. Their analysis ultimately would examine both sides of the city's balance sheet: the federally imposed limitations on revenue and the District's own expenditures.

Because tackling the District's revenue limitations presented far too many political challenges for the Congress and the President to resolve,<sup>172</sup> the legislation that was adopted to stem the crisis, the National Capital Revitalization and Self-Government Improvement Act of 1997 (known as "The Revitalization Act"), addressed only the expenditure side of the District's budget. For example, the Act removed several costly state functions and relieved the District of its massive, federally created pension liability and disproportionate share of Medicaid payments, but did not touch limitations on revenue, such as the non-resident income tax ban, property tax exemptions or the federal height limitations on buildings. Despite the indisputable positive financial impact that the Revitalization Act continues to have on the District, even those who supported and championed the legislation recognized that it would never amount to a complete remedy for the District's structural financial challenges. It was (and remains today) an incomplete remedy because it alleviates only some of the expenditures that the District must bear uniquely as the national capital, but it ignores the crippling federally imposed

limitations on local revenue. The architects of the Revitalization Act articulated, before and after its passage, their belief that the Act would have to be revisited and potentially strengthened at some point in the future.

### The Control Board

By 1995, the District had reached a point beyond its own ability to stem the worsening economic crisis. The congressional leadership and D.C. oversight committees began to discuss a solution to the District's fiscal challenges. Following the 1994 elections, the Congress was controlled for the first time in 40 years by Republicans (a party which then and today holds less than 10% of the voter registrations in the District). Yet, despite the political differences between the Congress and the District, Speaker Gingrich (R-GA) and House D.C. Subcommittee Chair Davis (R-VA) dedicated themselves to working across the aisle to find a bi-partisan solution to the crisis. Two options gained traction in early 1995: first, place the city in federal receivership, not unlike the commissioner structure prior to home rule, a move favored by some of the newly elected congressional Republicans and almost no one in the District; or second, cede some control over the city's affairs to a control board created by the Federal Government, a course of action supported by Congresswoman Norton (D-DC), the District's non-voting representative to Congress. Norton knew that jurisdictions such as New York, Cleveland and Philadelphia had emerged from financial crisis with the assistance of state-created financial control boards, and that those jurisdictions had retained partial autonomy during the control periods and received full autonomy once the control period had ended. Norton and her colleague, Representative Davis, whom Speaker Gingrich had hand-picked to chair the D.C. Subcommittee, convinced Congress to choose the latter course, passing legislation in 1995 to establish the District of Columbia Financial Responsibility and Management

Assistance Authority – or as it was and is commonly known: the “Control Board.”<sup>173</sup>

From the outset, Congress expected a great deal from the Control Board. It was required to:

- ensure that the District efficiently and effectively deliver services to its residents,
- enhance the District's timely payments of its debts; increase the city's access to capital markets,
- assure the city's long-term economic vitality and operational efficiency, and
- repair and foster a better relationship between the District and the Federal Government.<sup>174</sup>

As if that mandate were not vast enough, the Control Board also was tasked with perhaps its most important role — shepherding the city through the process of balancing its budget. Congress gave the Control Board four years to balance the District's budget — a balance that was required to be maintained for four years before the Control Board could be dissolved.<sup>175</sup>

To ensure that these goals were achieved, Congress vested the Control Board with broad powers traditionally reserved for the city government — including the authority to approve or reject the city's annual budget, its financial plan, and any attempts to spend or borrow in the city's name, and to review all future and existing city contracts. All District spending was to be routed through the Control Board. The Board also was expected to approve the Mayor's appointments to key government positions, including the Chief Financial Officer (CFO), and had the authority to remove such appointees for cause. In extraordinary circumstances, and only after following a specific process identified in the legislation, the Control Board also could disapprove District laws passed by the Council.

Armed with those powers, the Control Board set out to remedy the District's fiscal crisis, and immediately took action to do so. In an attempt to calm vendors' discontent with the District's contracting processes, the Board reviewed and approved over 1,500 contracts. It removed the contracting authority from the Department of Human Services to ensure city agents undertook better contracting procedures and achieved savings for the District. The Board also:

- oversaw repairs to the District's emergency vehicles to improve the promptness and reliability of essential city emergency services;
- privatized city functions to cut costs; and
- exercised its financial oversight by rejecting Council-approved expenditures that would have further increased the accumulated deficit and would have — in the Board's eyes — been irresponsible.<sup>176</sup>

As time passed, the Board grew more assertive. It forced a member of Mayor Barry's cabinet to resign, rejected millions in contracts between the city and the Mayor's associates that it found questionable, and even regularly quashed legislation approved by the D.C. Council.<sup>177</sup> In one of its most controversial actions, the Board fired the public school superintendent, revoked most of the school board's powers, and appointed its own superintendent to lead the system.<sup>178</sup>

In their own effort to stem the crisis and to demonstrate fiscal responsibility, the Council and the Mayor also began taking steps to lift D.C. out of its financial deficit and to strengthen managerial controls. The Council passed legislation that reduced spending by cutting welfare benefits and youth programs, and, for his part, the Mayor pledged to reduce the number of workers on the city payroll to further ease the city's budgetary burdens.<sup>179</sup>

Despite these advances, wholesale remediation of the District's financial situation

proved elusive. The inability of the Control Board to rehabilitate the city's finances and management was not for lack of effort. However, after 20 months of work, the Control Board — by its own admission — had managed only “marginal progress.”<sup>180</sup> Perplexed by its inability to effect major change in the city's situation, the Control Board, along with other stakeholders, including Congress and D.C. Appleseed, began to discuss remedies for the root causes of D.C.'s fiscal problems.

### Searching for Solutions

What the various stakeholders determined was that D.C.'s fiscal problems were more deeply rooted and structural than any short-term maladies that the Control Board and Council had determined to cure. Irresponsible spending and government mismanagement certainly contributed to the problem and precipitated the fiscal crisis. The District's long-term recovery, however, would depend upon an examination and restructuring of the limitations on its revenue stream coupled with relief from its state-type and federal expenditure responsibilities. These twin constraints on the District's budget were the root causes of the District's long-term, structural deficit.

### City Acting as a State

In its assessment of these structural challenges, the Control Board determined that the most basic threat to the District's long term financial viability was its status as a hybrid municipal entity. It lacked revenue support from a state government, but was forced by necessity to provide its residents the services normally funded by a state. As the Board noted, comparison between the District and any other similarly situated city in the United States revealed the disparity:

Every other city in the United States is part of a broader governance structure that begins with a state and includes other cities and counties, as well as special districts and independent authori-



Photo by Michael Bonfigli

ties. States distribute and share certain powers with their cities, counties, and special districts. The District, in contrast, is neither a state with the power to distribute its authority and functions to other governmental units, nor a city with the ability to rely upon a state to share or shift the burden of governance within a broader geographical area.<sup>181</sup>

It was what President Clinton called the “not quite” syndrome – the District was “not quite a State, not quite a city, not quite independent, not quite dependent.”<sup>182</sup>

As a result of this hybrid status, the District was required to fund many state functions as if it possessed the broad taxing base of a state. Virtually no government service remained unaffected by this reality. For example, states generally assume the nonfederal share of Medicaid expenditures. New York City was the only city outside of D.C. that paid a portion of Medicaid costs, and that level was 25 percent. By contrast, the District was forced to pay 50 percent of its Medicaid costs – the largest burden borne by any city in the Nation. The District’s high ratio of Medicaid recipients to tax payers (in D.C. the ratio was two taxpayers for every Medicaid recipient, whereas in Maryland and Virginia the ratio exceeded 4:1) only exacerbated the problem.<sup>183</sup> As a result, between fiscal years 1991 and 1995, the District’s Medicaid expenditures for private providers alone had ballooned from \$427 million to \$744 million, and it was estimated the total would jump another \$40 million by FY 1997.<sup>184</sup> As noted by the GAO in a 1996 report, were the District required to pay half of its nonfederal share of Medicare expenditures, “the impact on [its] financial condition would [have been] significant.”<sup>185</sup>

Similarly, welfare programs, the nonfederal share of which was funded with state dollars in most cases, were funded without state-level assistance in the District.<sup>186</sup> Education, typically the province of the state both from

a funding and a policy perspective, also was a responsibility that fell to the District. The District government was forced to educate the city’s youth without nearly \$300 million in operational funding it would have received were it part of a state.<sup>187</sup> Infrastructure needs also were the responsibility of the District government. Whereas most states footed the bill for road and bridge construction, maintenance and improvement, the District bore those responsibilities on its own. Further examples of this phenomenon were the financial burden D.C. faced in operating its courts, hospitals, prisons and university. From 1993-1995, the District government, for example, paid subsidies to the D.C. General Hospital and the University of the District of Columbia of \$163 million and \$184 million, respectively.<sup>188</sup> The District also was forced to maintain and operate a completely unified court system as well as a jail housing felons. All of these services, usually provided and funded by the states, were the responsibility of the District alone – a responsibility it had without having the corresponding statutory state taxing power needed to meet the responsibility.

In addition to its state-type service responsibilities, the District also had a unique problem in the management of its unfunded pension liability. When the District received home rule in 1974, the District government assumed the workforce from the Federal Government. With those employees came a \$2 billion unfunded pension liability, which had been accumulated entirely by the Federal Government. By 1997, that \$2 billion unfunded pension liability had grown to \$5 billion, almost entirely as a function of interest<sup>189</sup> – approximately the same size as the city’s entire budget at that time. It was estimated that by 2004 the liability would balloon further to \$7 billion.<sup>190</sup>

### Revenue Stream Limitations

Simultaneously providing city and state services to its residents, non-residents, and visitors presented the District with

## “D.C. cannot tax nearly \$2 of every \$3 earned in the District.”

expenditure pressures unlike any other jurisdiction. Compounding this challenge, the District’s Home Rule Act<sup>191</sup> forced limitations on the District’s revenue stream. Ironically, many – if not all — of these revenue limitations imposed by Congress were a result of the District’s service as the seat of the Federal Government and its thousands of employees.

*Ban on Nonresident Tax.* First, the Home Rule Act expressly prohibited the District from taxing nonresident income – a revenue source routinely utilized by many other comparable cities and also by states around the country. In Philadelphia, for example, those who work in the city but commute home to suburban enclaves are required to pay income taxes to the municipal authorities. By contrast, the District’s suburban commuters – because of the limitations imposed by Congress – come into the city each work day, add to the demands on many of the District’s public services, and pay no municipal income tax. As a result, The General Accounting Office (GAO) has estimated that D.C. cannot tax nearly \$2 of every \$3 earned in the District.<sup>192</sup>

*Property Tax Exemption.* D.C.’s revenue stream is limited further by virtue of the large federal presence in the city. About 42 percent of the assessed value of all land and improvements in the District is tax exempt.<sup>193</sup> This includes federal property, which constitutes roughly 23 percent of the total assessed land value of the District, as well as other properties which the Federal Government specifically immunized from D.C. property taxes, including foreign embassies and consulates, international organizations, and the headquarters of such national organizations as the American Legion and the Daughters of the American Revolution. Of course, the tenants who occupy the buildings sitting upon that nontaxable land nonetheless rely upon the

city’s fire department and police force services.<sup>194</sup>

*Building Height Limitation.* Similarly, federal legislation limits the height of buildings in the District, stunting high rise development – and, by extension, growth of the tax base.<sup>195</sup> Of course, many District and federal officials support the so-called “Height Act” to maintain the unique character and beauty of the District.

