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THE WHITE HOUSE PROPOSAL FOR DC BUSINESS AND COMMUNITY LEADERS' PERSPECTIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON THE
DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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THE WHITE HOUSE PROPOSAL FOR DC BUSINESS AND COMMUNITY LEADERS' PERSPECTIVE

TUESDAY, MARCH 25, 1997

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

The subcommittee met, pursuant to notice, at 11:10 a.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Morella and Norton.

Staff present: Ron Hamm, staff director; Howard Denis, counsel; Ellen Brown, clerk; and Cedric Hendricks, minority professional staff member.

Mr. DAVIS. Good morning. Welcome to the fourth information hearing on the President's National Capital Revitalization and Self-Improvement Plan.

In order that we can move right ahead to the witnesses, I am going to ask unanimous consent that my statement go into the record. We look forward to hearing from many of our local leading business and community leaders today.

I want to thank all of you for working with us as we proceed to fashion a positive and historic restructuring of the Nation's Capital.

I would now yield to Delegate Norton for any opening statement she may wish to make.

[The prepared statement of Hon. Thomas M. Davis follows:]

DAN BURTON, INDIANA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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CHAIRMAN TOM DAVIS
OPENING STATEMENT
HEARING ON PRESIDENT'S PLAN
DISTRICT OF COLUMBIA SUBCOMMITTEE
MARCH 25, 1997

Good morning and welcome. This is the fourth hearing for this Subcommittee as we continue our review of the Administration's National Capital Revitalization and Self-Government Plan.

Clearly, we are at a cross-roads. We must quickly move beyond what is a visionary mission statement and start the process of crafting substantive legislation. Our task is to present real solutions that will result in a more stable District of Columbia and a more efficient local government.

It's been appropriate for us to use the President's initiatives as a starting point. The White House and Congress are in general agreement that something significant must be done to revitalize the Nation's Capital. We can not lose the momentum created by this rare environment.

In truth we are light years away from where we were 2 years ago. Then, there were few leaders willing to step up to the plate. The task of saving the District from total fiscal collapse appeared daunting. But with the control board in place and doing its job we are now poised to address new challenges. This time around there does not appear to be a shortage of

proposals for active consideration.

The Administration seeks to restructure the relationship between the District of Columbia and the Federal Government. Many responsible individuals and groups with credible background in regional issues believe that the Administration's proposals do not fully address concerns about tax relief and economic development. I share those concerns and expect that this Subcommittee will shortly begin to translate many of these ideas into a concrete legislative initiative.

It's clear to me that whatever legislation emerges must provide a road map for growth in the City. Local taxes and regulations are a disincentive to sustained growth, and specific relief is necessary. That is the best way we can add value to the President's very helpful proposals. Many of the studies submitted to us make the point quite well that lowering taxes may be the only way to bring the District back. For it is local taxes and fees which are disproportionately high and cause people and businesses to leave or never arrive in the District. It is also over-regulation and dysfunctional bureaucracy which inhibits business formation or expansion. By example, I am aware that it took American University 18 months to get a permit to replace a locker. And I also recall that it took Del. Norton more than a year to get a building permit to put a deck on her house. These examples reflect a culture of public performance that must change. These changes are necessary before even the best designed and intended economic development plan can have even a hope of succeeding.

Education and public safety remain two of the most serious concerns in reversing the City's downward population. The Booz-Allen-Hamilton report shows us very clearly what we must do to improve and enhance personal and public safety. Unless we are able to come to grips with these core municipal issues anything else we may do on a grand scale could be futile.

Thus, this series of hearings does not exist in a vacuum. Rather we are continuing the process this Subcommittee started 2 years ago. Having lived and worked in this region most of my life I know how inter-dependent these issues are. At the end of the day all of us are stakeholders, and we will ultimately succeed or fail together.

Ms. NORTON. Thank you, Mr. Chairman. I would like to make an opening statement, an explanation of what is an unusual hearing for this subcommittee.

When I asked Chairman Davis for a hearing that would include direct testimony from DC residents, he readily agreed, and I very much appreciate his willingness to provide time for DC residents and business representatives to testify.

Generally, if a matter involves DC government, Congress looks to its elected Representatives for testimony, as we have done in this case. In this way, Congress observes Home Rule and avoids the appearance and the charge that it is going around the city's duly elected representatives, who alone answer to DC residents.

However, because this plan, at least in some areas, would change the relationship between the District and the Federal Government, without a referendum, I believe that it is important to hear formally from at least some representatives of the local organizations. At the same time, the subcommittee's time is so limited that I can make no claim that we have been able to invite all of those we should hear from or that those who will testify here are entirely representative. However, I appreciate the deep interest that the organizations who will testify today have shown in the city's problems and their solutions.

Today's testimony will supplement the efforts of the White House and my office to cast a far broader net across the entire city to encompass as many groups as possible. These include my town meeting on February 10th, where the chief architect of the President's plan, OMB Director Frank Raines, came and stayed to answer residents' questions; two city council hearings held by Councilmember Pro Temp Charlene Drew Jarvis and Councilmember Frank Smith, the record of which I will place in our record; and a White House meeting attended by ANC commissioners, union representatives, and civic organizations.

In addition, I have personally spoken and received feedback at meetings concerning the plan, as has the White House liaison to the District, Carol Thompson Cole, and members of my own staff.

I particularly value today's testimony because work on changes in the President's plan is in progress. Despite constructive criticism and my own reservations about parts of the plan, the response of elected officials and residents has been generally positive. The plan goes beyond what most residents expected, but not beyond what this city deserves. The administration has been asked to respond to the testimony received thus far on the President's plan.

This subcommittee is using the President's plan as its working document as we decide which shape the final bill will take for two reasons. The first is that the plan has compelling conceptual underpinnings. The second is that the plan realistically addresses two audiences: the District, which needs what the plan provides and more, and the Congress, which this year is largely focused on deficit reduction.

May I once again welcome today's witnesses and may I thank the chairman once again.

Mr. DAVIS. Thank you.

I want to make a couple of comments. It is clear to me that whatever legislation emerges, it must provide a real map for growth in

the city. I think the local taxes and regulation are a disincentive to sustain growth and that specific relief is necessary in these areas. That is the best way we can add value to the President's very helpful proposals.

Many of the studies that have been submitted to us, have made the point that in lowering taxes. It may be the only way to bring the District back, but it is local taxes and fees which are disproportionately high and encourage people and businesses to leave or never arrive in the District.

It is also overregulation and dysfunctional bureaucracy which inhibits business formation and expansion. For example, I am aware it took American University 18 months to get a permit to replace a boiler, and I also recall that it took Delegate Norton more than a year to get a building permit to put a deck on her house. These examples reflect a culture of public performance that must change.

She didn't ask me to say that, but when I found out about it I thought I would.

These changes are necessary before even the best designed and intended economic development plan can have even a hope of succeeding.

Education and public safety remain two of the most serious concerns in reversing the city's downward population slide. The Booz-Allen report shows us very clearly what we have to do to improve and enhance personal and public safety. Unless we are able to come to grips with these core municipal issues, anything else we have to do on a grand scale could be futile.

These series of hearings do not exist in a vacuum. Rather, we are continuing the process this subcommittee started 2 years ago. Having lived and worked in this region most of my life, I know how interdependent these issues are. At the end of the day, all of us are stakeholders and we will ultimately succeed or fail.

I want to thank all of us for working together, and at this point I am pleased to welcome our first panel, which will consist of John L. Green, president of the District of Columbia Chamber of Commerce, and Mr. Roger Blunt, president of the Essex Corp., and chairman of the Greater Washington Board of Trade's National Capital Task Force.

Mr. Green will be accompanied by Mr. Kwasi Holman, executive vice president of the DC Chamber, and Mr. Sheldon Repp, vice president and associate general counsel of Sallie Mae and chair of the Chamber's governing board of the Policy Committee.

Mr. Blunt will be accompanied by Mr. John Tydings, president of the Greater Washington Board of Trade.

As you know, it is the policy of this committee that all witnesses be sworn before they may testify. Would you please rise with me and raise your right hand.

[Witnesses sworn.]

Mr. DAVIS. Thank you. Be seated.

The subcommittee will carefully review any written statements you care to submit and I ask unanimous consent that any such statements be part of the permanent record.

I would also ask you to limit your testimony to 5 minutes so that we may have sufficient time for questions and to hear from our other panelists.

At this time, I would ask Mr. Green for his statement on behalf of the Chamber, to be followed by Mr. Blunt, on behalf of the Board of Trade.

STATEMENTS OF JOHN L. GREEN, DC CHAMBER OF COMMERCE, ACCOMPANIED BY KWASI HOLMAN, EXECUTIVE VICE PRESIDENT OF THE DC CHAMBER; AND SHELDON REPP, VICE PRESIDENT AND ASSOCIATE GENERAL COUNSEL OF SALLIE MAE AND CHAIR OF THE CHAMBER'S GOVERNMENT AFFAIRS POLICY COMMITTEE; AND ROGER BLUNT, GREATER WASHINGTON BOARD OF TRADE, ACCOMPANIED BY JOHN TYDINGS, PRESIDENT OF THE BOARD OF TRADE

Mr. GREEN. Good morning, Congressman Davis, Congresswoman Norton and members of the House District of Columbia Subcommittee. My name is John L. Green and I am executive vice president for the Medlantic Healthcare Group, and I am here today in my capacity as president of the DC Chamber of Commerce.

As you indicated earlier, I am accompanied by Kwasi Holman, who is executive director of the Chamber, and Sheldon Repp, who is general counsel for Sallie Mae and chair of the Government Affairs Policy Committee.

The DC Chamber of Commerce has represented business interests in the District for almost 60 years. Founded as the business organization to represent black-owned businesses and professionals, today the Chamber's major strength is in its diversity of more than 800 members. We are the most racially, economically, geographically and gender diversified organization in our city. Our mission is to create an environment in which businesses can locate, expand, and flourish. We understand that in order to retain, expand, and attract businesses to the District, we must have a stable government that can function and respond with quality services for individuals and businesses, a city whose financial underpinnings are secure and whose tax structure is competitive.

We are pleased that the revitalization of the District of Columbia is now one of the top priorities of President Clinton and of the Congress. We welcome the dialog that you and the President have started on how to correct the structural flaws on top of which we built Home Rule.

Before I begin, however, I would like to note that the Federal City Council and the DC Agenda Project have also been reviewing the President's plan, and I expect that the committee will hear from them at the appropriate time.

Let me first say that the DC Chamber strongly believes that bold action is needed on several fronts to ensure the survival and revival of the District. Bold action, however, does not mean hasty action. A unique opportunity to address the city's problem currently exists. We should seize this opportunity to craft a real solution so that we are not back here again 5, 10 years from now confronting the same problems.

The Chamber is committed to a careful and thoughtful review of the many proposals that are being brought forth to help resolve the structural and fiscal issues in the District. We welcome the President's plan. We believe it is a strong beginning. However, we are

very concerned about the elimination of the Federal payment, the limited scope of the plan's financial incentives package, and the lack of individual and business tax relief. My comments will focus in these areas.

First, the Federal payment is not a subsidy. It is compensation for the extraordinary costs on the city of the Federal presence. The final plan should assume that the city will be financially viable. To forego the Federal payment at this point is, at best, premature, and we also strongly urge that the final plan include the Federal payment or a payment in lieu of taxes.

We have reviewed the economic development portion of the plan and we fully support the creation of the Economic Development Corp. With the city's inability to tax income at its source, we wholeheartedly support the credits that have been included for the provision of jobs for District residents.

We also agree that economic recovery depends on small as well as large businesses. Economic data seems to indicate that smaller businesses are leaving the city for more favorable business climates in the suburbs. We are pleased that the President's plan helps address this issue. However, we would like to see the financial incentives for investment in the city expanded to the entire city and not to its most distressed areas alone.

The city must be able to survive and to compete, and I think we must also recognize that the city is the core of a larger region, and I think the comments that you made earlier in terms of the interdependence are important. It is extremely important that we see this not as a plan to bail out the District but, rather, a plan to bring some parity to the District as an important component of the overall region, and we cannot emphasize that enough.

A reduction in the corporate franchise tax, a reduction in real property taxes, tax incentives to locate in the District, all are ways of achieving comparability. If the President's plan was implemented with the Federal payment in place, perhaps the city could afford these reductions. There must be some balance in this equation. We are convinced that we must revamp our tax structure in order to grow our economy.

The Chamber believes that there must be financial incentives to rebuild the city's tax base as well. The city cannot do it alone. We need your help desperately. The Chamber supports vigorously Congresswoman Norton's DC Economic Recovery Act because it addresses the issue of rebuilding our tax base through tax relief for individuals. Those of us in the community, the business community, see not only a need for the economic revitalization of the city and its business community, we also see a need for people to live in the city, who want to live in the city, and Congresswoman Norton's bill helps address that other imbalance that we see today.

We believe this can be achieved through individual tax relief. In order for the District to survive and be viable, we must be competitive. In order for us to be competitive, we must be on an even playing field in terms of taxes, and the Federal Government must play the role of the State to the District of Columbia.

We also understand that money will not solve our problems alone and that the business community must step up and assume our responsibilities in partnership with the city and the Chamber. We

have an excellent project that we have worked cooperatively on with the District government that perhaps will help American University, and Congresswoman Norton will not have to wait a year and 18 months for permits.