### Federal Compensation Falls Short

For a time, the Federal Government did provide the District with an annual payment, which was intended to serve as state-like support for the city and make up for the revenue limitations imposed on the District. The payments soon proved woefully inadequate because the size of the payment was not indexed for inflation and also was subject to annual appropriations. By 1997, the \$660 million payment did not compensate fully the District for the additional responsibilities it carried as a result of the Federal Government’s presence, nor did it compensate for the loss of revenue caused by federally imposed restrictions on the District’s taxing authority. GAO has determined that D.C.’s ability to tax nonresident income and federally occupied or immunized property alone cost the city over \$1 billion in revenue each year – \$505 million more than the \$660 million Federal Payment.<sup>196</sup> Further, because the Congress increased the Federal Payment only once in the 10 years preceding the passage of the Revitalization Act in 1997, the net present value decreased due to annual inflation. The District was, essentially, fighting the battle against insolvency with both hands tied behind its back — unable to cut expenditures because it would cause more residents to flee the city, and unable to raise

revenue because of federal restrictions. Because the Federal Government had created the problem and alone had the authority to alleviate it, it became clear to all of the stakeholders analyzing the District’s long term financial outlook that only the Federal Government could help the District remedy the so-called fiscal structural imbalance – the financial inequities in the unique relationship between the federal and District governments.

### Towards a Revitalization Act

In December 1996, the Control Board released a Strategic Plan, which – it was hoped – would help spur a redefinition of the financial relationship between the District and the Federal Government. D.C.’s structural challenges became the centerpiece of the revitalization discussion and the basis of any future legislation. Accordingly, the Board’s plan aimed to realign many of the state-type responsibilities imposed upon the District in an effort to ease its financial burdens.<sup>197</sup> Given that the Federal Government was the only entity that could reasonably and logically act as the District’s “state,” the Control Board looked to it to take on more responsibility in the financing and management of the District’s state functions.

The theory behind the Control Board’s analysis was simple: the Federal Payment appropriated annually to the District was simply not sufficient to address the District’s many financial obligations. This, coupled with the District’s restricted ability to create revenue through taxation and other means, meant that more federal assistance was needed to rehabilitate the District’s financial status. The Control Board’s plan, therefore, called on the Federal Government to pay for the District’s entire Medicaid bill, close the gap on the District’s pension shortfall, and assist in paying for many other city programs typically funded by states.<sup>198</sup> According to Control Board Vice-Chairman Stephen D. Harlan, the plan’s aim was to restructure “a

relationship that has been from the start one-sided and sometimes arbitrary . . . . Failure to reform this relationship is to condemn District citizens to perpetual second-class status . . . . Congress has been trying to figure out for 200 years how to govern this city. We don’t have it right yet.” The Control Board’s plan became a precursor to a major, Administration-led effort to dramatically restructure the relationship between the District and the Federal Government in hopes of revitalizing the Nation’s Capital.

### The Players

Once it became apparent that a major overhaul of D.C.’s relationship with the Federal Government was needed, a core group of political players – local and federal – assembled to shepherd legislation through the Administration and Congress. Locally, Congresswoman Norton took the lead, serving as the bridge between the Federal Government and the District. Another indispensable partner was Rep. Davis, Chairman of the House D.C. Subcommittee. Representing Northern Virginia, Davis said often that D.C. was “the goose that laid the golden egg for this region.”<sup>199</sup> His dual role as supporter of the revitalization movement and member of the Republican caucus would prove immensely important given the hesitancy among some members of his party to support any federal effort to help the District.

Additional congressional support for the proposed realignment of the District’s relationship with the national government was somewhat mixed. Some members in the newly elected Republican majority viewed District revitalization chiefly as a “bail out” for a city, which – in their view – had brought its financial woes upon itself through local mismanagement. Among these vocal members, who a few years prior had swept into power on a platform of fiscal conservatism, there was great hostility towards any plan that would increase federal spending, including spending to help the

**“A relationship that has been from the start one-sided and sometimes arbitrary . . . . Failure to reform this relationship is to condemn District citizens to perpetual second-class status’.”**

*—Control Board Vice Chairman Stephen Harlan*

District. However, the majority of Republican members, led by the Republican leadership, were supportive. Davis noted that the issue was a top priority among the leadership of both Houses of Congress, including particularly House Speaker Gingrich.

Despite the strong political differences that existed between the predominantly Democratic, population of the District and his Republican “revolutionaries,” Speaker Gingrich – a historian – asserted that, as the Nation’s Capital, the District must be saved. In private meetings, he often said that the District would “not go down on my watch.” Gingrich made his commitment clear when, during a forum at Eastern High School (shortly after being elected Speaker) he said that the “goal should not be to balance the city budget or make sure the debt rating is okay” but rather to “have the best capital city in the world and make that real.”<sup>200</sup>

Complementing the strong support of the Republican Speaker was the Clinton Administration’s wholesale support for federal assistance. President Clinton’s approach to the District was unlike that of any of his predecessors since the advent of home rule. Early in his administration (and following a celebrated walk up Georgia Avenue to talk with District residents and business people)<sup>201</sup>, the President ordered his cabinet to find ways to assist the District. The President said his view was that the Federal Government ought to share a “special relationship” with the residents and local government of the capital city.<sup>202</sup> The President also made it clear to his cabinet secretaries that their work on behalf of the District should become a personal obligation and that it should not be passed down the chain of command to lower ranking officials. To institutionalize this focus, the President created the Inter-agency District of Columbia Task Force. The director of the Task Force was charged with coordinating the cabinet’s activities in support of the Nation’s Capital. President Clinton felt so strongly that the

Task Force was a successful model of how the Federal Government should deal with the District, that he issued an executive order on the last day of his presidency that formalized its structure.<sup>203</sup>

Therefore, it was no surprise that when discussion of a full-scale overhaul of the District’s relationship with the Federal Government began, President Clinton relied directly on his cabinet to formulate the Administration’s plan of attack.<sup>204</sup> Clinton tasked his Director of the Office of Management and Budget, Franklin Raines, to oversee the Administration’s work on the effort. Born and raised in the District, Frank Raines was uniquely suited to represent the Administration in this effort because of his deep knowledge of the District’s finances and his personal stake in the District’s revitalization as a native Washingtonian.

What followed were dozens of meetings between members of the Clinton cabinet, the Control Board, congressional and local elected representatives, which culminated with the unveiling of The National Capital Revitalization and Self-Government Improvement Plan (“the Revitalization Plan”).<sup>205</sup> In addition, the Inter-agency Task Force itself provided invaluable support to the District at the agency level, such as technical assistance and grants.

#### **The Revitalization Plan**

In January 1997, the Clinton Administration formally announced the Revitalization Plan. President Clinton “had two goals in mind – first, to revitalize Washington, D.C. as the Nation’s Capital and second, to improve the prospects for home rule to succeed.”<sup>206</sup> The four steps the Federal Government proposed to take were:

1. Shift away from the District some of the local, county, and state responsibilities the Federal Government gave the city in 1974, which, in the words of one Clinton

official, had “proven beyond the city’s resources to deal with.”<sup>207</sup>

2. Invest considerable resources to improve the city’s capital infrastructure.<sup>208</sup>
3. Establish a number of mechanisms to strengthen the District’s economic base.<sup>209</sup>
4. Provide the District with technical expertise and resources to the maximum extent possible to help the city government become more efficient and responsive.<sup>210</sup>

The specific elements of the Revitalization Plan are described in the following section:

#### Overtaking Major Financial and Managerial Responsibilities

*Courts:* The Revitalization Plan called for the city’s courts to remain self-managed given their successful track record, but the Federal Government would take financial responsibility. In total, the Federal Government was to provide the District with \$129 million in the first year and \$685 million over five years to fund the city’s courts and alleviate that drain on the District’s budget.<sup>211</sup>

*Jails/Inmates:* The Federal Justice Department was to “assume [both] financial and administrative responsibility for the District’s felony offenders, including substantial capital investment in providing appropriate prison facilities.”<sup>212</sup> This is a function usually managed and financed by the states. D.C.’s convicted felons would be sentenced under guidelines similar to federal sentencing guidelines and, eventually, would be eligible for transfer to any federal facility in the country.<sup>213</sup>

*Medicaid:* Further, the Revitalization Plan would increase the federal Medicaid payment to 70 percent of the total cost. Despite this reduction of Medicaid expenses, the District still would be one of only two cities required

to pay Medicaid costs normally borne by states.<sup>214</sup> The Federal Department of Health and Human Services also would assist the District government in the management of its Medicaid program to ensure that Federal funds were not mismanaged.<sup>215</sup>

*Pension Liability:* Perhaps most importantly, the Revitalization Plan called for the Federal Government to assume the District’s \$5 billion pension liability – a debt as large as the District’s entire budget at the time – for all active and retired District employees.<sup>216</sup>

Under the Plan, the Federal Government was to assume both financial and administrative responsibility for the District’s retirement programs for law enforcement officers and firefighters, teachers, and judges.<sup>217</sup> Federal assumption of the pension liability was contingent upon the District establishing replacement plans for its current and future employees.<sup>218</sup>

*Financing the Accumulated Deficit:* Although the Control Board’s strategic plan had failed to address the issue of D.C.’s accumulated deficit, the Administration Plan specifically addressed this problem by providing the District with the authority to borrow from the Federal treasury to finance \$400 - \$500 million in debt.<sup>219</sup> The term of the loan was envisioned at 15 years with options for refinancing upon improvement of the District’s credit situation.<sup>220</sup>

This part of the Revitalization Plan was critical to the immediate improvement of the District’s cash-flow problem. By placing the District on a sound financial basis, it would be able to pay vendors in a timely manner and attract vendors that could reliably perform services for District residents. Further, by financing the accumulated deficit, the District bond ratings, which had been rated at junk levels, would improve.<sup>221</sup>

#### Improving Infrastructure

*Road and Bridge Maintenance:* The Plan also established a National Capital Infrastructure Authority (NCIA) that would fund repairs to and construction of roads and mass transit facilities. The fund would initially be capitalized with \$125 million in federal seed money from the Federal Highway Trust Fund. This money could be used to construct roads and bridges, serve as the local match for Federal-aid road and bridge projects, and capital expenditures for the Washington Metropolitan Area Transit Authority.<sup>222</sup> Further, the Plan allowed contributions to the NCIA from other sources, including voluntary payments in lieu of taxes from tax-exempt organizations.<sup>223</sup> Over time, it was estimated that \$1.4 billion in federal funds would be invested to repair the District’s roads and bridges.<sup>224</sup>

#### Strengthening the City’s Economic Base

*Economic Development Corporation:* The Revitalization Plan contained an economic stimulus package for the District, providing tax incentives to spur downtown investment as well as development in poorer neighborhoods, and it would set up an “improvement fund” that local tax-exempt firms would be encouraged to support.<sup>225</sup> In addition, the Plan called for the creation of an Economic Development Corporation (EDC) “to revitalize the city’s economy, with local planning and control that [would] leverage[] Federal and private resources.”<sup>226</sup> The EDC was to be “a non-Federal, private-public corporation [to] provide the District with a focal point for its economic development activities, an entity whose sole purpose is to develop the economy of the Nation’s Capital.”<sup>227</sup>

*Tax Incentives/Grants:* Further supporting the economic aims of the plan were \$300 million in grants and tax incentives to be provided to the District.<sup>228</sup> Of the \$300 million provided by the Federal Government, \$250 million would come in “federal tax incentives for

jobs and capital to strengthen the [District’s] economic base” and the other \$50 million was to come in federal commitments to help capitalize the EDC.<sup>229</sup>

#### Leveraging Federal Expertise and Sources:

*Tax Collection:* In addition to other technical assistance being provided to the District by the Inter-Agency Task Force, the Internal Revenue Service would assume responsibility for collecting the city’s annual income taxes at a savings to the District of \$117 million.<sup>230</sup>

#### Concessions Made by the District

In return for the above-described assistance, the District was required to make some significant concessions, including losing the annual Federal Payment on which it relied for a significant amount of its total revenue and taking drastic steps to get its financial house in order.

*Federal Payment Repealed:* In return for the proposed federal assistance, the Revitalization Plan called for the repeal of the District’s annual Federal Payment, which – in the Administration’s view – increasingly failed to meet the various purposes for which it had been created.<sup>231</sup> The Administration believed that the federal take over of so many of the District’s state-like functions far exceeded the benefit provided by the Federal Payment and certainly made up for its elimination.<sup>232</sup>

From the outset, the Plan’s supporters were aware that the repeal of the Federal Payment would be the most difficult component for the District to support, despite the fact that at that time the payment had been increased by the Congress only once in ten years and had, in essence, significantly declined in real terms given rising inflation.

*Federal Oversight of District’s Financial Affairs:* Under the Revitalization Plan, Congress was to retain a large degree of control over the District government’s



Photo by Michael Bonfigli

affairs; the DC subcommittees, for example, would continue to oversee the District and the Control Board would remain in place. Further, the congressional appropriations committees would continue to play a large role in setting the District's budget by determining the level of funding for those functions for which the Federal Government was directly responsible under the Plan (e.g., the criminal justice system).<sup>233</sup> However, the appropriations committees would not continue to appropriate every detail of the city's budget, including those funded with local dollars.<sup>234</sup>

For the Revitalization Plan to go forward, the District would be required to take "specific steps to improve its budget and management"<sup>235</sup> – specifically, balancing its budget on a schedule more expedited than that called for under the Control Board legislation.<sup>236</sup> This give and take dynamic, which was essential to securing support from Congressional Republicans, led to the Plan being dubbed the "grand swap."<sup>237</sup>

Notably, the Administration's proposal did not specifically require any further concentration of the city's management in the hands of Congress or the Control Board. Any mention of management reform was vague. Home rule, it seemed, would not be a casualty of the federal effort to revitalize Washington, D.C. But the city would be required to put its financial house in order. Support for the Administration's proposal was generally positive among local stakeholders. Congresswoman Norton hailed the Revitalization Plan as "the most promising and certainly the most innovative approach yet to emerge for relieving the District government of costs it can no longer shoulder." She was encouraged about the Plan's prospects for passage, since the proposal was mindful of "congressional insistence that its own costs not rise dramatically."<sup>238</sup> Control Board Chair Brimmer also complimented the Administration effort, calling it a "good deal

for the District" that would result in a net gain for the city, notwithstanding the elimination of the Federal Payment.<sup>239</sup>

There were opponents of the Plan, however, including freshman Senator Lauch Faircloth (R – NC), Chair of the Senate Appropriations D.C. subcommittee. Sen. Faircloth called the Plan "an ill-conceived effort to bail out a poorly managed city" and mocked the effort, referring to it as the "great rip-off."<sup>240</sup>

Even some local leaders, most notably certain members of the D.C. Council, were skeptical of the Revitalization Plan. They wondered whether the city could survive without the Federal Payment and whether it was giving up too much autonomy in order to improve its financial situation.<sup>241</sup> Others questioned why it had not addressed education or community safety – concerns which Administration officials said were best left to local authorities. It was hoped that the relief from so many other responsibilities would give the District the "flexibility and more resources . . . to be able to deal directly with those areas" not taken over by the Federal Government.<sup>242</sup>

Because of these reservations, the Administration, Congresswoman Norton, and Congressman Davis had a significant task to obtain enactment of the Administration Proposal over the objections of significant detractors in Congress and the District government.

### **Towards Adoption**

Once the Revitalization Plan was made public, a series of three sets of negotiations began: first, among District officials, the Administration, and Congresswoman Norton; second, between Norton and the Administration; and finally, involving the Administration and Norton negotiating in tandem with congressional Republicans.

### **The Memorandum of Understanding**

In order to secure the support of the

District for the President's proposal, Raines developed a memorandum of understanding (MOU) outlining the basic principles of the Plan. By gaining local support for the MOU, the White House hoped to prevent city officials from criticizing the revitalization proposal as it moved through Congress.<sup>243</sup> Clinton officials also felt that if the District signed an MOU this would increase the possibility of success in Congress by demonstrating that D.C. officials were, indeed, making sacrifices to obtain much needed federal aid.<sup>244</sup> For strategic purposes, the memorandum contained the major components of the original proposal – broad mandates for federal assumption of the costs of the unfunded pension liability, courts, prisons, a greater share of Medicaid, and the elimination of the District's Federal Payment – but not all of the detail, which was left to be decided by congressional leaders.

Obtaining District approval was not a foregone conclusion. Many District officials and stakeholders were uneasy about voting to support the repeal of the annual Federal Payment, regardless of the federal benefits they would receive in return.<sup>245</sup> In addition, some Council members saw the Administration's proposal as an affront to home rule.<sup>246</sup>

To convince Mayor Barry and the Council that the Revitalization Plan was the District's only chance for fiscal recovery, Raines relied upon the support of Congresswoman Norton. Their argument was straightforward: given that the unfunded pension liability was approximately \$5 billion, and the costs of each of the so-called "state functions" (courts, prisons, Medicaid, etc.) would continue to rise with inflation, it was of great benefit to the District for the Federal Government to assume those costs. Indeed, the savings to the District from the proposed deal would increase each year and were expected to surpass any benefit from retention of the annual Federal Payment – particularly since that payment did not

increase with inflation.

Notwithstanding Raines' and Norton's advocacy, the Council's opposition to eliminating the Federal Payment was formidable. Indeed, the Council agreed to the MOU only after Administration officials agreed to include language noting the District's opposition to elimination of the Federal Payment.<sup>247</sup> The Council, led negotiations by Council Chair Pro Tempore, Charlene Drew Jarvis, insisted on adopting concurrently a resolution outlining its reservations with the Administration proposal, urging Congress to continue the Federal Payment to compensate the District for revenues lost due to federally imposed restrictions on its ability to tax.<sup>248</sup> Council member Jack Evans stated that "giving up the federal payment would weaken the city financially."<sup>249</sup> The Council resolution also called on Congress to assume a larger share of the District's Medicaid expenses, pay the costs associated with operating St. Elizabeth's Hospital, and provide funds to repair D.C. public schools.<sup>250</sup> Councilman Harry Thomas (D – Ward 5) best summarized the Council's final support for the MOU: "If we don't act now, we're going to lose everything."<sup>251</sup>

Within a week of D.C. Council ratification, OMB Director Raines, acting Council Chair Linda Cropp, and Mayor Barry had all signed the MOU to "strengthen Home Rule and to agree to work toward the revitalization of the District of Columbia."<sup>252</sup>

### Negotiating with the Administration

As Mayor Barry and the Council were negotiating the terms of the MOU with the Administration, Norton began her negotiations with the Administration to create the draft bill. Because of the high level mandate from the President, her negotiations with the Administration on various aspects of the revitalization package occurred mostly with the cabinet secretaries and high-ranking deputies. In addition to Raines, who spearheaded the negotiation, various Clinton

cabinet officials were tasked with specific parts of the revitalization discussion. For example, Norton negotiated the pension section of the bill directly with Treasury Secretary Robert Rubin and OMB Controller Edward DeSeve.

### Selling the Revitalization Plan to Congress

As negotiations between the District and the Administration on the terms of an MOU progressed, congressional hearings on the Administration Plan began in earnest as some in Congress demanded to know why it should support a plan to pour millions of dollars of federal aid into the District. Even among its congressional supporters, the Plan was viewed as a "starting point" from which a widely-supported "bipartisan plan" would ultimately emerge.<sup>253</sup> Though the Administration had established the principles that would guide the District's revitalization, it was Congress that would be deciding on the final plan and its details – a process that all stakeholders expected would take "months of hard work, patience, delicate negotiations, and many more committee hearings."<sup>254</sup>

Thus, throughout the spring of 1997, the Administration's chief advocates for the plan, specifically Raines and DeSeve, testified before the four main congressional committees of jurisdiction,<sup>255</sup> highlighting the plan's two main strengths:

First, its careful and principled conceptualization, based on the Federal interest in certain State functions and in eliminating congressionally created pension liability, and, second, its recognition that the plan must address two audiences at once: District residents, and a Congress whose major focus . . . is deficit reduction.<sup>256</sup>

By explaining the dire needs of the District, the unfair hand it had been dealt in the institution of home rule, and the reasons why federal support was absolutely critical,

the Revitalization Plan's advocates hoped they could garner enough support to secure passage of the legislation from a skeptical Congress.<sup>257</sup>

### The Final Revitalization Act

After multiple hearings and countless hours of behind the scenes negotiations, the final legislative package setting forth the plan for the District's revitalization emerged late in the summer of 1997. True to the original plan proposed by the Clinton Administration, the package relieved D.C. of some of its most burdensome state-like obligations in an effort to help it again achieve financial sustainability.

### Provisions

The final package provided for the Federal Government to assume the District's \$5 billion unfunded pension liability,<sup>258</sup> transferred financing of the District's courts to the Federal Government,<sup>259</sup> and authorized the District's CFO to enter into private contracts for the collection of taxes.<sup>260</sup> Further, the package transferred responsibility for the District's felons to the Federal Bureau of Prisons and mandated the closure of the Lorton Correctional Complex.<sup>261</sup> The package also endeavored to assist the District in reestablishing its creditworthiness by providing the city with access to the U.S. Treasury to liquidate its accumulated operating deficit<sup>262</sup> and by updating the bond provision of the Home Rule Act to "conform with changes in the municipal securities marketplace."<sup>263</sup>

As expected, though, the relief provided by these portions of the package did not come without a price. The package also eliminated the mandatory \$660 million Federal Payment to the District, instead providing the District with \$190 million for FY 1998 and "amount[s] as may be necessary" in subsequent years.<sup>264</sup> In addition, the package required the District to balance its budget by FY 1998 – one year earlier than was required by the legislation establishing the Control Board.<sup>265</sup>





Some of the original provisions in the Administration's proposal were not adopted in the final legislation. For example, the legislation did not include the National Capital Infrastructure Authority (NCIA), which would have funded \$1.4 billion in repairs to and construction of roads and mass transit facilities; nor did the bill include a provision allowing the IRS to assume responsibility for collecting the city's annual income taxes at a savings of \$117 million. Another casualty of the negotiations was the economic development corporation proposed by Director Raines in the original package.

In addition, Congress adopted several provision not included in the Administration's Plan. For example, Senators Trent Lott (R-MS), Connie Mack (R-FL) and Sam Brownback (R-KS), with the support of Congresswoman Norton (D-DC), proposed District-only tax provisions in the Taxpayer Relief Act of 1997, which was passed on the same day as the Revitalization Act.<sup>266</sup> These provisions included a \$5,000 homebuyer credit, a \$3,000 wage credit for employers hiring District employees, capital gains exemption on certain assets, and tax free bonds.<sup>267</sup> The wage credit and the capital gains exemption were limited to District census tracts with higher concentrations of poverty.