We have worked cooperatively with DCRA in a project that will bring together the tax and property records of every piece of property in this city, square by square, lot by lot. As a result of this project, this information very soon will be online and available to the public to assist them in obtaining building permits. This is a prime example of a project in which the private side, the Chamber, worked cooperatively with Government.

There are other initiatives that we are working on to improve the city's business climate and competitive status. They are the professional and business licensing streamlining project and our worker's compensation legislative reform effort which when enacted by the council will bring business costs more in line with those of Maryland and Virginia.

In closing, we urge you to think about the city as the unique and special place that it is; namely, the Nation's Capital. And I would also say that for those around the country who say, why do this for the District, why not do it for my city as well? We only have one Nation's Capital, and I think it is, indeed, deserving of the entire country's support.

On behalf of the DC Chamber, I thank you for this opportunity to speak today. If I or any member of the Chamber can be of assistance to you, as you begin to sort through the various ideas and proposals by our city, please call on us. And I thank you very much.

Mr. DAVIS. Thank you very much, Mr. Green.

[The prepared statement of Mr. Green follows:]

Statement of John L. Green, President
DC Chamber of Commerce

Good morning, Congressman Davis, Congresswoman Norton and members of the House District of Columbia Subcommittee. My name is John L. Green. I am Executive Vice President for Corporate Services of Medlantic Healthcare Group and I am here today in my capacity as president of the DC Chamber of Commerce. With me today is Kwasi Holman, Executive Vice President of the DC Chamber and Sheldon Repp, Vice President and Associate General Counsel of Sallie Mae and Chair of the Chamber's Government Affairs Policy Committee. First, I want to thank you for inviting me to appear before you to present the Chamber's position on the National Capital Revitalization and Self-Government Improvement Plan.

The DC Chamber of Commerce has represented business interests in the District of Columbia for almost 60 years. Founded as the business organization to represent black-owned businesses and professionals, today the Chamber's major strength is in the rich diversity of its more than 800 members. We are the most racially, economically, geographically and gender diverse business organization in the city. Our mission is to create an environment in which businesses can locate, expand and flourish. We understand that in order to retain, expand and attract businesses to Washington, D.C., we must have a stable government that can function and respond with quality services for individuals and business, a city whose financial underpinnings are secure and whose tax structure is competitive.

We are pleased that the revitalization of the District of Columbia is now one of the top priorities of President Clinton and Congress. We welcome the dialogue that you and the President have started on how to correct the structural flaws on top of which we built home rule.

Let me say first, the DC Chamber strongly believes that bold action is needed on several fronts to ensure the survival and revival of the District of Columbia. Bold action, however, does not mean hasty action. A unique opportunity to address the city's problems currently exists. We should seize this opportunity to craft a real solution. We do not want to be back at this table in another 10 years.

The DC Chamber is committed to a careful and thoughtful review of the many proposals that are being brought forth to help resolve structural and fiscal issues in the District. We welcome the President's Plan and support

its thrust. It is a strong beginning. However, we are concerned about the elimination of the federal payment, the limited scope of the Plan's financial incentives package and the lack of individual and business tax relief. My comments will focus on these concerns.

First, the federal payment is not a subsidy. It is compensation for the extraordinary costs on the city of the Federal presence. The final plan should assure that the city will be financially viable. To forego the federal payment at this point is, at best, premature. We strongly urge that the final plan include inclusion of the federal payment or a payment in lieu of taxes.

We have reviewed the announced economic development portion of the President's plan. We fully support the creation of the Economic Development Corporation which will be the core of the city's economic recovery. With the city's inability to tax income at its source, we wholeheartedly support the credits that have been included for the provision of jobs for D.C. residents. This is especially critical as many of our residents move from welfare to work. We also agree that economic recovery depends on small as well as larger business. Economic data seems to indicate that smaller businesses are leaving the city for more favorable business climates in the suburbs. We are pleased that the President's Plan helps address this issue. We would like to see the financial incentives for investment in the city expanded to the entire city and not just its most distressed areas as is proposed.

The city must be able to compete to survive. In order for the city to survive, our tax structure must be competitive. A reduction in the corporate franchise tax, a reduction in real property taxes, tax incentives to locate in D.C. — all are ways of achieving comparability. If the President's Plan was implemented with the federal payment in place, perhaps the city could afford these reductions. We are convinced that we must revamp our tax structure in order to grow our economy.

The Chamber believes that there must be financial incentives to rebuild the city's tax base. The city cannot do it alone, we need your help. The Chamber supports Congresswoman Norton's D.C. Economic Recovery Act because it addresses the issue of rebuilding our tax base through tax relief for individuals. As the city addresses the issues of public safety,

infrastructure and public education, the city must be more attractive to taxpayers. We believe that this can be achieved through individual tax relief. In order for the District of Columbia to survive and be viable, we must be competitive. In order for us to be competitive, we must be on an even playing field in terms of taxes and the federal government must play the role of the state to the District of Columbia.

We also understand that money alone will not solve our problems and that as a business community we must step up and develop public-private partnerships with the city, such as the Chamber- DCRA project which is bringing together the tax and property records of every piece of property in the city, square by square, lot by lot. As a result of this project, this information very soon will be online and available to the public to assist them in the obtaining building permits. Other initiatives to improve the city's business climate and competitive status are the professional and business licensing streamlining project and our Worker's Compensation legislative reform effort which when enacted by the D.C. Council will bring business costs more in line with those of Maryland and Virginia.

In closing, Congressman Davis, we urge you to think about the city as the unique and special place that it is, namely the nation's capital; to think about the long-term ramifications of the proposals and not let the politics and urgency of the moment define the solution. On behalf of the DC Chamber, I thank you for this opportunity to speak today. If I or any member of the Chamber can be of assistance to you as you begin to sort through the various ideas and proposals for out city, please call on us.

Mr. DAVIS. Mr. Blunt.

Mr. BLUNT. Chairman Davis and members of the subcommittee, thank you for convening today's hearing on the President's plan to revitalize the Nation's Capital, and for the opportunity to testify before you today.

My name is Roger Blunt and I am chairman and CEO of Essex Construction Corp., but I am here today in my capacity as co-chair of the Greater Washington Board of Trade's newly established National Capital Task Force. Dr. Ed Bersoff, president and CEO of BTG Corp., will be co-chairing this task force with me. Today, however, I am joined by John Tydings, president of the Board of Trade.

For those of you who may not be familiar with our organization, the Board of Trade is a regional chamber of commerce that represents more than 1,000 businesses located in suburban Maryland, northern Virginia, and the District of Columbia. For more than 100 years, the Board of Trade has been involved in issues affecting the governance, management, and economic growth of the Nation's Capital.

Today, Chairman Davis has asked us to comment on the potential impact of the actions contemplated by the President's plan on the Nation's Capital and the region. I would like to begin by stating that the Board of Trade commends President Clinton for his commitment to redefining and improving the Federal Government's relationship to the Nation's Capital and for offering a thoughtful plan aimed at clarifying the Federal interest and responsibilities. However, the President's plan cannot be viewed in a vacuum, and I would like to share some thoughts about how we believe this proposal fits within a broader vision for revitalizing the Nation's Capital.

The Board of Trade believes that there are at least three critical elements fundamental to restoring the city. They are: one, a functioning, accountable and efficient local government; two, a clearly defined partnership between the Federal and local governments; and, three, an emphasis on economic development and the availability of adequate resources.

Efforts to create a functioning, accountable, and efficient local government are already well under way. Recognizing that the local government was no longer able to provide the most basic municipal services to its residents, businesses and visitors, the Congress, guided by Congresswoman Norton and Chairman Davis, established the DC Financial Responsibility and Management Assistance Authority, or control board. This control board has spent the last year helping the local government manage its financial crisis and is now working diligently to help create a functioning and efficient government, complete with policies that establish clear responsibility and accountability.

The Board of Trade has been particularly involved with efforts to reform procurement and personnel policies and to establish an efficient and reliable financial management system. All of these elements are critical tools for achieving a functioning, accountable and efficient local government, and comprise the first step toward achieving financial and economic stability in the Nation's Capital.

The President's plan contributes to this critical element by relieving the local government of certain programmatic and budget re-

sponsibilities that cities do not normally handle. In addition, by offering intermediate-term financing for the city's accumulated deficit, the President's plan would significantly reduce the amount of resources dedicated to debt servicing. When viewed together, these two elements of the President's plan should significantly reduce the city's financial burden, freeing millions of dollars that can be shifted to pay for municipal priorities aimed at improving the quality of life for city residents and visitors.

I would also note that the Federal City Council and the DC Agenda Project, in which the Board of Trade has been a participant, have been examining the President's plan on other issues related to governance and will be providing your subcommittee with their views on those issues in the near future.

President Clinton's plan takes the second dramatic step toward achieving financial and economic stability by clearly defining the terms of the partnership between the local and Federal Governments. Since the passage of the Home Rule Charter in December 1973, the local government has been responsible for State, county and municipal functions. By recognizing this disparity, the President's plan establishes a new partnership between Federal and local governments that relieves the city of financing and/or providing functions typically handled by States or counties.

Although the plan does not relieve the city of all typical State responsibilities, such as mental health and aid for dependent children, the Board of Trade believes that the proposal addresses this disparity to a great extent.

In addition, the Board of Trade believes that the President's plan addresses some additional concerns of the city and the region.

First, the President's plan resolves the growing unfunded pension liability problem that was unjustly included in the original charter. By assuming both the assets and liabilities of pension plans for police, fire fighters, teachers and judges, the President's plan recognizes that the city should have never inherited a system that was already underfunded by $2 billion.

Second, in addition, we believe the plan provides the opportunity to resolve ongoing regional concerns about the management and location of the Lorton correctional facility. While the Board of Trade has not endorsed any particular approach to resolving the problems at Lorton, we are pleased that this issue is on the table and can be included in the debate.

However, with specific regard to the President's recommendation that the Federal payment be eliminated, we urge this committee to closely examine the impacts this would have on the city's ability to achieve financial stability. The Federal payment was never intended to be a gift. Rather, it was meant to provide compensation for a variety of the congressionally imposed restrictions on the local government's ability to raise revenues. For example, 43 percent of all land in the Nation's Capital is exempted from local taxes; and this will continue to restrict the city's access to resources far into the future. In that regard, the Board of Trade has spent the past 25 years advocating that Congress establish a rational, dependable formula for the Federal payment. While the Federal Government's assumption of many State-like functions is an important change,

we are not yet convinced changing these roles warrants the elimination of the Federal payment.

Finally, the President's plan places an emphasis on economic development and availability of resources. For many years, the Board of Trade has urged the local leaders to view economic development as the best means for ensuring that the city can have access to sustainable resources and can encourage job creation for residents. Had emphasis been placed on growing the tax base, rather than on increasing taxes and fees, the local government might not be experiencing such severe financial and economic crises.

On a side note, I would like to congratulate you, Congresswoman Norton, for your flat-tax proposal which recognizes that stabilizing and growing the city's tax base is a critical part of any effort to restore financial and economic health to the Nation's Capital.

Nonetheless, today's financial situation places the city in a "Catch-22" position, whereby if taxes are reduced and economic development incentives are offered, the revenue gap widens further and a balanced budget becomes that much harder to attain. It is for this reason that the Board of Trade is particularly interested in the two elements of the President's plan that appear to offer resources and incentives for economic development: the National Capital Infrastructure Fund and the Economic Development Corp.

The President's plan to create a National Capital Infrastructure Fund recognizes that one of the most critical elements that supports economic development is physical infrastructure. Yet virtually every city that was founded more than 100 years ago is facing huge budgetary challenges as a result of aging infrastructure. The Nation's Capital is no different, with the exception that most other cities receive some level of State funding for maintaining infrastructure, whether that be for roads, bridges, transit or water or sewer systems.

The President's initial proposal to create an infrastructure fund with approximately $125 million in seed money with the possibility of identifying other sustainable funding sources provides significant promise for at least beginning to address some of the most serious infrastructure needs immediately. However, we have heard little detail of subsequent developments on this part of the President's plan, and we feel strongly that any proposal that does not increase the current level of Federal highway funds received or that does not allow those dollars to be spent on local as well as Federal road and bridge projects will not address the infrastructure needs of the Nation's Capital.

The President's plan to create the Economic Development Corp., and offer nearly $300 million in grants, tax incentives and other economic development tools will make economic development a priority in the Nation's Capital for the first time in its history. The region's suburban jurisdictions have been implementing aggressive economic development activities for years, and reaping the benefits accordingly. Yet, the city has never committed the staff or the resources to develop, promote or implement economic development initiatives. The creation of an Economic Development Corp., led largely by local private-sector business and community leaders, not only provides a mechanism by which an equally aggressive ap-

proach can be developed and maintained, but provides the resources necessary to back up such a commitment.

In all cases, the Board of Trade feels strongly that economic development must take a city-wide approach and be led by the local community. Our creation of the Community Business Partnership reflects our commitment to that approach. By matching the resources, experience and expertise of the Board of Trade membership with developing neighborhood businesses identified by the Community Development Corp.'s in Marshall Heights and Colombia Heights, the Board of Trade has seen firsthand the power of and potential for neighborhood economic development throughout the city. It is through economic development that we can grow jobs and additional resources to sustain the Nation's Capital for the future.

But efforts such as these can be enhanced by an Economic Development Corp., with tools and resources that reach out to all areas of the city. The President's Economic Development Corp. proposal offers these tools and resources, including $50 million in Federal capital, capital credits, private activity bonds and jobs credits.