#### **The Faircloth Attachment**

Though the loss of the Federal Payment was significant, some Members of Congress also wanted to limit greatly the powers of the D.C. Council and the Mayor – a move they believed was necessary to ensure proper implementation and success of federal aid provided under the Revitalization Act. The chief advocate of this position was Senator Lauch Faircloth, who initially had opposed the Revitalization legislation. He proposed eliminating mayoral control of District agencies and putting those agencies and functions under the Control Board<sup>268</sup> to oversee the District's finances and management.

Not surprisingly, District officials and home rule advocates strenuously opposed this proposal. Congresswoman Norton called it a potential reversion to days when appointed commissioners had authority over the District's agencies and Mayor Barry, who bitterly opposed Faircloth's bid to strip him of his mayoral powers, called the idea a "rape of democracy." Whether this "Faircloth Attachment," as it came to be known, would be included in the final package was uncertain through the final hours of congressional negotiation. Only on the final night of closed-door negotiations on the package (in which Norton was not included) was the decision made whether to include the provision in the final bill.

Ultimately, Faircloth had his way and the authority and autonomy of the District were sacrificed in order to secure congressional approval of the Revitalization Act. The "District of Columbia Management Reform Act of 1997" – as that part of the package was officially titled – required the Control Board to develop, in consultation with the private sector, "management reform plans" for each of nine city departments: the Department of Administrative Services, the Department of Consumer and Regulatory Affairs, the Department of Corrections, the Department of Employment Services, the Department of Fire and Emergency Medical Services, the Department of Housing and Community Development, the Department of Human Services, the Department of Public Works, and the Public Health Department.<sup>269</sup> More importantly, though, the Management Reform Act changed the way city department heads were appointed and removed from their positions. Department heads would be appointed by the Mayor only after consultation with the Control Board.<sup>270</sup> Mayoral appointments would become final only after ratification by a majority of the Control Board, and if the Mayor failed to appoint anyone within 30 days of the creation of a vacancy, the Control Board was given unchecked authority to fill the

position.<sup>271</sup> Furthermore, the Control Board was given the ability to remove department heads at its discretion, while the Mayor could remove such persons only with the approval of the Control Board.<sup>272</sup>

#### Aftermath

The morning the final package was released, Congresswoman Norton held a press conference hailing it as a “big win for the District.”<sup>273</sup> Unfortunately, all the details of the Revitalization Plan were unknown to her at the time. Specifically, Norton was not informed by her colleagues that the Faircloth Attachment – a blow to Home Rule – had indeed been included in the final legislation. When she learned of this, Norton called the attachment “too high a price to pay.” Following an editorial in the Washington Post criticizing the Congresswoman for her apparent reversal on the bill, she took the extraordinary step of issuing an “Open Letter to My Constituents” explaining that she still thought the Revitalization Act was a “win for the District,” even though the Faircloth Attachment was a “bitter pill to swallow.”<sup>274</sup> Although tremendously unpopular among District residents, the Faircloth Attachment ultimately was not enough to undermine the months of hard work that had gone into constructing an aid package for the District.

#### A “Revitalized” City

The congressional leadership included the provisions of the Revitalization Act in the Balanced Budget Act of 1997 and passed that omnibus legislation in the House and the Senate on July 30 and 31, 1997, respectively. Neither the President nor the Control Board wasted any time implementing the Revitalization Act once it cleared Congress. The President signed the bill on August 5, 1997 and within hours the Control Board – amidst spirited protest of the Faircloth Attachment – announced its immediate implementation.<sup>275</sup>

For all the work that had gone into

constructing the plan, its passage could not or did not ensure the revival of the District. As OMB Controller Edward DeSeve pointed out, “[t]he plan [was] not a panacea. The District’s government and Financial Authority will have to continue to do the hard work necessary to create a City where streets are safe, where children enjoy the quality education they deserve, where every resident has the chance to make the most of his or her own life – and where the City’s government spends within its means.”<sup>276</sup> And so, the city government and the Control Board set out to use the tools provided to them in the Revitalization Act to address the city’s needs.

On September 15, 1997, the D.C. City Council and Mayor returned to work with much of its power stripped away, forced to defer to the Control Board, appointed by the President and now newly empowered to make management reforms by directly controlling District agencies. District officials had to come to grips with this new reality in tending to the affairs of those citizens who had elected them to office.<sup>277</sup> After a nation-wide search, Dr. Brimmer appointed the District’s first Chief Management Officer – essentially a Control Board appointed city manager – who would oversee the new department heads appointed pursuant to the Board’s new authority.

When Dr. Brimmer retired as chair of the Control Board when his term expired, President Clinton selected Dr. Alice Rivlin on May 30, 1998 to replace him. Dr. Rivlin was Franklin Raines’ predecessor as Director of the Office of Management and Budget. An economist, Rivlin authored a seminal 1990 paper entitled “Financing the Nation’s Capital” that predicted the District’s eventual financial decline. Rivlin made it clear upon her appointment that she viewed her job as returning to the District full authority over the agencies and cross-cutting functions that had been lost in the Revitalization Act. Rivlin believed that “[The Control Board] should act more and more like a board of

**“According to the 2003 GAO Report on the District’s structural imbalance, notwithstanding the improvements effected by the Revitalization Act in 1997, the District still faces’ a more permanent imbalance between [its] revenue raising capacity and the cost of meeting its public service responsibilities.”**

directors, a policy board, and strengthen the administrative team in the city so that we really have in place, and functioning, a city that can run itself well without a board.”<sup>278</sup>

Shortly after the election of the new Mayor, former Chief Financial Officer Anthony Williams, on November 3, 1998, Rivlin voluntarily relinquished control of the agencies Congress assigned to the Board, thus restoring home rule.<sup>279</sup> Congress also followed suit, passing the District of Columbia Management Restoration Act of 1999, which repealed the Faircloth Attachment.<sup>280</sup>

### The Promise to Revisit the City’s Needs

Without the passage of the Revitalization Act in 1997, the District likely would not have fully recovered from fiscal insolvency. Although clearly not a complete remedy for the District’s financial inequities, the Act nevertheless relieved the District of several large state functions that no other city had to bear, including courts, prisons and a greater share of Medicaid. The Act removed from the District’s balance sheet \$5 billion in unfunded pension liability, created solely by the Federal Government, which itself likely would have consigned the District to permanent financial crisis. The ongoing economic impact of the Revitalization Act on the District also is of great financial benefit to the City. Each year, the Act makes the Federal Government responsible for over \$1 billion in state functions that the District no longer has to pay. This amount is in contrast to the old, static Federal Payment, which had remained at \$660 million (with only one increase) for nearly a decade leading up to the passage of the Revitalization Act.

Although the benefits of the Revitalization Act were at the time of passage (and continue to be) substantial, several areas untouched by the Act contribute to the District’s on-going structural imbalance. For example, the District is still forbidden by Congress in the Home Rule Act from

enacting a non-resident income tax, denying it from taxing two-thirds of the income earned in the city.<sup>281</sup> Any attempt to repeal this provision would almost certainly result in the bipartisan opposition of members of the Virginia and Maryland congressional delegations. Indeed, when a non-resident income tax bill was introduced in 1998, Virginia senior Senator, John Warner made clear his contempt for the proposal, saying it would pass “over his dead body.”<sup>282</sup> In addition, approximately 40 percent of the District’s land remains off of the District’s tax rolls, and the federal Building Height Act<sup>283</sup> prevents the District from compensating for this lack of revenue by seeking greater vertical development. Finally, although the Revitalization Act relieved the District of several state functions, many still remain. Only the District, without assistance from a state, must continue to pay for state education functions, a state hospital, and a disproportionate share of transit funding, despite the fact that approximately two-thirds of the users of the region’s transit system do not reside in the District. Furthermore, the District must bear many other uncompensated costs, such as security, because it is the Nation’s Capital.<sup>284</sup>

According to the 2003 GAO Report on the District’s structural imbalance, notwithstanding the improvements effected by the Revitalization Act in 1997, the District still faces “a more permanent imbalance between [its] revenue raising capacity and the cost of meeting its public service responsibilities.”<sup>285</sup> The GAO estimates the annual imbalance to be approximately \$1 billion, when measured against the costs faced by an urban area such as the District.<sup>286</sup> This financial imbalance remains while at the same time District residents continue to endure a disproportionately high tax burden but are afforded a level of services below the national average.<sup>287</sup>

The principal authors of the Revitalization Act did not intend for it to be a complete

remedy to the District’s structural imbalance. The Act’s findings recognized the burdens associated with being the national capital:

(A) Congress has restricted the overall size of the District of Columbia’s economy by limiting the height of buildings in the District and imposing other limitations relating to the Federal presence in the District.

(B) Congress has imposed limitations on the District’s ability to tax income earned in the District of Columbia.

(C) The unique status of the District of Columbia as the seat of the government of the United States imposes unusual costs and requirements which are not imposed on other jurisdictions and many of which are not directly reimbursed by the Federal Government.

(D) These factors play a significant role in causing the relative tax burden on District residents to be greater than the burden on residents in other jurisdictions in the Washington, D.C. metropolitan area and in other cities of comparable size.<sup>288</sup>

So, Congressman Davis and Congresswoman Norton specifically included a provision in the Act authorizing an unspecified amount for a “federal contribution” to the operations of the Nation’s Capital:

(2) FEDERAL CONTRIBUTION- There is authorized to be appropriated a Federal contribution towards the costs of the operation of the government of the Nation’s capital—

(A) for fiscal year 1998, \$190,000,000; and

(B) for each subsequent fiscal year, such amount as may be necessary for such contribution.

In determining the amount appropriated pursuant to the authorization under this

paragraph, Congress shall take into account the findings described in paragraph (1).<sup>289</sup>

This provision is an escape hatch of sorts, allowing for direct funding of the District by the Federal Government if necessary, despite the end of the Federal Payment. The provision has been used only once since the passage of the Revitalization Act, to authorize appropriation to the District in the amount of \$190 million, in 1998. This was money OMB Director Raines indicated was “left over” from the budget authority he received for the Revitalization Act, because certain provisions, such as a greater share of federal highway funding, were not enacted. The “federal contribution provision” could be used today as a justification for a remedy for the structural imbalance. In fact, Congresswoman Norton has cited this provision in previous legislative proposals for a new Federal Payment to the District.<sup>290</sup>

In addition to the federal contribution provision in the Revitalization Act itself, the legislative history of the Act supports the notion that the Congress should revisit the financial relationship between the Federal Government and the District after a period of time to determine whether further federal assistance is necessary. Congresswoman Norton envisioned that the Revitalization Act would be revisited “to test its fiscal effectiveness and to ensure that the District won’t be left with unintended cash shortfalls and other financial difficulties.”<sup>291</sup> Director Raines acknowledged that the Federal Government “should remain flexible if Congress, in looking at [the issue], felt that the city still needed some cash to operate.”<sup>292</sup> The provision for a federal contribution allows a mechanism to revisit the financial relationship with the District, should Congress choose to do so. Just as those who created the Revitalization Act understood that the Federal Payment did not meet the needs of the District in balancing its responsibilities as both the Nation’s Capital

and as an urban jurisdiction responsible for services to more the 500,000 residents, today we must re-examine the Revitalization Act and recognize that is not a complete remedy to the District's financial challenges.

Congresswoman Norton has continued to press for a more complete remedy to the structural imbalance during the last decade, introducing legislation that would further relieve the strain on the District caused by its inequitable financial relationship with the Federal Government. Her most recent efforts have included (1) legislation that would divert 2 percent of the federal income taxes paid by Maryland and Virginia residents to the District of Columbia,<sup>293</sup> and (2) legislation to create a new mandatory Federal Payment, which would be deposited into an account to support the District's crumbling infrastructure.<sup>294</sup> This second bill in particular has garnered unanimous support from the Members of Congress representing jurisdictions surrounding the District. Other ideas to remedy the District's structural imbalance have included increasing the federal share of Medicaid cost, increasing the number of state functions funded by the Federal Government, renegotiating the current Metro transit cost formula or providing a dedicated revenue stream and targeted amendments to the Revitalization Act such as recalculating the method by which the District is reimbursed for holding federal prisoners prior to commitment.

Whatever remedy is selected to alleviate the structural imbalance, it is clear that such a remedy should not mimic the failings of the Federal Payment that the District lost in the Revitalization Act. Accordingly, any remedy to the structural imbalance must contain the following attributes: (1) payments cannot be static, they must increase annually to at least meet inflation; (2) payments must be automatic, in effect an entitlement, and not contingent upon the uncertainty of timely annual congressional appropriations; and finally (3) investment must be large enough

to at least approach the size of the imbalance documented in the 2003 GAO report. As an entitlement, not unlike social security or Medicare, the payment to the District should be included in the Administration's annual budget so that the Congress would not have to find an offset from existing priorities to fund the bill.

Now, more than 10 years after the passage of the Revitalization Act, and with the arrival of a new Administration in Washington, is a prudent time to revisit the fiscal challenges the District continues to face as a national capital. As Congresswoman Norton remarked upon the introduction of a bill to remedy the District's structural imbalance in 2005:

Congress relieved the District of the costs of some but not all state functions and left the unique federal structural impediments described in the GAO report. Nevertheless, the District has made remarkable progress, maintaining balanced budgets and surpluses every year despite adverse national economic conditions and improving city services. The CFO has ominously warned, however, that looking to the out years, the structural imbalance endangers the city's financial future... It would be tragic for Congress to allow the progress that has been made to be retracted because of dangerous and escalating uncompensated federal burdens.<sup>295</sup>

#### ENDNOTES

- 167 The District of Columbia Home Rule Act, Pub.L. No. 93-198, 87 Stat. 774 (enacted December 24, 1973) ("Home Rule Act").
- 168 *A City in Transition, D.C., Where Home Rule Flew and Faltered*, Wash. Post, June 18, 1995, at A1.
- 169 See §§ 441-453 and § 404 of the Home Rule Act.
- 170 *Roller Coaster Ride to Who Knows Where; It was a Year of Comings and Goings*, Wash. Post, Dec. 28, 1995, at J1.
- 171 Steven A. Holmes & Michael Janofsky, *Trying to Fix Capital Where 'Everything is Broken'*, N.Y. Times, July

25, 1999, at A1. See also, *White House Proposal for the District of Columbia Before the Subcomm. On Gov't Reform and Oversight of the House Committee on Government Reform and Oversight*, 105th Cong. 5-6 (1997) ("Subcomm. Hearing") (opening statement of Connie Morella).

- 172 For example, both the Democratic and Republican Senators representing Maryland and Virginia would have strenuously opposed any effort to repeal the congressionally imposed ban on the District to enact a non-resident income tax.
- 173 See District of Columbia Financial Responsibility and Management Assistance Act of 1995, Pub. L. 104-8 (1995).
- 174 See *id.* at § 2(b).
- 175 *Id.* at Title II.
- 176 U.S. Gen. Accounting Office, GAO-96-126, District Government; Information on Its Fiscal Condition and the Authority's First Year of Operations, July 9, 1996 (Statement of Gregory M. Holloway, Director, Governmentwide Audits, Accounting and Information Management Division) at 24.
- 177 *After'96 Effort to Shrink D.C. Government, a Mountain of Tasks Remains*, Wash. Post, Dec. 19, 1996, at B1.
- 178 *Id.*
- 179 *Id.*
- 180 *Id.*
- 181 Preface – Control Board Report
- 182 Subcomm. Hearing, *supra* note 176, at 7 (statement and testimony of Franklin D. Raines, Director Office of Management and Budget) ("Raines Testimony").
- 183 See *infra* note 181.
- 184 U.S. Gen. Accounting Office, GAO-96-133, District Government, Information on Its Fiscal Condition, July 19, 1996 (Statement of Gregory M. Holloway, Director, Governmentwide Audits, Accounting and Information Management Division) at 11.
- 185 *Id.*
- 186 See *infra* note 181.
- 187 See *infra* note 181.
- 188 See *infra* note 181.
- 189 DC Appleseed Center, *The District of Columbia's Pension Dilemma—An Immediate and Lasting Solution* (June 1996).
- 190 *Id.*
- 191 See Home Rule Act.
- 192 U.S. Gen. Accounting Office, GAO-96-126, District Government; Information on Its Fiscal Condition and the Authority's First Year of Operations, July 9, 1996 (Statement of Gregory M. Holloway, Director, Governmentwide Audits, Accounting and Information Management Division) at 9.
- 193 *Id.*
- 194 *Who's in Charge? Marion Barry and Newt Gingrich promised a revolution. They've delivered a city that still can't pay bills. The reasons are as old as Washington*, Part 1 of 2, The Washington Post Magazine, Dec. 18,

1995, at W12.

- 195 Building Height Amendment Act of 1910, 36 Stat. 452, as amended (codified as amended at D.C. Code Ann. § 5-405 (1994) (limiting the height of buildings to the width of the street onto which the building faces)).
- 196 GAO Report, *supra* note 192, at 10.
- 197 Preface – Control Board Report; see also David A. Vise & Peter Baker, *Clinton Wary of Increasing Funds for D.C., Barry Lauds Control Board as it Requests More Money*, Wash. Post., Dec. 13, 1996, at A1.
- 198 *Id.*
- 199 See, e.g., Subcomm. Hearing, *supra* note 176, at 2 (opening statement of Davis) ("[Revitalization] is not only in the best interest of the District but also of the region and, indeed, the entire country. I strongly believe that the economic health and quality of government in the District is of vital concern to the suburbs.").
- 200 *Who's in Charge? Marion Barry and Newt Gingrich promised a revolution. They've delivered a city that still can't pay bills. The reasons are as old as Washington*, Part 1 of 2, The Washington Post Magazine, Dec. 18, 1995, at W12.
- 201 Felicity Berringer, *The Transition; Washington Greets Clinton with Open Arms*, N.Y. Times, Nov. 19, 1992.
- 202 Davis A. Vise & Peter Baker, *Clinton Wary of Increasing Funds for D.C., Barry Lauds Control Board as it Requests More Money*, Wash. Post, Dec. 13, 1996, at A1 (quoting Clinton as saying he wanted to make the District a "real priority" and work with Congress "to try to do more to help the District"); see also *Hillary Clinton Steps Up Effort to Help D.C.*, Wash. Post, Dec. 18, 1997, at A1 (discussing Hillary Clinton's commitment to the District).
- 203 Exec. Order No. 13,189, William Jefferson Clinton, January 15, 2001. However, President Clinton's successor, President Bush, has not activated the task force during his presidency.
- 204 In truth, President Clinton was—at first—skeptical about the Control Board's 1996 proposal to shift the responsibility for millions of dollars in District services to the federal government. Vise & Baker, *supra* note 80. After prompting from then-First Lady Hillary Clinton, however, the President and his Administration became supportive of the plan to increase federal support to the District. *Clinton Proposes US Run Many DC Services*, Wash. Post, Jan. 14, 1997, at A1; see also *Hillary Clinton Steps Up Effort to Help D.C.*, Wash. Post, Dec. 18, 1997, at A1 ("The first lady had strongly urged the president to display more leadership on District matters.")
- 205 *Clinton Proposes U.S. Run Many DC Services*, Wash. Post, Jan. 14, 1997, at A1.
- 206 Raines Testimony at 7.
- 207 *Clinton Proposes U.S. Run Many DC Services*, Wash. Post, Jan. 14, 1997, at A1.
- 208 Raines Testimony at 9.
- 209 *Id.*
- 210 *Id.*
- 211 *Id.* at 8.