The Board of Trade is particularly excited about the potential impacts of these two provisions. We believe that these provisions, the DC Jobs Credit, the additional expensing provisions, will provide tremendous assistance and incentives to people who are working to set up and expand business in neighborhoods.

I realize, Chairman Davis, that the red light is on. I just have three or four more paragraphs of my testimony.

Mr. DAVIS. That's fine. We have both read it, and we are ready to ask questions. Why don't we just put it in the record and get right to it?

Mr. BLUNT. Thank you.

Mr. DAVIS. I think that both Mr. Green and your statements are thoughtful and reflective.

Mr. BLUNT. Thank you.

[The prepared statement of Mr. Blunt follows:]

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STATEMENT BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

March 25, 1997

Mr. Chairman and members of the Subcommittee, thank you for convening today's hearing on the President's plan to revitalize the Nation's Capital, and for the opportunity to testify before you today. My name is Roger Blunt and I am the Chairman and CEO of Essex Construction Corporation, but I am here today in my capacity as co-chair of the Greater Washington Board of Trade's newly established National Capital Task Force. Dr. Ed Bersoff, President and CEO of BTG Corporation, will be co-chairing this task force with me. Today, however, I am joined by John Tydings, President of the Board of Trade. For those of you who may not be familiar with our organization, the Board of Trade is a regional chamber of commerce that represents more than 1,000 businesses located in suburban Maryland, Northern Virginia and the District of Columbia. For more than 100 years, the Board of Trade has been involved in issues affecting the governance, management and economic growth of the Nation's Capital.

Today, Chairman Davis has asked us to comment on the potential impact of the actions contemplated by the President's plan on the Nation's Capital and the region. I'd like to begin by stating that the Board of Trade commends President Clinton for his commitment to redefining and improving the federal government's relationship to the Nation's Capital and for offering a thoughtful plan aimed at clarifying the federal interest and responsibilities. However, the President's plan cannot be viewed in a vacuum, and I'd like to share some thoughts about how we believe this proposal fits within a broader vision for revitalizing the Nation's Capital.

The Board of Trade believes there are at least three critical elements fundamental to restoring the city. They are:

1. A functioning, accountable and efficient local government;
2. A clearly defined partnership between the federal and local governments; and
3. An emphasis on economic development and the availability of adequate resources.

A Functioning, Accountable and Efficient Local Government: Recognizing that the local government was facing financial catastrophe and was no longer able to provide the most basic municipal services to its residents, businesses and visitors, the

Congress, guided by Congresswoman Norton and Chairman Davis, established the DC Financial Responsibility and Management Assistance Authority, or control board. This control board has spent the last year helping the local government manage its financial crisis and is now working diligently to help create a functioning and efficient government, complete with policies that establish clear responsibility and accountability.

The Board of Trade has been particularly involved with efforts to reform procurement and personnel policies and to establish an efficient and reliable financial management system. All of these elements are critical tools for achieving a functioning, accountable and efficient local government, and comprise the first step toward achieving financial and economic stability in the Nation's Capital.

The President's plan contributes to this critical element by relieving the local government of certain programmatic and budget responsibilities that cities do not normally handle. In addition, by offering intermediate-term financing for the city's accumulated deficit, the President's plan would significantly reduce the amount of resources dedicated to debt servicing. ***When viewed together, these two elements of the President's plan should significantly reduce the city's financial burden, freeing millions of dollars that can be shifted to pay for municipal priorities aimed at improving the quality of life for city residents and visitors.***

I'd also note that the Federal City Council and the DC Agenda Project, in which the Board of Trade has been a participant, have been examining the President's plan and other issues related to governance and will be providing your subcommittee with their views on those issues in the near future.

A Clearly Defined Partnership Between the Federal and Local Governments: President Clinton's plan takes the second dramatic step toward achieving financial and economic stability. Since the passage of the Home Rule Charter in December of 1973, the local government has been responsible for state, county and municipal functions. By recognizing this disparity, the President's plan establishes a new partnership between the federal and local governments that relieves the city of financing and/or providing functions typically handled by states or counties.

Although the plan does not relieve the city of all typical state responsibilities—such as mental health and AFDC, the Board of Trade believes that the proposal addresses this disparity to a great extent.

In addition, the Board of Trade believes the President's plan addresses some additional concerns of the city and the region:

1. The President's plan resolves the growing unfunded pension liability problem that was unjustly included in the original Charter. By assuming both the assets and liabilities of the pension plans for police, firefighters, teachers and judges, the

President's plan recognizes that the city should have never inherited a system that was already underfunded by $2 billion.

2. In addition, we believe the plan provides the opportunity to resolve ongoing regional concerns about the management and location of the Lorton correctional facility. While the Board of Trade has not endorsed any particular approach to resolving the problems at Lorton, we are pleased that this issue is on the table and can be included in the debate.

However, with specific regard to the President's recommendation that the federal payment be eliminated, we urge this committee to closely examine the impacts this would have on the city's ability to achieve financial stability. The federal payment was never intended to be a gift. Rather, it was meant to provide compensation for a variety of the Congressionally-imposed restrictions on the local government's ability to raise revenues. For example, 43% of all land in the Nation's Capital is exempted from local taxes, and this will continue to restrict the city's access to resources far into the future. In that regard, the Board of Trade has spent the past 25 years advocating that Congress establish a rational, dependable formula for the federal payment. ***While the federal government's assumption of many state-like functions is an important change, we are not yet convinced changing these roles warrants the elimination of the federal payment.***

An emphasis on economic development and the availability of adequate resources: For many years, the Board of Trade has urged local leaders to view economic development as the best means for ensuring that the city can have access to sustainable resources and can encourage job creation for residents. Had emphasis been placed on growing the tax base, rather than on increasing taxes and fees, the local government might not be experiencing such severe financial and economic crises. Nonetheless, today's financial situation places the city in a "Catch 22" position, whereby if taxes are reduced and economic development incentives are offered, the revenue gap widens further and a balanced budget becomes that much harder to attain. It is for this reason that the Board of Trade is particularly interested in the two elements of the President's plan that appear to offer resources and incentives for economic development: the National Capital Infrastructure Fund and the Economic Development Corporation.

National Capital Infrastructure Fund: One of the most critical elements that supports economic development is physical infrastructure. Yet, virtually every city that was founded more than 100 years ago is facing huge budgetary challenges as a result of aging infrastructure; the Nation's Capital is no different, with the exception that most other cities receive some level of state funding for maintaining infrastructure—whether that be for roads, bridges, transit or water and sewer systems. The President's initial proposal to create an infrastructure fund with approximately $125 million in seed money with the possibility of identifying other sustainable funding sources provides significant promise for at least beginning to address some of the most serious infrastructure needs immediately. However, we have heard little detail of subsequent

developments on this part of the President's plan, and we feel strongly that ***any proposal that does not increase the current level of federal highway funds received, or that does not allow those dollars to be spent on local as well as federal road and bridge projects will not address the infrastructure needs of the Nation's Capital.***

Economic Development Corporation: The President's plan to offer nearly $300 million in grants, tax incentives and other economic development tools will make economic development a priority in the Nation's Capital for the first time. The region's suburban jurisdictions have been implementing aggressive economic development activities for years, and reaping the benefits accordingly. Yet, the city has never committed the staff or the resources to develop, promote or implement economic development initiatives. ***The creation of an economic development corporation, led largely by local private sector business and community leaders, not only provides a mechanism by which an equally aggressive approach can be developed and maintained, but provides the resources necessary to back up such a commitment.***

In all cases, ***the Board of Trade feels strongly that economic development must take a city-wide approach and be led by the local community***. Our creation of the Community Business Partnership reflects our commitment to that approach. By matching the resources, experience and expertise of the Board of Trade membership with developing neighborhood businesses identified by the Community Development Corporations in Marshall Heights and Columbia Heights, the Board of Trade has seen first hand the power of and potential for neighborhood economic development throughout this city. It is through economic development that we can grow jobs and additional resources to sustain the Nation's Capital for the future.

But efforts such as these can be ***enhanced by an economic development corporation with tools and resources that reach out to all areas of the city***. The President's economic development corporation proposal offers these tools and resources, including $50 million in federal capital, capital credits, private activity bonds, and jobs credits. The Board of Trade is particularly excited about the potential impacts of two of these provisions:

1) the "Additional Expensing" provisions that would allow small businesses in distressed areas to deduct up to $20,000 in additional expenses per year for certain equipment costs; and

2) the "DC Jobs Credit" that would provide up to a 40% tax credit on the first $10,000 of eligible wages in the first year of employment.

We believe that these provisions will provide tremendous assistance and incentives to people who are working to set up or expand a business in neighborhoods that have been typically ignored by economic development efforts in the past. Further, the creation of an economic development corporation supports the federal government's investment by

ensuring the adoption of economic development policies that support economic growth and investment on a city-wide basis.

In conclusion, the Board of Trade has studied a number of cities that faced similar financial and economic crises, and the economic recovery experienced by each of these cities was directly attributable to an engaged private sector. Likewise, the Board of Trade is committed to being an integral part of the solution to the problems facing the Nation's Capital. It may be possible that we will need to be even more creative in our approach to revitalizing the city at the regional level. For example, jurisdictions throughout greater Washington are struggling to address many issues that are not limited by political boundaries, such as the availability of a skilled workforce, the development of job training programs targeted to support the region's economy, infrastructure improvements, and public safety. ***The Board of Trade believes in the use of regional authorities to achieve mutually beneficial goals in our multi-jurisdictional region, and as the debate over the President's plan unfolds, there may be opportunities to creatively employ this type of approach to help revitalize the Nation's Capital and benefit the region as a whole.***

It is in this context that we have tried to provide you with substantive comments about a plan that we believe is conceptually well-founded, but for which we have seen very few details. I would like to ask for the opportunity to come back and offer further thoughts about the President's plan once we have had a chance to review those details.

Thank you again for the opportunity to testify today. I will be happy to answer any questions you may have.

Mr. DAVIS. I will just tell you, I was just whispering to Ms. Norton that, to me, if we had a plan that we knew worked, that we were certain was going to work and bring it back, I am not sure that the cost is the major obstacle, but I think we get so tired of throwing a lot of resources at a situation, and you don't get the result that you wanted, and that's the difficulty we are struggling with.

And I would like to, if I could, just address my questions now to you, in terms of what is going to work to bring the city back from a tax-based point view, expanding the tax and the business base. And one of the things I noted in my opening statement, and I want to ask each of you to react to it, is you can do what the President has proposed; and I think that's fine. I don't disagree with any of it. You can have the additional expensing and the DC job credit.

But unless you make some significant changes in the regulatory structure and the tax structure on top of that, you are just not likely to have the effect that you would otherwise. Because it is—the city is so noncompetitive in some areas—in some of these areas, with the suburban areas and other parts of the country, that these are very piecemeal it seems to me.

I would like each of you to react to that. You can agree or disagree.

Mr. BLUNT. John.

Mr. TYDINGS. Mr. Chairman, I will take a first crack at that.

I think you are absolutely right. One of the things that we understand about the President's plan is that there is in process an MOU, which in fact is supposed to deal with a number of the relationship issues, including some priorities and also some areas of emphasis. Failure to address the issues of the process, the regulatory reform, will be shortsighted.

Mr. DAVIS. John, let me get specific for a couple minutes. I have met with people who are talking about how long it is taking just to get inspections. You bring a company or a new business or they want to expand—by the way, I heard the same thing in Fairfax when I was head of Government Affairs. It is never quick enough when you have got a tenant on hand, or that it takes an inordinate amount of time, that there is kind of a mañana attitude that we will get to it tomorrow or in good time. And what would privatizing some of those inspection services do?

You can go out and hire somebody that's certified. You would have people to inspect the inspectors to make sure that there wasn't abuse and fraud. But for fire inspection and building inspection and some of these, could that be very quickly moved into a competitive arena?

I will ask each of you—let me start with Mr. Green on that.

Mr. GREEN. Well, I think that—I mean, I think that what we need is really a comprehensive approach. I don't think we can go in and pick pieces and think that picking individual pieces will solve broad systemic problems. So I think that regulatory reform is needed.

We have some proposals, for example, the workman's compensation proposal, that's with the council. That's a step.

Mr. DAVIS. Yes.

Mr. GREEN. I think that some of the functions——

Mr. DAVIS. But, Mr. Green, if we wait for the council to act on this, I am just afraid—we are going to be putting a package together here in very short order, and I am just so afraid that if we go ahead and do a couple of nice things here, without the Mayor and the council reacting to the others in a very timely manner, that we are wasting our time; that you are not getting the bang for the dollar. And this ought to be done in one fell swoop by moving it through and by getting everybody to sign up.

I hope—Congress shouldn't have to do the regulatory reform piece if you can get the Mayor and council to do it. A lot of these proposals are going to be unsaleable unless Members are seeing some major changes at the city level. It shouldn't be done piecemeal, so let's talk about what some of those pieces should be as we put it together.

It seems to me inspections keep coming up as one major problem and workman's compensation. I have heard people comment about the Displaced Worker's Act, and suggesting moving in a way that's fair to workers but also in a way that allows you to be competitive with what's being offered in Maryland and Virginia. And we can go on and on.

Mr. GREEN. No, I don't disagree with your view at all. I just simply think that we have got to make sure that the capacity is there to implement some of these things, and I think in many instances it's a capacity question. I think it is also fairly difficult to ask people to implement recommendations and solutions when they are undertrained and the city hasn't had the necessary training funds; underpaid. I mean, I think we have got to look at this, if we want——

Mr. DAVIS. But privatizing some of the regulatory functions can change it very quickly.

Mr. GREEN. Some of that could help, that is correct. But I would say there are some functions that could be privatized, and I think the local government is looking at privatizing several of the functions. I think developing an adequate pay scale for employees and expecting them to perform is key; revamping the procurement function. I mean, I think all of those things are part of it, as well as addressing the tax inequities.

But my view is that, let's try to get at as much of it as we can, so that we have got a reasonable chance of succeeding. And, in the process, I think we have got to figure out, I mean, what's the appropriate balance between local prerogatives and the Federal interests, so that it does not appear that we have developed something that was completely top down from the Federal level with very little involvement from the local level. We have got to shoot for that balance.

Mr. DAVIS. Will you elaborate on the worker's compensation issue you talked about, again? Then I am going to ask the Board of Trade representatives to respond in the same fashion.

Mr. REPP. The Chamber, along with the Board of Trade and other business organizations in the city, have been studying the worker's comp issue in the city for almost a year now; and our members tell us that the high cost of worker's compensation insurance in the city is one of the reasons why they are leaving the city; and we know that there is business flight occurring in the city.

As a result, the Government Affairs Committee of the DC Chamber of Commerce has been spearheading an effort to come up with a reform proposal that will help deal with this situation.

We believe we have to start somewhere, and that's one of the places that we believe we can start.

I think the inspection issue that you point to is also a major issue for—in the building industry; and I know that my corporation, for example, has been held up for quite a few number of days waiting for inspectors to show.

But to speak about workers compensation, we have a number of proposals that we think, while preserving the safety net for workers, will help drive down the costs of workers' compensation in the city and make the—and make the costs more comparable to what they are in Virginia and Maryland. And that's our goal here, is to make the city competitive.

Mr. DAVIS. To the extent we can have some specifics on that from you, we would be happy to put it in the record and consider it as we proceed.

We are suggesting that if you could have the people who write the parking tickets do the inspections it would get done on time all the time. Thanks.

Mr. Blunt.

Mr. BLUNT. I think I agree with many of the comments here. Certainly, the private sector can provide a measure of competition to governments who are providing services to their residents. Efficient, cost-effective service really is a function of the quality of people, the kind of resources, the training they have and the commitment of the political will to deliver those services.

Regulatory reform is necessary, and when we think of it I think we should think in the context of a regional economy. There are many, many differences between the various jurisdictions here that ought to be looked at to make them more consistent to make it easier for businesses to cross the lines.

Mr. TYDINGS. Mr. Chairman, I will add that the control board has asked us to, through the community development corporations in Marshall Heights and Columbia Heights, to work with some of the neighborhood businesses and identify the regulatory impediments; we will be giving to the board tomorrow a summation of each of the specific areas dealing with regulatory and process reform that needs to be done. I will forward that to you.

Mr. DAVIS. John, we would like to see that.

I may have some thoughts of my own as well as, Ms. Norton. But it seems to me we are probably going to get one crack here at this, and I hope it will be fairly comprehensive.

This is very difficult even to get the most minor bill through pertaining to the District of Columbia. Ms. Norton, who is a veteran at this knows, how one member can come up in the Senate and torpedo the whole thing by standing up and objecting to it all night. In the House, there are a lot of different agendas.

To the extent we can put together a comprehensive package that we think will help yield the results we want, we all want this city to succeed.

Mr. GREEN. Mr. Chairman, I can't overemphasize the importance of building some capacity to implement in the District.

Mr. DAVIS. That's fair. You can bite off more than you can chew.

Mr. GREEN. We can come forward and the Congress can come forward with a bill that helps a great deal, but if the capacity isn't there, both on the public side and the private side, to implement these things, then I think we subject ourselves to the criticism that we took a step and we couldn't implement it. We have got to be sure this time around of the capacity.

I think Mr. Blunt made a very important point in terms of capacity of the people, level of training they have received, pay scales. I think we have got to look at all of that when we think about capacity.

Mr. DAVIS. But let me just throw a couple of comments out.

First of all, on the inspection piece, if you allow private inspectors who have been trained—and I think the private sector could respond to this very quickly—you have a core group that checks on the inspectors to insure that there is no rampant fraud, which is a small percentage. You will find, without a huge investment from the city, that it will be much more efficient, you know, people will be coming at all different times of the night, and that doesn't cost anything. There's no real capacity problem there.

And that works very quickly in terms of the Workmens' Compensation Act if you can get together and agree on what will bring you down to a competitive posture. Where is the capacity problem there? You change the act, and you move forward.

Mr. GREEN. Some of those functions are certainly——

Mr. DAVIS. Those are two critical ones.

Mr. GREEN [continuing]. Are certainly amenable to privatization.

But on the capacity side, you still need high-quality people to supervise the contracts and supervise the work.

Mr. DAVIS. Well, procurement also is a little bit tougher, but we had Mayor Goldsmith from Indianapolis here just a few weeks ago who is basically running the city with a few procurement officers and has kept some core functions. But privatization, although I don't advocate it in every case and I think it can be overdone, is a very quick way, if you can't make a change in the culture of the people you have, to bring about those results.

Now, I think we have to be careful about doing that. I think we have to be fair to the city employees who have worked there and, in some cases, just lack appropriate management and training to get the job done. I think there's a balance to be made. But there is a quicker way to do some of these things.

Mr. GREEN. In terms of the hearing that you mentioned, I was struck by one of the mayors that appeared before you who talked about, in some instances, city employees were given an opportunity to bid on the work.

Mr. DAVIS. They should have that opportunity.

Mr. GREEN. And they were very successful in that. I mean, I think that that kind of approach makes a lot of sense.

Mr. DAVIS. I think city employees have been pigeonholed into some areas where they are performing tasks that don't need to be performed; they are working under regulations that didn't have to be written, and they are filling out forms that don't need to be printed, and if you unleash them and move them in the right direc-

tion, they can be every bit as capable as anybody in the private sector, maybe even more.

Mr. GREEN. I agree.

Mr. DAVIS. That's a management issue. In some cases it is an information technology issue where the city is behind, and we want to be fair. But on the other hand, if we sit and wait for the city by itself to do this without some kind of impetus or carrot, as Ms. Norton has proposed with her tax plan, we need some cataclysmic things to happen, significant items.

The only thing—I think the President's package is a wonderful package, and I applaud him for putting his marker down and showing some initiative, but in my judgment, by itself, you don't have the spark that is needed to ignite and take advantage of the incentives that they are offering.

Mr. GREEN. And in my judgment, the flat tax is a spark in terms of residents and individuals.

Mr. DAVIS. But still, even if you do the flat tax, you still have to make inroads in education and public safety even if the taxes are cheap. I really feel comfortable with the Booz-Allen study that showed in some deployments, in some of the basic blocking and tackling, the city can improve on that measurably. You need to have those in regulatory reform.

If you still have laws, like you say, in workmen's comp and other areas, you are not going to attract business. So it is comprehensive. It is big, if anything, and whether it's Ms. Norton's plan, as she has put her marker out there to her credit, or it is somebody else's tax reduction, it should be a part of that. A city can't compete in an area where they have higher taxes than 49 States.

John, do you, or you, Roger, want to add anything to that?

Mr. TYDINGS. No.

Mr. BLUNT. No.

Mr. TYDINGS. The privatization aspect, I think, is intriguing, and there is a need to do some jump-starting, and that may be worth some.

Mr. DAVIS. How about on the procurement side, any other additional observatios on that front?

Mr. TYDINGS. On the procurement side, the bill has now both passed the council, has been signed by the Mayor, and is here for its congressional layover period. I think it's important for the committee to note that from our point of view, the things we have—three of the four things we had hoped are in the bill. One dealing with the whole issue as it relates to competition, making it a competitive process, that's in the bill; second as it relates to some organization of standardization so each agency doesn't create its criteria is in the bill; and third as it relates to the whole issue, and it connects with what John Green has said about capacity, the whole issue of developing the professionalism amongst those who are responsible for procurement, the certification process is in the bill.

And I was just asking a colleague, there's some 20 individuals who have already gone through the—or are in the process of going through the certification process. So that bill is making progress. We would like to see it, frankly, move a little faster.

There is one piece, however, that I think you need to be aware of, and that is taken out of the bill in the course of the normal give and take, and that is the whole issue about real estate, the acquisition and disposition of real estate. That is not in the bill that's here before you. The Mayor has indicated he will come back with a separate piece of legislation on this, and we are going to track that very closely.

Mr. DAVIS. That's a very critical piece, too, given where we are on some of the other items.

Do you feel confident on the procurement side that this can be implemented in fairly short order?

Mr. TYDINGS. I think a lot of progress has been made. Again, it's an impatience on a lot of things. It needs to get done yesterday. Once it gets through—I think that it is fair to say that the executive branch will be ready when the bill completes its congressional layover.

Mr. DAVIS. OK. Thank you.

I am going to have additional questions, but I am going to, at this point, recognize Ms. Norton, who has some questions.

Ms. NORTON. Well, I very much appreciate the very thoughtful testimony of those of you who are trying to do business every day in a city that is not exactly business-friendly all the time.

I appreciate your comments on my own tax plan, especially because they come from people who do business in the city. And for the record, I want to say that it is interesting to see the extent to which businesses have applauded the individual part of my tax plan. There is a separate section that would aid business, but what I think it reflects is what employers tell me over and over again, that stimulus to the DC economy with the present outflow of middle-income residents has the chief effect of making jobs for suburbanites. And they tell me on the basis of their own experience that we are losing people. We will lose half of our working people in 6 years. Half of the people who work will be gone in 6 years.

So there is an understanding on the part of business that they would like to hire DC residents, and the President's bill gives them some incentive to hire DC residents, but, of course, at the lower end. It would largely be at the lower end. And these are the people who are paying the taxes now. For 63 percent of the people who pay taxes in the District of Columbia make $30,000 or less, and anybody who thinks a great city can survive on that needs to tell me how.

In any case, the juncture between business and residential taxpayers is an important one to note and one that interestingly businesses have been among the first to understand. I appreciate that you have not simply looked at what, in an isolated sense, might seem good for business, which is part of my plan, which is very good for business, but have understood how all the parts of this puzzle fit together. And, therefore, your testimony carries some considerable weight.

I have also supported the President's plan and now his economic development plan. I do so because I am very pleased to see the thought that's gone into what is really a traditional approach, but one that we all had to see is a whole lot better than nothing, but it's an empowerment zone approach.

My concern with it is not that we don't need it here. It is that by the time anything kicks in, nobody may be left. It takes time to build back in this way. And, of course, I know of no empowerment zone that has built back even a neighborhood, much less a city, so that I have to confess that for those who want to be the last to leave and turn off the lights, I don't want to be among them. And my frustration comes from the need, I think, to do something other than the usual thing in this city, if you want to see it survive.

And so I appreciate that the business community has taken off whatever, its philosophical, ideological notions and looked to see what works. I appreciate that the chairman is trying to find something that works, even given the fact that these bills cost money and it is going to be hard to get people on both sides of the aisle to support one approach. This is very difficult.

I want to look more closely at the economic development approach in the hope that whatever we do will help stimulate more quickly than has generally been the case. And to that end, I would like to ask you if you might know of examples where the types of incentives, such as tax credits, have had a significant effect on turning around parts of cities or cities.

And the background to this, because we are trying to find ways to improve the Economic Development Corp. part of the bill to encourage people to believe that it will, in fact, have the effect it wants to have, and to encourage business to understand that it can help them and help them in more than, you know, 20 years' time, or however long these things tend to take.

I was concerned with an article reporting on the responses of some businesses to the economic development plan that was in the Washington Times. There's a short statement from it I would like to read and ask as a background to my question on whether you think tax credits would stimulate business to stay. I want to give these paragraphs as background to the question because I was concerned with the responses that business people had.

"President Clinton's $300 million plan to help revitalize Washington, DC, drew raves from legislative and big business last week, but several DC entrepreneurs say the plan offers them little relief or incentives to expand."

"In theory, this would compel me to create more jobs, but in reality it's not enough. I don't think the carrot he is offering is enough alone to make me want to hire District residents," said John Shulman, the chief executive officer of Onyx International, a six-person investment banking firm in the District. "It's a lot of propaganda now."

"Mr. Shulman was referring to a part of the President's plan that calls for a DC jobs credit program. It would give a 40 percent Federal tax credit to DC employers hiring city residents who earn less than $28,000 a year. The break would apply to the first $10,000 of earned income.

"White House aides say the provision could generate 78,000 jobs over 5 years, if Congress passes it."

Now I want your response to a figure like that.

"Business owners and lawmakers acknowledge that the tax incentive and job credits form the first Presidential proposal to boost

DC business in decades. But small-business owners are critical of the overall package.

"There is nothing in it for me," said Bonnie Cain, the publisher of DC City Desk, an on-line newsletter about city politics, and an advisory neighborhood commissioner for Ward 1. "I would like to say the plan makes me more interesting to investors, but I don't see anything in the plan that does."

"The Clinton proposal also would create the DC Economic Development Corp., a quasi-government agency that would control $95 million in tax credits for investors or lenders to DC businesses.