- 212 *Id.* who feared an encroachment on home rule under the President's plan would find the version passed by Congress to be near draconian in the way it removed power from the city council and the Mayor.
- 213 *Id.*
- 214 *Id.* at 9.
- 215 *Id.*
- 216 *Id.*
- 217 *Id.*
- 218 *Id.*
- 219 *Id.*
- 220 *Id.*
- 221 *Id.*
- 222 *Id.*
- 223 *Id.*
- 224 Clinton Proposes U.S. Run Many DC Services, Wash. Post, Jan. 14, 1997, at A1.
- 225 Raines Testimony.
- 226 *Id.*
- 227 *The President's National Capital Revitalization and Self-Government Improvement Plan: Hearing Before the Subcomm. on the District of Columbia*, 105th Cong. (April 30, 1997) (prepared testimony of Edward DeSeve, Controller, Office of Management and Budget) ("DeSeve Testimony").
- 228 James Wright, *Norton calls Clinton's Economic Plan for D.C. a 'Wonderful Start'*, Washington Afro-American, March 15, 1997. The economic arm of the proposal was introduced publicly more than two months after the unveiling of the core provisions of the revitalization plan.
- 229 White House Briefing, Remarks of President Clinton (Mar. 11, 1997).
- 230 David A. Vise, *Clinton's Plan for D.C. Meets with Resistance, Key GOP Lawmakers Criticize Aid Proposal*, Wash. Post, Jan. 15, 1997, at A01.
- 231 Raines Testimony.
- 232 *Id.*
- 233 Raines Testimony.
- 234 *Id.*
- 235 *Id.*
- 236 Clinton Proposes US Run Many DC Services, Wash. Post, Jan. 14, 1997, at A1.
- 237 *Id.*
- 238 *Id.*
- 239 *Id.* In the months following the release of the Administration proposal, Brimmer became critical of the proposal, saying it failed to address enough of the city's needs. Nonetheless, Brimmer remained supportive of the plan. See Vincent S. Morris, *District Leaders Bristle at Idea of City Manager; New Federal Relationship OK'd*, Wash. Times, June 17, 1997, at A1.
- 240 David A. Vise, *Clinton's Plan for D.C. Meets with Resistance, Key GOP Lawmakers Criticize Aid Proposal*, Wash. Post, January 1, 1997, at A01.
- 241 See, e.g., *Town Meeting Tells Clinton: Fix Crime First*, Wash. Post, Feb. 13, 1997. Perhaps ironically, those
- 242 Raines Testimony. Similar concerns were voiced over the Plan's failure to address the running of St. Elizabeth's. Because the federal government did not have any experience running a mental institution, the Administration felt questions involving St. Elizabeth's were best left answered by District officials. *Id.*
- 243 David A. Vise, *White House Outlines Conditions for Increased Aid to D.C.*, Wash. Post, April 12, 1997, at C01.
- 244 *Id.*
- 245 David A. Vise, *D.C. Council Approves U.S. Aide Plan; Turnaround Doesn't End Dispute Over Annual Payment*, Wash. Post, May 10, 1997, at B1.
- 246 *Id.*
- 247 *Id.*
- 248 *Id.*
- 249 David A. Vise, *D.C. Proposal Meets with Resistance*, wash. post, Jan 15, 1997, at A01.
- 250 *Id.*
- 251 *Id.*
- 252 Vincent S. Morris, *District Leaders Bristle at Idea of City Manager; New Federal Relationship OK'd*, Wash. Times, May 17, 1997, at A1 (quoting the MOU); David A. Vise, *White House Outlines Conditions for Increased Aid to D.C.*, Wash. Post, April 12, 1997, at C01.
- 253 Subcomm. Hearing, *supra* note 176 (Opening statement of Rep. Davis).
- 254 *Id.*
- 255 The congressional committees with jurisdiction over the revitalization plan were the Senate Committee on Government Affairs, Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia; the House Committee on Government Reform and Oversight, Subcommittee on the District of Columbia; and the D.C. subcommittees of the House and Senate Appropriations Committees.
- 256 Subcomm. Hearing, *supra* note 176 (Opening statement of Eleanor Holmes Norton).
- 257 Hearings were held throughout the spring of 1997. The Subcomm. on Gov't Reform and Oversight of the House Committee on Government Reform and Oversight held hearings on February 20. The Subcomm on Gov't Reform and Oversight held a joint hearing with the Subcomm. on the District of Columbia on March 13. The Subcomm. on the District of Columbia held hearings on March 25, April 25 and May 22. The Subcomm. on Oversight of Government Management, Restructuring, and the District of Columbia of the Senate Committee on Gov't Affairs held a hearing on May 13.
- 258 P.L. 105-32, Title VII ("Revitalization Act") §§ 11101-11002, as attached to Balanced Budget Act.
- 259 Revitalization Act §§ 11241-11242, as attached to Balanced Budget Act.
- 260 Revitalization Act § 11302, as attached to Balanced Budget Act.
- 261 Revitalization Act § 11201, as attached to Balanced Budget Act.
- 262 Revitalization Act §§ 11402-11405, as attached to Balanced Budget Act.
- 263 Revitalization Act § 11501 *et seq.*, as attached to Balanced Budget Act.
- 264 Revitalization Act § 11601, as attached to Balanced Budget Act.
- 265 Revitalization Act § 11602, as attached to Balanced Budget Act.
- 266 Revitalization Act.
- 267 *Id.*
- 268 By 1997, when negotiations over the revitalization act had begun in earnest, the Control Board had taken a much stronger hand in management of the city's finances than in its early years under Andrew Brimmer. The Control Board's most prominent attempt at management of city agencies was its intervention in the management of the District's public schools, an action opposed by the District's elected officials and a majority of its residents and largely considered a failure. See, e.g., *Editorial, So Much To Do, So Little Time*, Wash. Times, May 30, 1998, at C2.
- 269 Revitalization Act § 11102, as attached to Balanced Budget Act.
- 270 Revitalization Act § 11105, as attached to Balanced Budget Act.
- 271 *Id.*
- 272 *Id.*
- 273 *Editorial, A Big Win for the District*, Wash, Post, July 31, 1997, at A14.
- 274 Norton explained in other Op-Eds published at the time that she had "briefed the press on the good news before the dust had settled on the bad news. I knew that home rule had not come out whole, but, lacking the full details, I concentrated on the "big win." Eleanor Holmes Norton, *The Loss is Personal*, Wash. Post, August 27, 1997, at A19.
- 275 Control Board, Order of August 5, 1997. Also, cite to 8/6/97 Post Article discussing protests (Hamil Harris, A6).
- 276 DeSeve Testimony, *supra* note 227.
- 277 Alvin Peabody, *Former, Current D.C. Council Members Reflect on Loss of Influence*, Wash. Informer, August 13, 1997, at 13.
- 278 David A. Vise, *Rivlin Vows to Work for D.C. Home Rule; Control Board Swearing-In Brings Praise*, Wash. Post, June 20, 1998, at B01.
- 279 David A. Vise, *D.C. Mayor to Regain Powers on Jan. 2; Williams to Direct City's Daily Affairs*, Wash. Post, Dec. 21, 1998, at A1; see also, David A. Vise, *D.C. Board Cedes Power to Williams*, Wash. Post, Dec. 22, 1998, at A01.
- 280 Pub. L. 106-1, signed into law March 5, 1999.
- 281 Sections 602 and 602(5) of the Home Rule Act. ("The Council shall have no authority to pass any act contrary to the provisions of this Act except as specifically provided in this Act, or to-- . . . (5) impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District."); *Editorial, The District's Tax Bill*, Baltimore Sun, May 19, 2006, at 14A.
- 282 *Pass Commuter Tax, but Not for Schools*, Wash. Bus. Journal, Jan. 16, 1998.
- 283 36 Stat. 542
- 284 For example, the District also suffers from a "relatively low sales tax capacity due, in part, to a disproportionate share of sales to the federal government and other tax exempt purchasers." GAO Report, 03-666, at 9.
- 285 *Id.* at 2.
- 286 *Id.* at 4, 8.
- 287 *Id.*
- 288 Revitalization Act
- 289 *Id.*
- 290 Congresswoman Norton has dubbed these proposals as the Free and Equal D.C. Series.
- 291 Subcomm. Hearing, *supra* note 176 (opening statement of Eleanor Holmes Norton).
- 292 Subcomm. Hearing, *supra* note 176 at 20-21.
- 293 District of Columbia Fair Federal Compensation Act of 2002, H.R. 3923, 107th Cong. (2002).
- 294 District of Columbia Fair Federal Compensation Act of 2004, H.R. 4269, 108th Cong. (2004); District of Columbia Fair Federal Compensation Act of 2005, HR 1586, 109th Cong. (2005).
- 295 Statement of Congresswoman Eleanor Holmes Norton upon the introduction of the Fair Federal Compensation Act, April 12, 2005.

APPENDIX TWO:

# THE FISCAL COMEBACK OF THE DISTRICT OF COLUMBIA



**Dr. Julia Friedman,**  
The George Washington University

The District of Columbia's fiscal health has vastly improved from the ruins of 10 years ago. As the previous chapter described, the District's budget was in disarray in the early 1990s, hitting rock bottom in FY1994. On the revenue side of the budget, the tax system of accounts functioned so poorly that tax payments have been characterized (only partly tongue in cheek) as gifts from civic minded citizens and businesses. With millions of tax returns piled on the floors of the tax department, it was impossible to assess taxes accurately and enforce their collection, and there was very little accounting for non-tax revenues.<sup>296</sup>

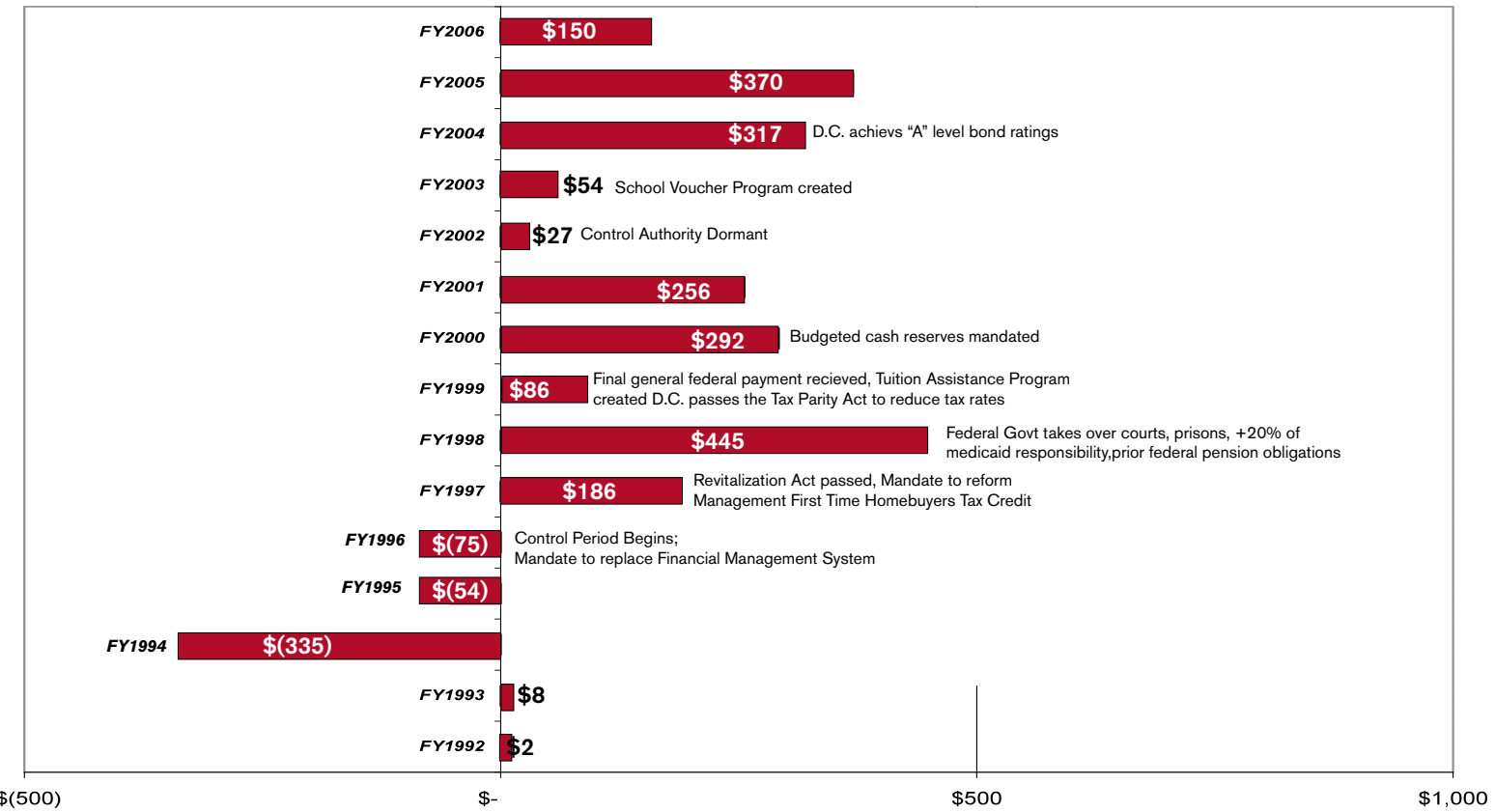
On the expenditure side, the city government had little control over how and when the budget money actually went out the door due to outdated technology and inadequate personnel and administrative policies. Computer systems were generally two to three decades behind those of other cities and states. The city could not track information or effectively monitor and manage expenditures. Personnel had not been adequately trained for the job and managers too often failed in oversight of staff and funds. Policies and procedures embodying professional standards for each job were not in place. These problems contributed to the city's overspending. For example, the public hospital lost many tens of millions of dollars annually while the public schools equally overspent their annual allotments.