I am trying to read it all to give a balance, the same thing that this piece gives.

"Business owners said other provisions in the plan, such as tax credits for expansion costs, would give companies a much needed boost, especially those poised for an upgrade."

"My strategic plan calls for me to expand. This just makes it more attractive and more timely," said Donald Delandro, the president of Affordable Supply Co., a custodial and food service supply company that employs 10 in Northeast. But he said the plan would not be enough by itself to fuel his expansion.

"If I get the contracts, I could envision getting at least five more people, but that's contingent upon the contracts I am going after," he said. "In my view, the real key is getting the Federal agencies to see what contracts they can give to businesses in the inner city. That's where the rubber meets the road," Mr. Delandro said.

"Despite the plan's drawbacks, some entrepreneurs say it is a long-awaited step in the right direction.

"The devil is in the details. I don't think the plan is all that great myself, but before there was nothing," said Caple Green, owner of a Chesapeake Bagel Bakery franchise in Washington. "Now that the President has put his foot forward, Congress should pick it up from there and take it up another notch."

That's what the Washington Times found when it went asking for a response from several businesses in the city.

I would like, therefore, to repose my question to you, examples of where tax credits and business investment incentives have led to significant stimulation of the economy for residents and your response to what I have just read.

Mr. HOLMAN. Well, if I could begin, the DC Chamber, among other projects, has been working with another organization, the DC Building Industry Association, to look at retaining, first, and, second, attracting businesses to the District. So certainly there are some employers who could benefit directly from the jobs incentives and were located in areas that the Economic Development Corp. may assist.

But certainly some of the companies that you mentioned just from the description that was in the paper may not be those companies that will benefit. That's why we have tried to stress comprehensive approaches. One of the reasons that we got involved, for example, with reviewing 170,000 records to improve the availability of information by lot and square for city residents and businesses is because we knew that that was something that touched everyone who does business—does business or lives here.

Certainly, the President's plan has a lot of those features, but it won't benefit every business. I can think, for example, when the industrial revenue bond program was very strong here, and it worked for for-profit as well as not-for-profit businesses, that had a lot to do with electrical companies and certain printing companies staying in the District. So it really depends on the kind of business.

But I think if you continue along this line of looking at comprehensive solutions, I think you will address a majority of the concerns of businesses. But certainly something has to be done to the tax structure as well as to the regulatory structure if you are going to keep the majority of businesses here.

Ms. NORTON. Thank you.

Mr. GREEN. I would just add that I think one of the things—there is no sort of one approach fits every business in the city. I mean, we have got different businesses here. We have got a rather small for-profit base, a very large not-for-profit base. So the solutions will vary by sector of the business community and also within segments. And so I think that we need to look at the entire business base.

Ms. NORTON. Well, the reason, you know, I would be interested either now or later in examples is precisely that this is fairly negative. And if you say, well, there are businesses who would profit, I want to know who they are, why they will. We have got to be able to show that we are not just shucking and jiving here.

When we had this last hearing, it was called the Chamber of Commerce for DC was seen by some members of the majority as, you know, just another bureaucracy to throw out some tax credits and some loose money.

Very frankly, I need data. I need information to show that things like this can have an effect because they have had an effect someplace else.

Does anyone else want to say anything else about that question?

Mr. BLUNT. I would say one comment, Congresswoman Norton. From my perspective, as having worked on one policy and structure, tax structure and tax policy, a commission for another body, it occurred to me that there are regressive mechanisms in some of the taxing policies, and it may affect the District. In fact, I am concerned that the residents don't bear the burden of economic development.

I also will say that businesses stay here or move not only on the reality of the tax impact, but sometimes the perception. And I think the real gold mine in this city are the people, the residents, who need to be retrained to get the high-tech jobs in a service economy that really represents our future. Businesses will locate and relocate here with certain tax credits and incentives, but they also need a good taxing policy with respect to their employees. And I say not just the high-paid employees, but basically the service employees and those at the entry level.

So it is a complex issue that needs a comprehensive approach, and from an anecdotal perspective I would say those cities that have been successful in keeping people in the city instead of moving out, those cities created policies early on to create incentives for businesses to stay and preclude development outside.

So I am concerned about the real estate legislation that may come out of this whole look, because clearly we need to make it possible for businesses to move back to the city, to work with all levels of employees. But it's a comprehensive approach that I think will give us progress and retraining of people.

Mr. TYDINGS. I will mention four cities that are worth spending some time understanding. Two are pretty obvious, Detroit and L.A.; but Atlanta, and I would also mention Buffalo as the fourth, each of whom has had experiences in different fashions, either with the State or with an economic development entity in their area that has been granted some authority as it relates to the ability to give tax credit.

I will underscore that I am not really surprised by your reaction or by the reaction that the reporter got when they did the survey, probably within about a 24-hour or less time period, to the President's plan.

No. 1 is, as was said, the nature of the business. If you are a labor intensive business, the tax credits may have some appeal to you from an employment point; but if you are a capital intensive business, I am not so sure the tax credit is going to have quite the appeal.

An example in our comments this morning, the whole issue about the additional expensing for up to $20,000 for the acquisition of equipment, that's a component that I think is probably downplayed in terms of neighborhood businesses. It probably has a significant impact in terms of some of the businesses that are not in the downtown area but that are throughout the neighborhood.

I think that there is a need to understand the reaction on the basis that the details are simply missing. A misunderstanding of the details from the memorandum of understanding, yet to be negotiated and released, I think might cause a lot of people to react the way they did. But let me underscore that the nature of the business is going to be the basis upon whether tax credits or financing or expensing is going to have a bearing on the longer term.

Ms. NORTON. Well, I do think it goes to the lack of confidence that businesses in the city have that there are plans out there, and so you get people you certainly will except being negative generally.

Do you have evidence that tax credits or business in investment breaks have in fact turned around neighborhoods or cities of the kind you mention? I would appreciate any information you could get for inclusion in the record. It would help us out.

Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you.

My reaction, though, to the empowerment is that I think it can help marginally, but that the city is so hopelessly noncompetitive with the rest of the surrounding region that unless you do some other things in addition, as Ms. Norton and others have suggested, the empowerment zones are not going to have much effect.

Now, if you can level that playing field a little bit and then offer some special treatment, then you wouldn't even need to talk about the whole city, you could talk about scenarios that may be more competitive. But my judgment is that we are way out of it competitively at this point and that is why we are seeing such a huge

flight of capital out of the city to the suburbs or in some cases out of the region.

Do you agree with that substantially? Is that a fair comment?

Mr. BLUNT. Yes, yes.

Mr. GREEN. Yes, absolutely.

Mr. DAVIS. I am also not sure that the Memorandum of Understanding and these things are going to satisfy me or other Members of Congress. If we are to be satisfied, then we need to see something else. We prefer to see it initiated at the city level, no question. But since we are putting an omnibus package together anyway and we are all in a room together holding hands and trying to get this through, the city government and the Federal Government and Congress and the private sector, I think we need to be flexible to get the end result.

Mr. TYDINGS. I would add, Mr. Chairman, that connects with Ms. Norton's comment. I think today this city is hemorrhaging as it relates to jobs and businesses. I mean, no one leaves the town following a brass band as they walk across and leave the Nation's Capital. The city is hemorrhaging. And for this city not to have a capacity to deal with job retention today, there is no capacity in the Government to have anyone meet and deal with businesses who are here in terms of whether they are nonprofit associations or forprofit organizations.

Now, when we talk about other jurisdictions, we know fairly well, as I think you know, Mr. Chairman, there are 20 jurisdictions in this region. All of them have a capacity within their governments to spend time, if you will, caring for and treating the local jobs in their marketplace. We do nothing in this city like that. There is a big void. I think if this city doesn't quickly move to deploy some resources to keep what it has, the hemorrhaging is going to increase, and it connects with the idea in terms of who is the last person out. We must do something about that now.

Mr. DAVIS. The Economic Development Corp. can be a key part of that.

Mr. TYDINGS. It is a small piece of it. I think it is city government that needs to take care of that.

Mr. DAVIS. Would you contact our staff, Mr. Tydings, and Mr. Blunt, to help us document the successes of other cities. I think it would be helpful to us.

[The information referred to follows:]

The Greater Washington Board of Trade
A Regional Chamber of Commerce
for the District of Columbia, Northern Virginia and Suburban Maryland

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MEMORANDUM

TO: **Gwendolyn Flowers, Program Manager**
District of Columbia Financial Responsibility
and Management Assistance Authority

FROM: **M. Charito Kruvant, Chair, Steering Committee**
Community Business Partnership

Charito

DATE: **March 26, 1997**

RE: **Regulatory Reform Project**

On behalf of The Greater Washington Board of Trade's Community Business Partnership, we are submitting the attached comments and recommendations with reference to the District of Columbia Financial Responsibility and Management Assistance Authority's Regulatory Reform Project.

We are pleased to be asked to participate in the review process and note that our Business Leadership Task Force of the Community Business Partnership, Co-Chaired by Michele Hagans, President, Fort Lincoln New Town Corporation and Stephen Horblitt, Senior Associate, Creative Associates International, Inc. invited seventeen (17) participants whose expertise, experience and interest in the issues to be addressed represented a broad spectrum of our business community. The following twelve (12) individuals accepted our invitation and were present at the meeting held on March 13th, from 1:30 P.M. to 3:30 P.M. at The Board of Trade:

1. Bill Hague for William Barrow, President, H Street, Community Development Corporation
2. Donald Delandro, Business Representative, CBP Steering Committee and President, Affordable Supply Company, Marshall Heights
3. Kateri Ellison, Business Representative, CBP Steering Committee and Owner/Manager, Designs by Kateri, Columbia Heights
4. Joe Sternlieb for Greg Fazakerley, Chairman & CEO, DC Business Improvement District
5. Abe Greenstein, Greenstein Delorme & Luchs PC
6. J. Henry Ambrose for Marie Johns, Vice President, External Affairs, Bell Atlantic - Washington, DC, Inc.
7. Betsy Johnson, Executive Director, The Washington Council of Agencies
8. Hugh Long, President, First Union National Bank of Virginia, MD and DC
9. Jonathan L. Taylor for Paul McElligott, North Capitol Neighborhood Development
10. Ed Brown for Robert Moore, President, Development Corporation of Columbia Heights
11. Gail Oliver, Owner/Manager, Fantasies, Flowers and Gifts by Gail, Columbia Heights
12. Whayne Quin, President, Wilkes Artis Hedrick & Lane

Invitees who were unable to attend the meeting included:

1. Jacquelyn V. Helm, Esquire, Law Office of Jacquelyn Helm
2. James Powell, President, Powell Manufacturing Industries, Inc., Marshall Heights
3. Julie Rogers, President, Eugene and Agnes E. Meyer Foundation
4. Roberta Sims, Vice President, Washington Gas Co.
5. Lloyd Smith, President, Marshall Heights Community Development Organization

The comments and recommendations received were circulated to attendees to provide an opportunity for further review, consideration, additions and/or deletions before the document was finalized.

We believe that the attached represents the consensus of our group and the recommendations and comments included, once completed, would impact significantly upon the interest to establish, grow, and expand businesses in all areas of the District of Columbia.

We again thank you for the opportunity and offer our services to you in the future.

Attachment

Framework for Regulatory Reform Review Project
Greater Washington Board of Trade - Community Business Partnership Input

Ranking	Regulation Category	Recommendations and Comments
1	A. Zoning Permits	• **Minor Revisions Recommended -- Will afford Major Impacts**: Question of process; takes 12-18 months for simple BZA orders, with major impact; impact on neighborhood business commercial corridors are different to downtown – homeowners are affected; process needs to be reviewed.
✓1	B. Land Use	• **Major Revisions Recommended**: Enforcement and better regulations need to be addressed; other cities use homesteading, shopsteading; need to turn abandoned properties over to CDCs.
✓3	C. Historical Preservation	• **Minor Revisions Recommended**: Most of these regulations are Federal; need to look at how laws are applied; process needs to be addressed – the process should be more transparent and open.
1	D. Parking Regulation	• **Major Revisions Recommended**: This is an important issue especially for small and neighborhood business owners; need to address vacant RLA land which could be used for municipal parking.
✓5	E. Taxicab Regulation	• **Minor Revisions Recommended**: Existing regulations should be enforced; complaints should be addressed in a timely manner; quality of taxicabs should be on par with those in neighboring jurisdictions.
1	F. Occupational and Professional License	• **Major Revisions on Fee; Minor Revisions on Efficiency and Processing Recommended**: Some of these regulatory requirements are out of date; Need to contract out licensing as is done with Real Estate; too many categories (8-10); look at regional alignment and compatibility with neighboring jurisdictions and region.
✓1	G. Business Registration	• **Minor Revisions Recommended:** Forms are long, but are on Web Site; Proper staff and technical support would eliminate excessive time factor and improve customer service; process needs to be consolidated.
✓1	H. Business Permits	• **Major Revisions Recommended**: Need to address classifications; taxes need to be revised; examine impact of taxes on downtown businesses versus neighborhood businesses; issues and concerns regarding integrity, accountability, checks and balances need to be addressed.

Framework for Regulatory Reform Review Project
Greater Washington Board of Trade - Community Business Partnership Input

V 1	I. Construction and Building Permits	• **Major Revisions Recommended**: The critical needs in this area have spawned its own industry; needs to be staffed with individuals with technical skills; secure technical assistance to put plans on computer; timing for turn around is too long; need staff and technology with new approaches; needs change in culture and decision-making; regulations need to be examined critically.
2	J. Environmental Regulation	• **Minor Revisions Recommended:** Issues of enforcement and efficiency need to be addressed together with an examination of the burden of these regulations for small, neighborhood businesses.
5	K. Boards and Commissions	• **Minor Revisions Recommended:** The review should be done Commission by Commission. Review also should decide whether these Commissions are needed and valid in today's environment; appointments are mainly political; Commissions are not properly staffed by experts.
1	L. Industry Regulation -Banking -Insurance -Real Estate -Retail	• **Major Revisions Recommended – depending on each industry. This area should be examined in the context of surrounding jurisdictions.** **Banking** – needs to be looked at again **Insurance** – reviewed and changes made during past 18 months
	M. Other	• **Parking** -- Better enforcement of parking regulations on the one hand; too many restrictions on the other • **Procurement** – Need to complete revisions that are currently in process • **Vending** – Greater enforcement of guidelines and business regulations • **DC Clean Air Compliance Fee Act of 1994** – should be eliminated; too costly for businesses • **Telecommunications** – Streamline regulations and establish criteria and performance standards that encourage competition.

Mr. DAVIS. I want to ask just a couple of other questions. The technology revolution that is circling the beltway right now has created an environment in the suburbs where we can't fill the jobs that are available. The city is not benefiting from that at all, it seems to me.

How can we get the city to help produce workers for these jobs and in some cases maybe to attract some of these companies as well? Do any of you have a strategy on that? These are companies that can't pay high rent. The nature of it is that the high rents you pay downtown make it very difficult to operate in most cases. I will start with Mr. Blunt.

Mr. BLUNT. Well, I see an alliance around the country between educational institutions and components that reach into the core cities to help to retrain, you know, the base. We are moving and have moved a long time ago from an industrial economy to a service and information-based economy. Those who aren't able to move into the educational mainstream early from K through 12 up to an open admission school——

Mr. DAVIS. Where even the UDC could help; couldn't it?

Mr. BLUNT. UDC could help, yes. The community colleges feeding into other institutions can help, and access to public higher education is extremely important.

I would say that that is a duty and a responsibility I think we have in the public to make sure that those who have been passed by are retrained. We live today in an environment, in a lifetime of learning and we train ourselves, but in the inner city, the residents who basically have been constrained by transportation policies have not been able to move to where the jobs are. So if a broad, comprehensive economic development policy creates opportunities for movement of corporations back into the city, they have a gold mine in terms of who will populate some of their businesses, and they are going out of the area because there isn't enough. I think we should retrain the people here.

So your point is a very good one for small businesses who have strategically aligned themselves with larger ones. They are not doing it inside the city.

Mr. DAVIS. Your point that they are not just leaving Washington, but they are leaving the region is an important one for my constituents in the suburbs who are seeing jobs going to Colorado and other high-tech areas where the city could be part of the solution for keeping them in the region.

Mr. BLUNT. Absolutely.

Mr. DAVIS. Yes, comment?

Mr. HOLMAN. I just wanted to add, Mr. Chairman, that some of our members are working with industrial space along the New York Avenue corridor to bring that back on line to refurbish it and to provide it at lower rents than you would certainly find downtown. So that helps to some degree with the space issue.

We have been working, I am on the board of the Private Industry Council and we have certainly been working to retrain our residents, and we are also working to help market the city and we are beginning to perhaps attract a few companies. But we are going to need a major push to have the kind of massive impact that is really going to be needed to turn our economy around.

Mr. DAVIS. Let me ask each of you this question. I will conclude with this. If we do nothing else, and I am not advocating we do nothing else, but if we were just to do a zero capital gains for city residences and city businesses, what effect would that have?

Ms. NORTON. I will answer that, Mr. Chairman. It would create jobs for people in Fairfax County; if that is all you did, it would stimulate the economy, and according to employers in the District of Columbia, it would encourage them to do more hiring, and based on the hiring rates in place, those jobs would go overwhelmingly to suburbanites. That is one of the reasons why the President is putting his plan, something that would at least help low-income residents, because——

Mr. DAVIS. He doesn't have the zero capital gains.

Ms. NORTON. No, he doesn't have the zero capital gains. He recognizes that if all you do is capital gains, you get to hire your constituents, because that is what we are doing now in this town.

Mr. DAVIS. But that is not right.

Ms. NORTON. I think on the basis of talking to employers, who have been the first to say, "hey, you know, fine, fine for us, but understand that who we are hiring and why."

Mr. DAVIS. We have 12,000 jobs in northern Virginia. We can't hire people, we can't find the people to work now. So I don't know what that means, except that we get a job growth maybe inside the city where people who live in the city would be attracted. I don't know. I am asking. We are just looking. It seems to me that maybe we can take that if we do that and use some other things to help provide jobs for people in the city.

I am confused over the chicken and the egg here. Do businesses bring people to the city or do people in the city bring business? I think we could argue this ad nauseam, and they are probably both important. But from a political vantage point here at this point, doing the business side of it is politically palatable. The residential tax, which Ms. Norton also advocates and which I think has a lot of merit, looks to me to be a tougher sell on the Hill at this point talking to other Members.

So I would throw that out and see if there are any final comments on that before I conclude.

Mr. TYDINGS. I have a comment on your previous question.

Mr. DAVIS. Please, please, John.

Mr. TYDINGS. Regarding the technology sector. I think we ought not to lose sight that there is a connection between the city and the technology sector, and it simply is that to a degree both the professional and financial service firms are rooted in the District of Columbia as it relates to the connection in terms of the technology community. While you may have representatives of some of the firms physically located outside of the city, the roots still to a degree have their basis within the District of Columbia.

No. 2 is that I leaned back to Mr. Green when he was leaving to say I think he is an example that people forget that we do have technology businesses here. Health care is an extraordinarily technology-focused business. You can narrowly view Mr. Green's firm in terms of treating the sick. But they are doing other things that have a significant implication off which you could gain leverage, and the same is true as it relates to the universities. There are lots

of leveraging opportunities that could take place in this city. We simply don't take the time to think about them with the other issues that are going on.

But I would not want us to leave here with the belief that the city, although not housing a great number of technology businesses, does have leverage opportunities to participate over time.

Mr. DAVIS. We just need to expand the disparity in terms of how it is growing in the suburbs and how it is growing here. It just jumps out at you. Certainly the city is not devoid of that, and MCI and other companies here are utilizing this every day.

Mr. Repp.

Mr. REPP. As we testified, we certainly support Delegate Norton's bill for the residents. With respect to the business, I agree there is tremendous opportunity here with the combined Federal-State tax in the District with the 9½ percent franchise tax, and the District of Columbia is far in excess of what it is in Virginia, and I think there is tremendous opportunity with very little revenue loss to reduce taxes and stimulate business. Because the business activity is so low to begin with, the revenue loss would be minor.

Mr. DAVIS. OK. Thank you very much. Thank you. We will go to our next panel.

Mr. DAVIS. Next we have Mrs. Carol O'Cleireacain, director, Brookings Institute, and Dr. Steve Fuller, professor of public policy, George Mason University.

[Witnesses sworn.]

Mr. DAVIS. We will begin with Ms. O'Cleireacain.

Ms. NORTON. I think Ms. O'Cleireacain had to laugh when you asked her to hold up her hand and say the truth, the whole truth and nothing but the truth, because she is an economist.

Mr. DAVIS. Economists are people who like to work with numbers but didn't have the personality like accountants did.

STATEMENTS OF CAROL O'CLEIREACAIN, BROOKINGS INSTITUTE; AND STEVE FULLER, GEORGE MASON UNIVERSITY

Ms. O'CLEIREACAIN. I don't know how you would like me to proceed here. I would be quite willing to take my time to answer questions.

I have submitted into testimony to you what is basically the executive summary of the study I did, "The Orphaned Capital: Adopting the Right Revenues for the District of Columbia."

The book will be coming out next Tuesday, on April 1st, and, apropos of the conversation you were having with the panel before us, it will have an entire chapter on the business climate and the relationship between the tax structure in the District—the tax rates and the tax burdens—and business activity. So that I think some of it can address the questions that Delegate Norton raised, we survey the literature on empowerment zones and what the impact seems to be on that. We look at what economists say about the impact of taxation on local economic activity. Actually, over the last 15 years economists have become quite convinced that differences in tax burdens affect levels of economic activity locally, in small enough areas.

But the project I did at Brookings was looking at a sustainable revenue structure for the District of Columbia, based on the as-

sumption that a sustainable revenue system is the key to the survival of the Nation's Capital. I recognize that the revenue issues were not going to be the first thing anybody was going to look at: that services have to improve dramatically here and that public officials have to show the District can live within its means. But, as that takes place and as painful management reforms are made, the District's residents and its employees and its leaders should expect a tangible tradeoff. They should expect a rational and stable revenue base on which the District's budget will rest.

I did a thorough examination of the revenue side of the budget over time and have come to the conclusion that the existing revenue structure is not sustainable. It is, for sure, uncompetitive with the surrounding region. By my calculation, per capita State and local taxes are $4,168 in Washington, compared to $3,105 in Boston, $2,429 in Baltimore. For households, the tax burden, which becomes progressively higher as the income level rises, is, according to the District's own data, the highest in the surrounding area at the $100,000 income level.

For businesses, the District tax bill is at least 25 percent greater than elsewhere in the region, according to Coopers & Lybrand's study for the Greater Washington Board of Trade.

Now, that is part of the problem. It is not all of the problem.

Another part of the problem with the revenue structure is that the tax base is severely restricted by Federal law. In effect, thus is an economy here where the hometown industry is tax-exempt, also, the tax-collecting entity is not working. The District's tax collection system is broken. After 9 directors in 20 years and staff reductions of 20 percent since 1990, the city's revenue department lacks the capacity to enforce and to fairly collect the more than 20 different taxes and 115 different fees and charges that are now on the books.

External audits point to serious deficiencies in the accuracy of the tax collection numbers and in the accountability for money received. Voluntary tax compliance in the District is languishing, evasion is significant, and business tax revenues derived largely from audits. This is neither a fair nor an efficient way to collect taxes. And without an internal auditor or resident Inspector General watching over the collections or the assessments of property, the possibilities for corruption need to be recognized and corrected.

Given that information, what I proposed was that for a sustainable revenue structure for the District of Columbia and to make it competitive with the surrounding area, two things must happen. Some actions have to take place at the District's own level; that is, a number of taxes should be eliminated and the remaining taxes should be cut and dramatically simplified. Second, we needed to find, getting to the title of my study "The Orphaned Capital," we needed to find a parent for this orphan. And for cities in this country, their parents are their States. So we needed to find for the District a missing State, and I propose that that missing State must be the Federal Government.

So, I proposed a revenue structure here that would be budget-neutral. I took the District's budget as presently authorized and approved by the Congress of the United States, and I restructured it to make it look more typically like an American city. I eliminated

four business taxes—the corporate income or franchise tax; the unincorporated franchise tax; the personal property tax, which in the District is only a business tax; and the professional license fee, which would take a big burden off of the District's tax collectors. I proposed that the real property tax and the personal income tax be cut close to a third, each of those, and dramatically simplified.

For the real property tax, I recommend moving from five categories of property to two and for rates to be dramatically cut for those. This actually pertains to the literature which shows that the most significant tax that affects local economic activity is the commercial property tax rate; and, I would change that in the District. For the income tax, I would simplify it to make it look pretty similar to the tax in two small East Coast States, Vermont and Rhode Island, which is just a percent of Federal liability. I would also let the Internal Revenue Service collect it.

To make up for this loss in discretionary revenues, I would substitute a new fiscal relationship with the Federal Government. It would have three elements, and each would address a particular part of the District's revenue shortage that results from the unique status of being the Nation's Capital.

The first is that the Federal Government should make a payment in lieu of taxes to fully cover the services received by the 41 percent of the District's tax base that is, by Federal determination, exempt from taxation. This would allow property taxes to be reduced for all property owners.

Second, the Federal Government should provide State aid of an amount similar to that received from their State governments by cities of similar size. This would simply provide parity for the District compared to other American cities.

Third, there should be a 50/50 sharing of State-type spending, including the State share of Medicaid and welfare. This would not be discretionary revenue, but this would be categorical aid to the District. It would partially compensate the District for the fact that it has no State to provide a range of State services, and it would provide an incentive for efficient service delivery.

None of this third element would of course have to happen if, in its role of acting like a State, the Federal Government would actually provide the State service instead. But this is really to cover the places in which the Federal Government doesn't provide the service.

The total Federal resources in my proposal which would be committed to this new relationship amount to about $1.2 billion, based on present spending patterns. Some of that aid would be discretionary, that is, the payment in lieu of taxes (PILOT) and the State aid; and some would be categorical aid and tied in quite typical ways and only be spent on the services and subject to oversight.

Based on my study then, the Federal payment at the moment currently falls about $535 million, or 45 percent, short of fully compensating the District for being the Nation's Capital. Increasing the resources, basing them on the logic of the burdens borne by the Nation's Capital and making them predictable, I believe, would help to provide ongoing budget balance for the District of Columbia. It would also, importantly, allow the District to simplify and lower its taxes on its residents and on its businesses.