The single-most dramatic evidence of fiscal failure in the District came with the completed audit for FY1994 when the District showed a \$335 million operating budget deficit. With appropriated actual operating expenditures of \$3.34 billion, this deficit was more than 10 percent of the actual budget.<sup>297</sup> With no extraordinary means of generating revenue and no way of controlling spending, the city all but collapsed, heralding federal action. Congress quickly enacted the D.C. Fiscal Responsibility and Management Assistance Act of 1995, which created the "Control Board" that began operations on October 1, 1995—the starting day of FY1996.<sup>298</sup>

Since then, Washington has made dramatic financial progress, in large part due to the hard work of the government of the District of Columbia. The city government took a number of steps to get its financial house in order, including exerting control over operating expenditures, engaging in better budget preparation, and impressive planning for future expenditures; all of this led to sound revenue generation and improved and expanded service delivery. These economic improvements resulted in 11 years of balanced budgets, investment-grade credit ratings, and a larger economy. In short, the District has done its part to restore fiscal stability as expected and required by Congress in the Control Act. Washington's revenue limitations however, prevent it from providing all of the services needed by its population and businesses, and from building and maintaining the infrastructure expected in a city of the District's world prominence. The District government continues to face an inherent inability to finish this work in the absence of further commitments by the Federal Government.<sup>299</sup>

This chapter documents the District's fiscal comeback, and in particular the essential role that the D.C. government played in that recovery. It begins by reviewing the steps that the city government took to maintain

**“The District’s local anti-deficiency law, enacted after the Control Period, prevents agency heads from overspending a current budget, and its violation could result in termination or even more severe actions.”**



the financial stability established by the Control Board. These actions include instituting professional fiscal management and oversight procedures in the Office of the Chief Financial Officer (OCFO), restraining spending and managing expenditures in the operating budget, and improving revenue collection and capacity. The chapter then reports on indicators of Washington’s financial health, including an accumulated fund balance, cash balances, and bond ratings. It concludes that despite the extraordinary financial strides made, the District still lacks the resources it needs to provide the services and infrastructure worthy of a great capital city.

**The District’s Part in its Fiscal Comeback**

**Financial Progress under the Office of the Chief Financial Officer**

While the Control Board set the city’s financial recovery in motion, the government of the District of Columbia played a major part in its realization, starting in the OCFO.

The legislation that created the Control Board also removed the OCFO from the Mayor’s office and made it an independent agency—a status that it still holds. The D.C. Office’s degree of independence is without precedence among state and local governments. All lead staff and personnel, as well as fiscal personnel in other city departments, are appointed by and serve at the pleasure of the CFO.

The OCFO has broad oversight and direct supervision of the financial and budgetary functions of the District government. Indeed, it performs all of the city’s financial activities, including budget and cash management, accounting, revenue estimation and collection, and borrowing. No other city department can carry out these functions. The OCFO’s independence provides strong re-assurance that these functions are administered with the requisite professionalism and transparency while insulating financial decisions from political influence.

In 1995, the Control Board appointed Anthony Williams to serve as the CFO. After the city posted overspent budgets in FY1995 and FY1996, Williams pledged that he would control spending to balance the FY1997 budget or he and his chief managers would resign. Accordingly, Williams moved aggressively to improve fiscal management and cut expenditures quickly. These actions, combined with unexpected revenue growth, put the District on the path toward financial recovery with a \$186 million surplus in FY1997.

Elected Mayor in 1998, Williams appointed Natwar Gandhi as CFO in 2000 and together with the D.C. Council they shepherded the District toward fiscal solvency. By FY2001, the city had balanced five consecutive budgets (each with a surplus), restored its access to capital markets and improved bond rating, and

repaid all advances made by the U.S. Treasury during the early Control Period years.<sup>300</sup> This financial progress enabled the Control Board to dissolve a year earlier than scheduled.

Since regaining Home Rule autonomy, the city has balanced its operating budget every year, replacing the deficit it once accumulated with annual budget surpluses, as shown in the table below. As a result of on-going annual surpluses, the District now has a sizeable balance in the General Fund of \$1.494 billion at the end of FY2007. The General Fund balance is the cumulative sum of all annual surpluses and deficits beginning with Home Rule.

**Fiscal Discipline to Prevent Overspending**

Over the past decade, the District’s spending has been strictly disciplined. The District’s local anti-deficiency law, enacted after the Control Period, prevents agency heads

from overspending a current budget, and its violation could result in termination or even more severe actions. The District’s lawmakers have clearly affirmed the intent to stay within spending authorities. Indeed, the city only achieved its impressive string of eleven balanced budgets because it was willing to make some very difficult decisions in order to maintain its fiscal health. Perhaps one of the most painful decisions came in FY2000, when the city chose to close D.C. General Hospital, the city’s only full-service public hospital. Many residents used D.C. General for primary and routine care, as well as for emergency and hospital care. Yet with the hospital’s expenditures exceeding budgeted revenues by as much as \$90 million a year, there was no way to keep the hospital open without risking the District’s newly-found financial stability.

The city continued to make hard choices in order to balance the budget for the next



Photo by Michael Bonfigli

several years due to unexpected events that negatively impacted revenues. As FY2001 came to a close in September, Washington was doubly impacted by the national recession and the September 11th terrorist attacks. In the aftermath of the latter, tourists and business travelers stayed away from Washington, driven off in part by fears of Anthrax and planes in the federal no-fly zone, which resulted in a loss in revenues from the hospitality industry. Almost immediately, a second impact further discouraged travelers as two snipers began a random shooting spree, killing a number of local residents for unknown reasons. The final blow against revenue followed in a few months when the sudden drop in the financial markets produced double-digit decrease in tax revenues: D.C. taxpayers with investment and other non-wage incomes both owed less and were due refunds because they over-estimated their tax payment. Had the city gone through with its planned expenditures, these revenue crises would have created shortfalls of more than \$100 million in

FY2002 and nearly \$325 in FY2003. Instead, the District closed the gaps and balanced its budget by cutting expenditures in all categories except for public works.

The District's lawmakers are also disciplined about spending when they consider future programs. In order to create a new program, lawmakers must identify funding for it. Any proposal for a new program must be accompanied by a fiscal impact statement that attests to the availability or absence of funds for that program. Prepared mostly by the OCFO, fiscal impact statements are intended to be impartial and professional assessments of programmatic revenues and costs. The CFO must also certify that funds are available before expenditures can be mandated.

One way to see the resolve of the District government in budget control is to review the pattern of expenditures over time. The table below reports the audited level of operational expenditures by the District across selected

Total Expenditures by Selected Major Category of Service, local funds, \$M					
TOTAL EXPENDITURES (from local funds only)	FY1997 local only	FY2001 local only	FY2002 local only	FY2004 local only	FY2007 local only
Government Direction and Support	94.4	178.1	248.0	215.0	334.9
Economic Development and Regulation	60.4	54.5	56.1	61.7	205.9
Public Safety and Justice	988.3	634.7	628.5	727.7	912.3
Public Education	630.1	920.8	894.3	968.8	1226.1
Public School AY Advance		41.7	31.9	53.2	
Human Support Services	930.4	780.8	736.5	1099.1	1472.4
Write-off Mental Health Receivables					6.8
Public Works	230.8	287.4	297.4	303.5	353.6
Receiverships		324.7	337.0		
Control Authority	3.2				
<b>Total of above categories:</b>	<b>2937.6</b>	<b>3222.7</b>	<b>3229.7</b>	<b>3429.0</b>	<b>4512.0</b>
Compound Growth Rate since last year of control period			0.2%	2.1%	5.8%

Sources: Table A-5, CAFRs of FY1997, FY2001, FY2004, FY2007.



**“The District had to wait roughly half a decade after the Control Period for expenditures to offset the rate of inflation and, finally, begin to make real headway on delayed expenditure needs in the identified categories.”**

major expenditure categories in FY1997-2007. Expenditures are reported only for local funds. The columns for FY1997 and FY2001 represent years under the (Control) Authority. The remaining years show the District operating after the Control Period.

The impacts of the Revitalization Act in shifting prison expenditures to the Federal Government and increasing the federal Medicaid reimbursement are clear. Between FY1997 and FY2001 local expenditures on Public Safety and Justice dropped about \$350 million and expenditures on human support services are down about \$150 million. Recall that the general Federal Payment of \$660 million annually also was removed by the FY1997 Act.

For these selected categories combined, local expenditures were virtually unchanged between FY2001 and FY2002.<sup>301</sup> The annual growth equivalent had not quite returned to the rate of inflation even by FY2004. The District had to wait roughly half a decade after the Control Period for expenditures to offset the rate of inflation and, finally, begin to make real headway on delayed expenditure needs in the identified categories.

As in the national economy, the financial markets, and state and local governments everywhere, the District enjoyed financial recovery between FY2003 and FY2007. By FY2005, the District could purchase roughly as much as in FY2001 in the selected categories, after adjusting for inflation. In subsequent years, growth in expenditure was strong and the District had an opportunity to catch-up with some real deferred needs in both capital and operating services. Successful programs in schools, health and human services, housing, public safety, and other areas require continuity – the needs of people are not resolved in a single fiscal year – and the District was able to get started.

Inevitably, long-term growth likely has

peaked, although the audited financial statement for FY2008 is not yet available to confirm this. The District's future capacity to address deferred needs is further reduced. The District's revenues, particularly the individual income tax revenues, are subject to swings in the financial markets with roughly a year's delay. Because revenues constrain expenditures, spending in the selected categories is very likely to have grown more slowly after the impact of the housing "bubble" in 2007 and the crisis in financial institutions in 2008. Peak-to-peak, between 2000 and 2007 the financial markets as measured by the S&P 500 Index changed very little<sup>302</sup>. This means that baseline growths in the District's revenues are very likely to be more limited than in the few "glory years" of FY2004 -2007.

### **Tools to Manage Expenditures**

In addition to restraining spending, the District government also took control of its expenditures by creating and implementing three budget management tools: performance-based budgeting, the Agency Management Program, and service-level budgeting.

In FY2001, the D.C. Council passed a law requiring performance-based budgeting (PBB). PBB links expenditures to the programs and activities that they fund by providing information on a program's estimated costs, activities, and performance measures. By linking expenditures to these performance indicators, PBB allows budget managers to assess if the city is spending public dollars on programs that are achieving their desired goals. PBB also illustrates how a program is spending the funds allocated to it, which enables policy makers to evaluate if a program's level of funding is adequate to support the goals it is expected to achieve. To illustrate, if the initial goal is to serve people with the HIV virus, then the PBB process could say how much budget actually is spent and if the outcome is achieved.<sup>303</sup> Not all goals can be achieved. Not all goals

## “The District’s revenues...are subject to swings in the financial markets. This means that baseline growths in the District’s revenues are very likely to be more limited than in the few “glory years” of FY2004 -2007.”

can be achieved within budget. At its best, PBB also would deliver this information.

The District first implemented PBB in FY2003 among seven major agencies—the Department of Public Works, Transportation, Motor Vehicles, Fire and Emergency Medical Services, Human Services, and the Office of the Chief Financial Officer. In FY2004, the city implemented PBB for 25 more agencies, with 24 more added in FY2005. PBB was implemented for the remaining agencies in subsequent years with all city agencies now using Performance-Based Budgeting.

PBB also allows the District to track common administrative expenses across city agencies through an effort called the Agency Management Program (AMP). The city began using the AMP in 2004 to track spending in 13 categories of activities including personnel, training, property management, information technology, financial services, and labor-management relations. The process intends to provide consistency in budgeting and performance reporting. It also helps budget managers identify costs such as expenditures for on-board personnel across the government.