The new fiscal relationship would cost the average American annually about $4.50. This is the price for a capital city that is, in the Nation's founders intention, separate from any State government; and it reflects the national purpose.

Thank you.

Mr. DAVIS. Thank you very much. You finished right on time.

[The prepared statement of Ms. O'Cleireacain follows:]

BROOKINGS POLICY BRIEF

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THE ORPHANED CAPITAL

Adopting a Revenue Plan for the District of Columbia

The District of Columbia's revenue structure is collapsing—but it can be fixed. Unlike other cities, the capital's tax base is severely restricted by federal law. There is no state aid, and government, the hometown industry, is tax exempt.

A sustainable revenue system is key to the survival of Washington, D.C. First, however, services must improve dramatically. Public officials must show that the District can live within its means. But as painful management reforms are made, District residents, employees, and political leaders should expect a tangible payoff: a rational and stable revenue base on which the city's budget will rest.

This study offers workable remedies. It proposes a budget-neutral revenue structure more like that of a typical American city, with the federal government playing the role of a state. We propose that four business taxes be eliminated and that commercial property and personal income taxes be cut. The federal government should increase aid in three specific ways: a payment in lieu of taxes to make up for the 41 percent of property that is tax exempt; "state" aid comparable to that received by similar-sized cities; and coverage of 50 percent of the cost of state-type services provided to District residents.

The DC Revenue Project's plan is fair and manageable. It is the least that the nation can do to ensure the viability of its own capital city.

CAROL O'CLEIREACAIN

COMMON AND UNCOMMON SENSE FROM THE BROOKINGS INSTITUTION



CAROL O'CLEIREACAIN

THE ORPHANED CAPITAL

Adopting a Revenue Plan for the District of Columbia

The nation's capital is in a fiscal crisis. A presidentially appointed Control Board has been charged with balancing the budget of the District of Columbia by 1999. If the budget is to remain in balance, a number of structural changes will be necessary. This study offers the adjustments required on the revenue side. It presupposes that the Control Board and the District's chief financial officer will bring spending under control and deliver District services efficiently, thus making possible the proposals offered here.

The District's long-term fiscal problems stem from its being the nation's capital. By intention, it is neither a state nor a city within a state. To avoid the inherent conflicts between local and national interests and to ensure the federal government's independence from any state, the drafters of the Constitution established the capital as a "district," and in Article 1, section 8, clause 17, retained for Congress the authority "to exercise exclusive legislation in all cases whatsoever, over such district."

This unique status and congressional oversight have familiar ramifications. Congress has defined the District's physical presence, setting its boundaries and stipulating its appearance, including the height of its buildings. Congress has also defined the political landscape. While District citizens are now allowed to vote for the president, the vice president, and a nonvoting delegate to the House of Representatives, they do not have voting representation in either house of Congress, even though Congress ultimately determines the District's budget and its taxes.

The District's unique status has less familiar revenue implications. As both the nation's capital and a city that is not part of a state, the District has a limited tax base. As an entity unto itself it must provide a range of nonfederal services to its residents, including welfare and the state portion of Medicaid, financed from that limited tax base. In its oversight capacity, Congress has limited the District's taxing powers and revenue sources. The more limited the tax base, the heavier the tax burden on the remaining parts of the District's economy. Increasingly, businesses and residents are leaving town. Truly, this is an orphaned capital.

Carol O'Cleireacain is a visiting fellow in the Economic Studies program of the Brookings Institution. She is the former budget director and finance commissioner of the City of New York (Dinkins adm.).

The DC Revenue Project represents dedicated work by Martha Stark, Stephen Mark, Robert Zahradnik, and Jeremy White. They have proved to be a remarkable team. Responsibility for any errors, of course, remains with the author. The Brookings Institution began the DC Revenue Project in the spring of 1996. The goal has been to devise a revenue structure compatible with long-term budget balance for the District of Columbia. The complete study will be available in book form, with selected data on the Brookings web-site, in March 1997.

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Brookings gratefully acknowledges the generosity of the Cabot Family Charitable Trust for its support in initiating the *Policy Brief* series.

THE FINDINGS

The District of Columbia's *present revenue structure is not sustainable*, as explained below.

The Tax Structure Is a Dysfunctional Hybrid

As a small, open economy, the District *functions like a city*. However, because of its unique nature, its budget is a hybrid of city- and state-type taxes and fees as well as state and city service responsibilities (see figure 1).

Compared with cities, the District levies many more, and higher, taxes on resident households and businesses. For example, the District is one of only a handful of cities to levy a full personal income tax (on unearned as well as earned income). *Compared with states*, the District lacks both the constitutional standing and the state sovereignty to determine whom and what it taxes. For example, its personal income tax looks like a state income tax. But *unlike any state*, the District is not allowed to tax nonresident earnings. The courts have ruled that this exclusion extends to nonresidents' income from professional partnerships—the legal, accounting, management, and political consulting firms clustered in the nation's capital.

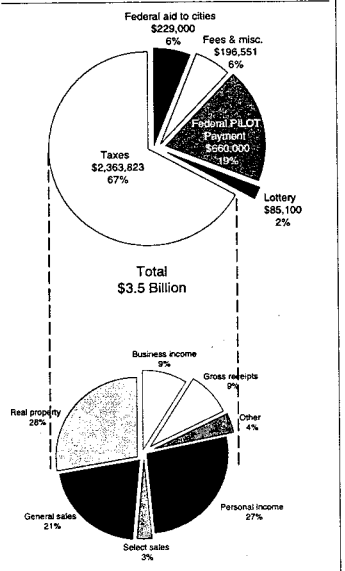
For households, the tax burden becomes progressively higher as income levels rise, and at $100,000 and above is the highest in the metropolitan area. For businesses, the District tax bill is at least 25 percent greater than elsewhere in the region. The District's high commercial property tax and sales tax rates are probably a significant factor accounting for the city's declining share of metropolitan-area private employment.

The Hometown Industry Is Tax Exempt

The District's tax base is significantly reduced because it is the nation's capital. Forty-one percent of the property in the District is *exempt from property taxes*.

Figure 1. District of Columbia Discretionary Revenues, Fiscal Year 1995

thousands of dollars



Source: *District of Columbia 1995 Comprehensive Annual Financial Report*

Sixty-five percent of the exempt property belongs to the federal government. The rest, exempted by Congress or by executive order, includes property of churches, libraries, hospitals, and universities, plus that of foreign governments, multilateral institutions, and national nonprofit organizations.

Most employment in the District does not generate income tax revenue for the District. It generates it for Maryland and Virginia. Every day, almost half a million workers flow into the District, but Congress does not allow the District to tax their earnings. We estimate a $20 billion earnings gap between suburban commuters into the District and residents who work outside, which is worth about $1 billion in revenue: $366 million to Virginia and $619 million to Maryland and its counties.

Finally, other economic transactions, by military and diplomatic personnel as well as by the federal government, go exempt from *sales, income, and personal property taxes*. The District estimates annual revenue forgone, at present tax rates, at $120 million.

The District Lacks State Aid

In the rest of America, states redistribute tax revenues to localities in the form of aid. State aid accounts for 28 percent to 38 percent of general revenues for Boston, Memphis, and Baltimore, cities of similar population and area. This state aid is not available to the District.

The District does receive a unique federal payment of $660 million ($2.50 annually from every taxpaying American). But at 19 percent of District revenues, that payment represents only half the share of help that Maryland provides Baltimore through state aid. The *federal payment is not large enough* to cover the revenue shortages resulting from the unique character of the nation's capital.

The Revenue Collection System Is Broken

Moreover the District does not have the capacity to enforce and fairly collect the more than 20 different taxes and 115 fees and charges now on the books. Enforcement is arbitrary and unsystematic, resulting in unfair tax burdens. Voluntary tax compliance is languishing, evasion is significant, and business tax revenues derive largely from audits.

High turnover in management—the District's tax agency has had nine directors in the past twenty years—has resulted in lack of leadership, leaving tax collectors no match for the private sector. Internal appraisals indicate that the District's auditors and assessors have not kept up with the technological developments that have revolutionized tax collecting and have not been trained to use even the outmoded technology that is available to them.

Finally, there is a serious risk of corruption. Neither an internal auditor nor a resident inspector general watches over tax collections. External audits point to serious deficiencies in the accuracy of the tax collection numbers and in the accountability for money received. Many properties are underassessed, some perhaps intentionally. Growing backlogs (in part the result of a 22 percent decrease in staff since 1990 and the lack of technological or management improvements) offer easy opportunities for outstanding tax bills to remain uncollected.

THE PROPOSALS

The DC Revenue Project proposes cutting some taxes, eliminating others, streamlining the tax structure, and creating a new federal-District revenue relationship. To produce a revenue structure comparable to that of other American cities, the project takes as given the present size of the

District's budget, which has been approved by Congress.

Our proposal would completely eliminate four taxes including the personal property tax, the professional license fee, the corporate income (franchise) tax, and the unincorporated income (franchise) tax. In addition, two broadly based taxes would be cut significantly. Real property tax revenues would be cut by 27 percent, with five classes reduced to two, and the timing of assessments and payments would be simplified to improve cash flow. The personal income tax would be cut by 30 percent, meaning that all residents with federal adjusted gross income of less than $200,000 would have their taxes cut and that 36 percent of District residents would pay no income tax. The new income tax would be a single rate of 28 percent of federal liability, with collection and enforcement delegated to the IRS. The plan would also increase the broadly based gross receipts tax by $50 million.

The new fiscal relationship with the federal government would have three distinct elements. Each addresses a particular part of the revenue shortage resulting from the unique nature of the nation's capital. The first is a payment in lieu of taxes, amounting to $382 million, to compensate the District for the reduction of its tax base by federally owned, tax-exempt property. This would allow property taxes to be reduced for all other owners. The second is state aid of $434 million, an amount comparable to that received from their state governments by cities of similar size. The third is a 50-50 sharing of state-type spending, on Medicaid and welfare ($220 million) and on general programs ($158 million), which together amount to an additional $378 million. This partially compensates the District for the fact that it has no state to provide a range of state services. The compensation would not be necessary, of course, if the federal government chose to provide these services directly to District residents. Federal resources in this proposal total $1.2 billion.

DETAILED PROPOSALS FOR LONG-RUN BUDGET BALANCE

Adjusting Washington's revenue structure will not change its unique status as a city-state, but it can change a dysfunctional hybrid revenue structure into one that more closely resembles that of cities of similar size.

The proposed structure has been governed by the practical constraint of the tax burdens in the surrounding jurisdictions. The District already has the highest per capita tax burden in the region, as well as the highest tax costs of doing business. As a result, businesses and households have been voting with their feet.

The revenues shown here should be treated as orders of magnitude or general neighborhoods rather than budgetable amounts since they are estimates based on the less-than-perfect data available to this study.

Table 1 shows both existing and proposed structures for the District of Columbia's general fund discretionary revenues. Table 2 demonstrates budget neutrality.

City-Type Taxes

City-type taxes could be reduced by almost half a billion dollars by reforming the real property tax; by eliminating two city-type business taxes (the personal property tax and professional license fee); and by increasing one city-type business tax (the gross receipts tax).

Real Property Tax

None of the jurisdictions surrounding Washington has property classification systems or effective commercial

Table 1. District of Columbia General Fund Discretionary Revenues, Current and Proposed, Fiscal Year 1995

millions of dollars

	CURRENT	PROPOSED	DIFFERENCE	percent CURRENT	percent PROPOSED
City-type taxes	1,653,171	1,179,123	(474,048)	47	38
Property	654,284	477,104	(177,180)	19	15
Personal property	61,305	0	(61,305)	2	0
Gross receipts	210,269	260,269	50,000	6	8
Other	67,313	59,271	(8,042)	2	2
PILOT	660,000	382,479	(277,521)	19	12
Intergovernmental aid	229,364	663,530	434,166	7	21
Federal aid to cities	229,364	229,364		7	7
State aid	0	434,166	434,166	0	14
Fees	188,509	188,509		5	6
City revenues(total)	2,071,044	2,031,162	(39,882)	59	65
State-type taxes	1,370,652	1,015,973	(354,679)	39	32
Personal income	643,676	449,676	(194,000)	18	14
Sales (selective and general)	549,490	549,490		16	18
Business income	160,679	0	(160,679)	5	0
Other	16,807	16,807		0	1
State fees-lottery	85,100	85,100		2	3
State revenues(total)	1,455,752	1,101,073	(354,679)	41	35
State and city revenues[a]	3,526,796	3,132,235	(394,561)	100	100

Sources: *District of Columbia 1995 Comprehensive Annual Financial Report; and author's calculations.*

a. Also called general fund discretionary revenue; see table 2.

property taxes as high as the District's. The present five-class system in the District has resulted in a $2.15 (per $100 of market value) effective commercial rate on occupied property and $5.00 on vacant property. These rates result in commercial tax liabilities that are, on average, 40 percent higher than those in the suburbs. Our econometric analysis indicates that these differences are significant in explaining some of the District's declining share of the region's jobs and showing that a property tax cut may increase employment in the District.

We propose reducing the five-class system to two classes—a residential rate of $0.90 and a commercial rate of $1.35—with a maximum 150 percent ratio between the two rates, to be set by statute, to prevent a creeping increase in the commercial rate. We also offer a series of structural reforms and calendar changes in collecting and budgeting the property tax, including a reserve for delinquencies, that will improve cash flow and budget stability. These lowered rates, holding other things constant, will result in increased property values and lower rents, for both households and businesses.