In FY2005, the D.C. Council mandated yet another level of budget control by requiring service-level budgeting for 20 specific services. Service-level budgeting is intended to provide even greater transparency about agency budgets by providing information on the cost and effectiveness of specific

service-level activities. The city implemented 12 service-level budgets in FY2008 for services including the Investigative Field Operations service of the MPD and the Fire/Rescue Operations of FEMS.<sup>304</sup>

In short, these tools—performance-based budgeting, the Agency Management Program, and service-level budgeting—help policy makers monitor and manage expenditures more effectively. Using District funds more efficiently has contributed greatly to the District’s current strong financial health.

### Improved Revenue Collection, Capacity, and Estimation

In addition to strictly managing expenditures, the District’s growth in revenue generation since FY1997 is a striking success. Total tax revenue grew by 92 percent and gross revenues increased almost 53 percent from FY1997 to FY2007.<sup>305</sup> The District took three important steps to make this possible: (1) D.C. made improvements to its current revenue collection capacity; (2) it improved its overall financial health and, thus, its capacity to generate revenue – especially through the real estate market; and (3) it developed cautious estimates of future revenues.

Improved revenue collection contributed to the District’s dramatic growth. Income tax collections, for example, are now fully linked with federal tax filings, allowing

the tax department to cross-check with taxpayer information provided federally. Business tax filers are inter-linked and the tax administration can easily follow franchise tax, sales tax remissions, personal property tax, and other taxes for any single business – without opening a single paper return. Multiple improvements in tax administration and tax collection also encouraged taxpayers to be more forthcoming with complete tax information and disclosure, producing improved voluntary compliance and much greater efficiency in the administrative cost of collection taxes.

Better tax administration and high voluntary compliance, however, were not the only factors positively affecting the District’s revenue generation. The hard work the District put into balancing budgets, building a general fund surplus, and gaining access to credit markets also helped expand its revenue capacity. Indeed, the government’s improved financial condition was central to restoring confidence in the District as a place to invest in real estate—the bedrock of any economy.

Real property turnover and rising real property prices were crucial to the District’s economic recovery. In FY1991, property sales dropped 40 percent below the FY1990 level. They remained stagnant for several years as the District sunk deeper into fiscal crisis. Sales only exceeded this stagnated “floor” in FY1998 once the city government began to show signs of fiscal stability.<sup>306</sup> The city’s improved economic climate, combined with good national economic circumstances, renewed interest in buying real estate in the District, both commercial property and residential. Indeed, from FY1997 to FY2007, the District experienced a very strong 17 percent annualized growth rate in revenue from the transfer tax, which is assessed when a real estate deed is recorded in a new owner’s name.

In addition to improving revenue collection and expanding revenue capacity, the District has enhanced its revenue estimation procedures. Cautious revenue estimates have been the key to the city’s budgeting success. Because the District’s budget must be approved by Congress, there is a long lead-time between when the estimates are made (usually in February for budget preparation) and when the audit of actual budget performance is completed (two years later in January). A number of unexpected events could impact the city’s revenue flow over a two-year time period, as did the 2001 terrorist attacks and the drop in the financial markets discussed earlier in the chapter.

If the District’s estimates of anticipated revenues exceed the revenues that it actually generates two years later, the city will face a major funding shortfall. Cautious revenue estimates produced by the OCFO help protect the city from this type of fiscal crisis.

Revenue estimates are subject to political pressures and most jurisdictions have some kind of political “buy-in” process to achieve general support for the estimate. This support comes at the high price of potential failure to balance the budget. To its great credit, the District has not politicized the estimates, allowing the revenue estimating function to be entirely professional.

### Measuring Success in Financial Recovery

The District government’s work over the last decade allowed it to make great strides. The financial turnaround can be measured by three additional indicators of financial well being: the general fund balance, cash reserve mandates, and bond ratings.

#### The General Fund Balance

A comfortable General Fund Balance is an indicator of financial success and security. It is an accounting storehouse of funds committed to future purposes and of funds whose use is not yet restricted. There are

## Historic Bond Ratings for D.C.

Year	Moody's	Standard's & Poor's	Fitch
May 2007 – Present	A1	A+	A+
April 2004 – May 2007	A2	A+ / A	A- / A
June 2003 – April 2004	Baa1	A-	A-
March 2001 – June 2003	Baa1	BBB+	BBB+
June 1999 – March 2001	Baa3	BBB/BBB+	BBB
March 1998 – June 1999	Ba1	BB/BBB	BB+
April 1995 – March 1998	Ba / Ba2	B	BB
Dec. 1994 – April 1995	Baa	A-	BBB+
November 1984 – Dec. 1994	Baa	A/A-	No rating / A-

several reserved "savings accounts" within the city's FY2007 General Fund Balance of \$1.494 billion. The reserved amounts total \$1.135 billion and include, among other items, \$309 million in cash to cover emergency and contingency expenditures, \$327 million in escrow for debt service payments, and \$35 million designated for post employment benefits. An additional \$359 million in the General Fund Balance is unreserved, although some of that total is already claimed for designated purposes such as supplemental expenditures and other post employment benefits. About \$81 million of the total is both unreserved and not designated for identified future expenditures.

### Cash Reserve Mandates

The Federal Appropriations Act of 2000 amended the District of Columbia Financial Responsibility and Management Assistance Authority of 1995 to require a general cash reserve of \$150 million with specific restrictions for its use. The District's emergency and contingency reserves of \$309 million are a result of this federal design for the District during this financial recovery period. It also required that the District have an annual positive fund balance of at least four percent of the projected expenditures for the forthcoming year. As of

2004, the federal law required DC to budget and carry two cash reserves: the Emergency Reserve at two percent of the expenditures through 2009 and Contingency Reserve at four percent of annual expenditures through 2009. The District, each year, has met this requirement.

### Bond Ratings

Bond ratings issued by rating agencies are a central indicator of a city's financial well being. The ratings quantify the risk associated with lending long term capital to a municipality. They are based on criteria that evaluate the government's economic standing and capacity to deliver services.

The District's bond ratings have improved dramatically since the beginning of the Control Period. The improvements are significant as an indicator of the District's financial recovery, and the higher quality ratings allow the District access to long term capital bonds at more favorable interest rates. The chart above shows the change in the District's bond rating since 1984.

The "A" category ratings indicate that the District has strong attributes as a borrower, and the attachment of "+" suggests that loan quality is approaching "High", according to



Photo by Michael Bonfigli

## “But fiscal recovery, even fiscal excellence, is not the same as excellent, or even adequate, government services. It is a necessary but not a sufficient condition.”

rating agency standards. The lowest ratings in 1995-1998 implied that D.C. bonds were predominantly “Speculative” investments.

Rating agencies base bond ratings on a number of things. Most important is the inherent credit quality of the loan, which signals if the borrower has the funds to pay it back. Other considerations for jurisdictions include the quality of the infrastructure, programs and systems used to manage the city/state, the long-term outlook for the economy and its linkage to the success of the local government, and the commitment of local leaders and managers to fiscal health. Improvements in all these areas benefited the city’s bond ratings.

Even with the strong improvement in ratings, the District’s credit position is below that of cities like Baltimore, New York, San Antonio, and Chicago. Rating agencies are aware of the budgetary pressures and constraints that surround the District. Current ratings are a signal achievement for the District and higher ratings are possible. Still, the District has a long way to go to move to the highest ranks of regard from potential credit holders.

### Conclusion

From FY1996 to FY2001, the District and the Federal Government have partnered in a very effective, consistent, and on-going financial recovery process. Beginning in FY2002, the city has accomplished this same financial success without on-going federal management. The last ten years produced remarkable results and helped to secure the fiscal health of the District.

The economy rebounded and tax revenues grew by 92 percent between FY1997 and FY2007, a clear indicator of the benefits of better government. This, coupled with the benefits of the 1997 Revitalization Act, allowed moderate growth in expenditures as the government recovered its sure footing. Nothing but praise can or should be written about the fundamental accomplishments shared by all who worked for this outcome.

But fiscal recovery, even fiscal excellence, is not the same as excellent, or even adequate, government services. It is a necessary but not a sufficient condition. Along with the fiscal recovery, we have learned of financial challenges that result from the revenue constraints the Federal Government places on the District as the Nation’s Capital, as explained in Alice M. Rivlin’s chapter. As DeRenzis and Garrison described, the District cannot finance, produce, and maintain the physical infrastructure needed to support a great city and national capital.<sup>307</sup>

This is a problem for the long term. Starting from far behind, with deferred maintenance never going away, it is hard to imagine ever catching up. Just as importantly, Washington has not yet been able to serve many of its residents well enough to sustain a turn-around in their economic well-being. These ten years have seen growth in the wealth of a small number of residents – very good news as these are the generators of revenue and revenue growth. However, they also have seen a reduction in D.C.’s middle class and stubbornly high poverty rates. The city has had to defer investment in its human services in order to maintain fiscal stability.

To be both a world class city and fiscally stable, the District needs to be able to support more services, on both the capital and operating sides of the budget. Providing more services will require, an adequate tax base, which is not created by even the rapid growth of the last decade. The tax base needs to cover substantially all incomes earned in the city, as well as substantially all real property located in the city, as is the case for state and local governments throughout the country. If this is not possible, then an equivalent alternative in the form of federal support is needed.

If D.C. is to be a world class city, then much more is needed. An adequate city educates children adequately, transports people adequately and provides housing and health care adequately. A world class city provides these services in a manner to be emulated, world-over. As Chapter Two by DeRenzis and Garrison<sup>308</sup> described, the makings of D.C. as a world class city, achieving this national goal requires a much greater reach.

### ENDNOTES

296 This story is often told by Natwar M. Gandhi who began his tenure as head of the tax agency in January 1997.

297 FY1997 CAFR, Table A-4, p. 41.

298 District of Columbia Financial Responsibility and Management Assistance Act, Pub. L. 104-8 (1995).

299 U.S. Gen. Accounting Office, GAO-03-666, District of Columbia Structural Imbalance and Management Issues (2003) (“GAO Report”) (proving this for FY2000, demonstrating an operating budget shortfall of roughly \$0.5 to \$1.1 billion dollars a year.

300 The Authority is dormant rather than extinct. A Control Period is automatically reinstated if the District defaults on loans or bond, or fails to make required cash payments relating to pensions, payroll, or benefits.

301 Because expenditures by the receiverships overlapped with components of economic development, public safety and justice, and human support services, it is not possible to describe growth rates in the specific categories of the data in the table.

302 T. Rowe Price Report, Issue 100, Summer 2008, at 9.

303 Please note that these goals are not stated in the District’s budget process although similar goals are in the budgets. These examples are provided to clarify

the purpose of PBB.

304 The information about PBB is taken from Chapter 2, Strategic Budgeting, of the FY2008 Proposed Budget and Financial Plan, Volume 1, Executive Summary. The twelve service-level budgets are named on page 2-5.

305 As reported in Table A-5, FY2007 CAFR and Table A-4, FY1997 CAFR. The growth of Gross Revenues was smaller because there was a federal general purpose payment of \$645 million in FY1997 that did not repeat in later years. The growth in tax revenues translates to an annualized rate of about 6.7%, well above inflation and nominal growth in other areas of the economy.

306 The total value of sales is as shown by transfer tax revenue.

307 See *supra* Chp. 2.

308 See *supra* Chp. 2.



*Photo by Michael Bonfigli*

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