Simplicity argues for a single-class system, but the District's present rate structure makes it very difficult to get from here to there. The District's lowest (residential) rate is now $0.96, and its highest is $5.00. The suburban rates range from $0.90 to $1.45 (with the modal rate at $1.07). Imposing a single-class system at the current residential rate would reduce commercial rates in the core of downtown office buildings (now at $2.15) to a level far below that of the surrounding area. Alternatively, imposing a single rate system at the suburban rates would require a tax increase on all homeowners, which this study has ruled out given

the present low quality of District services, looming assessment changes, and our proposals for an income-targeted relief program. Thus the inevitability of a two-class system.

Table 2. Budget Reconciliation, Fiscal Year 1995

millions of dollars

	CURRENT	PROPOSED	DIFFERENCE
General fund, discretionary revenue[a]	3,527	3,132	(395)
Federal categorical grants[b]	653	653	0
Other revenues[c]	142	142	0
Federal aid for state-type spending			0
Medicaid and welfare at 75 percent	0	220	220
All other state services at 50 percent	0	158	158
General fund, budgeted revenue	4,322	4,305	(17)
Enterprise funds[d]	848	848	0
Total budget	5,170	5,153	(17)

Sources: *District of Columbia 1995 Comprehensive Annual Financial Report* (CAFR); and *District of Columbia 1997 Budget and Financial Plan.*

a. Includes $3,248 million of appropriated revenues as defined in the *CAFR* plus $85 million in lottery revenue, plus $229 million in federal aid to cities (total federal grants of $882 million less $653 million in categorical human services grants), less the $35 million motor fuel tax, less the $175,000 health care provider fee, and less the $468,000 general fund portion of the arena fee (*CAFR*, p. 23, 46).
b. Federal grants for human support services, primarily Medicaid and welfare (*CAFR*, p. 46).
c. Nonappropriated charges for services and miscellaneous revenues (*CAFR*, p. 23).
d. Total expenditures for the enterprise funds as reported in the budget (*Budget*, p. 35).

Personal Property Tax

Having accepted two classes, we determined that the District would be able to meet a further goal of eliminating unenforceable taxes by setting the commercial property tax at a rate that would allow for elimination of the business personal property tax ($61 million), a burdensome and increasingly unenforceable tax. The resulting $1.35 commercial rate is a significant reduction from current burdens and a rate on a par with that in Prince William County. Since surrounding jurisdictions still impose a personal property tax, eliminating the District's tax provides some competitive advantage.

Professional License Fee

The professional license fee applies largely to professionals doing business in the District and is the remnant of attempts to tax the thousands of legal, accounting, political, and management consulting partnerships that cluster in the nation's capital. It is not well enforced, which makes it unfair and discourages potential payers from acknowledging self-employment in the District. It should be eliminated.

Gross Receipts Tax

The Rivlin Commission, in its 1990 report to the mayor on budgetary reform, recommended a broadly based gross receipts tax, in large measure because it is so easy to audit and enforce and, at low rates, issues of fairness are minor. The District has implemented a small tax and dedicated the $10 million in revenue to financing the downtown sports arena now under construction. From data provided by the Department of Finance and Revenue, we determined that collecting five times the current amount for general revenue, while continuing the portion designated for the arena, would still keep the burden comparable to that in the surrounding area.

PILOT

We propose that the federal government make a payment in lieu of taxes (PILOT) covering the 41 percent of the property base of the nation's capital that is tax exempt and receives local services. The federal government should compensate the District for the cost of the tax exemptions by paying a full tax-equivalency PILOT on the value of the tax-exempt property.

Unlike the present federal payment, the amount of the PILOT should not be negotiable. Its value should be determined by assessments and by the commercial property tax rate. It should be a permanent part of the federal budget, incorporated into the grants section with other PILOTs.

Based on existing assessments and the proposed commercial property tax rate of $1.35, the federal PILOT would be $382 million. Like a state, the federal government has determined which local properties are exempt from taxation. In this proposal we have included all tax-exempt properties, except those belonging to the government of the District of Columbia, as part of a federal PILOT. About 65 percent of the PILOT would compensate for federal government property, with the remainder covering property owned by traditional tax-exempt organizations and diplomatic, national nonprofit, and multilateral institutions. Many consider these institutions part of the fabric of the nation's capital. If some people question whether the federal government should pick up the costs of the one-third of the property that is not federally owned, the option always exists for the federal government to negotiate to share the burden with those receiving this benefit.

The values for tax-exempt property should be treated with caution. Because the assessments of exempt property have never been used for a material purpose, neither the District nor the owners have had an incentive to ensure their accuracy. Under this proposal, there might be an advantage for both the federal and District governments to form a partnership with the International Association of Assessing Officers (IAAO) to ensure state-of-the-art valuation for some of the unique properties of the nation's capital. Similar valuation techniques are used by New York City to value Central Park and to arrive at the PILOTs that New York State pays for the World Trade Center and Battery Park City.

State-Type Taxes

We propose eliminating unenforceable and arbitrary business income taxes and converting the personal income tax into a flat percentage of the federal income tax liability, administered by the Internal Revenue Service. While these actions would cost the District revenue, they would improve markedly the fairness of the tax structure and the enforcement and collection process.

The Personal Income Tax

Most cities do not levy a personal income tax on unearned and earned income; states do. Even by state standards, District residents pay a greater share of their income toward an income tax. The District's income tax is higher than Virginia's and similar to that in the Maryland suburbs. The income base requires numerous adjustments from the federal form 1040, and the tax, though progressive, is less progressive than the federal tax, which causes some residents who receive the federal earned income tax credit to pay District income tax.

Washington should follow the lead of two small East Coast states, Rhode Island and Vermont, and piggyback on the federal income tax. We also recommend that the IRS administer the tax for the District.

Under this proposal, the District would raise about $200 million less than it does now. District residents would pay a flat 28 percent of federal liability. Virtually no taxpayers would be worse off; the effective tax rate would decrease for all income classes. The average effective rate in the District would fall from 5.15 percent to 4.33 percent, with the largest drop (from 5.42 percent to 3.34 percent) occurring for those with federal adjusted gross incomes of $30,000–$50,000. Those with federal adjusted gross incomes of $100,000–200,000 would see a reduction of their effective rate from 6.73 percent to 5.29 percent. Those with incomes greater

than $200,000 would receive only marginal reductions in their District tax liability.

The strongest reason for this simplification is to have the IRS, headquartered in the Washington area and acknowledged as the best tax agency in the world, administer this tax on behalf of the District. While it could take as long as two years to put the programming and administration in place, this proposal offers significant administrative and enforcement relief to the District.

Business Income Taxes

The two income-based general business taxes, each flawed in its own way, should be eliminated. The reform would cost about $160 million in revenue. However, to the extent that S-corporation owners and partners of unincorporated businesses are residents of the District, some revenue would flow back through the personal income tax.

The District's corporate franchise tax, structured like typical state corporate income taxes, has an effective rate of 9.975 percent (including two surcharges). This is significantly higher than the 7 percent and 6 percent marginal rates in Maryland and Virginia, respectively; the franchise tax generates only 5 percent of the District's tax revenue and is exceedingly complicated and poorly administered. The data are so incomplete that the tax collectors do not know who the biggest taxpayers are, what industries bear the heaviest burdens, or how tax liabilities vary by size or type of corporation. The revenues, largely audit driven, are erratic and unpredictable. Increasingly, the District is being subjected to blackmail by corporations that seek special treatment for remaining in Washington.

The unincorporated franchise tax should also be eliminated. The remaining model for it is New York City's unincorporated business tax (UBT). Levied at the same rate as the corporate tax, it was intended to create parallel tax treatment regardless of the form of the business and to reach, primarily, the lucrative 4.5 percent of private employment represented by legal services. However, as a result of a court ruling in 1979, the District exempts professional partnerships from this tax, which has effectively been reduced to a levy on small proprietors. About 8,000 payers produce $39 million in revenue.

The already mentioned gross receipts tax would take the place of these two flawed taxes. The broadly based gross receipts tax is simple, enforceable, and, with a graduated payment structure, not unduly burdensome. It also does not violate the prohibition on the taxation of nonresident income. It would be patterned after the existing arena fee. The net revenue loss would be no more than $119 million.

State Aid

As a city, the District needs a state. States provide aid to cities in large part to ensure fair treatment for the residents of all jurisdictions in a metropolitan area. At present this does not happen in the District of Columbia, where 44 percent of the metropolitan area's poor people live.

We propose that the federal government take on the role of state to the United States' orphaned capital city. One way states help their localities is by providing aid in the form of general revenue. It comes from state taxes and is distributed in recognition of special spending burdens and as compensation for services that localities are expected to provide. Like other localities, the District contributes to federal collections. In this way the District has the same relationship to the federal "state" that many small counties have to their states. They pay taxes; they receive aid.

Table 3 summarizes the proposed fiscal relationship between the federal government and the District. In addition to the PILOT, the federal government would provide two distinct sources of budget funding,

Table 3. Proposed Restructured Relationship between the Federal Government and the District of Columbia, Fiscal Year 1995

millions of dollars

PILOT[a]		382.5
Federal government property	280.9	
Traditional local exemptions required by Congress	69.5	
Foreign property	14.0	
Special act of Congress and executive order exemptions	18.1	
Direct state aid		434.2
Shared costs for state redistributive services (Medicaid and welfare)[b]		220.4
Shared costs for other state services		158.2
TOTAL		1,195.3

Sources: Author's calculations based on District of Columbia, Department of Finance and Revenue, *Study of Property, Income and Sales Tax Exemptions in the District of Columbia*, 7 April 1995; District of Columbia, Department of Finance and Revenue, "Schedule of Organizations in the District of Columbia Exempted from Real Property Taxation by Acts of Congress," 1996 assessment; Philip Dearborn and Carol Myers, "The Necessity and Cost of District of Columbia Services," August 1996; and *FY 1995 Boston Comprehensive Annual Financial Report*.

a. Not included in PILOT are other tax exemptions that reduce the District's tax base and the estimated revenue forgone: sales tax on military purchases, $10.9 million; sales tax on diplomatic purchases, $11.2 million; income tax on military purchases, $10.9 million; sales tax on diplomatic purchases, $11.2 million; income tax on military purchases, $21.1 million; income tax on diplomatic purchases, $25.6 million; federal and special act of Congress personal property, $52.6 million; and federal sales tax (not available).
b. State services provided by the District include the following: SSI supplements, general relief, need determination, foster care, development disabilities, rehabilitation, child support, health labs, long-term care, mental health, higher education, parole, and vehicle registration.

helping the District's revenue sources to resemble more closely those of typical cities, allowing a reduction in taxes for District residents of more than one-half billion dollars, and making the District more competitive with the surrounding region.

We calculated an annual state aid payment of $434 million. To determine the amount of state aid that would be appropriate for the District, we took the amount that Massachusetts provides to Boston and adjusted for the small difference in population between the two cities.

State-Type Services (Medicaid)

The absence of a state also means the District provides a range of state-type services. We are proposing that the federal government act as a state for these services, although it is useful to distinguish between redistributive services, such as Medicaid and welfare, and all others. In the case of Medicaid, for example, there is no perfect model for the federal-District relationship because this is a national program in which the federal government already provides at least 50 percent of the funding. With the exception of New York City, cities do not pay for Medicaid; states do. At the moment, the federal government is treating the District of Columbia as if it were a state. The federal government pays half the costs and the District picks up the other half.

Acting as the state, the federal government would provide Medicaid directly to the District of Columbia. However, these may not be services the federal government wants to provide or believes itself equipped to provide. Compensating the District fully for performing these state functions would give no incentive for the District (with none of its own resources at stake) to provide this service efficiently. A better, though not perfect, model is that of New York City, where the federal government picks up an additional 25 percent state share. That would leave the District to provide the service and cover 25 percent of the cost.

State-Type Services (Others)

Finally, there remains a range of general state-type services that the District is presently providing. In a recent study for the Control Board, Philip Dearborn

and Carol Meyers of the Greater Washington Research Center estimate these at an annual cost of $316 million. Here, too, there should be a sharing of costs—a 50-50 split. Again, the option always remains for direct federal provision. The judgment lies with the federal government as to what it may be able to provide efficiently.

The Norton Plan

At the moment the only alternative proposal for restructuring the federal relationship with the District is Delegate Eleanor Holmes Norton's 15 percent federal flat income tax for District residents. Given the structure of District incomes and the progressivity of the federal income tax, the Norton proposal generates the largest benefits for those with the largest incomes. For example, taxpayers with incomes in excess of $200,000 (1.8 percent of the District federal returns) would receive 28.5 percent of the benefits. For middle-income families earning $40,000 to $75,000 a year, about 17 percent of present District taxpayers, the cut would be $2,100 to $2,700 a year. For those earning $100,000 a year, the cut would be worth $6,500 to $7,000. As to whether the Norton tax cut is, on average, big enough to affect individuals' decisions on whether to live in the District, there is no empirical evidence. In contrast to the Norton proposal, our proposal reduces the taxes of District residents with incomes less than $200,000 and would result in about 36 percent of the population paying no District income tax at all.

At an estimated additional annual cost to the federal government of $750 million, the Norton proposal would more than double the existing federal commitment to the District ($660 million) without offering the District direct budget relief. The $750 million cost must be seen as the minimum, for two reasons. One is the impossibility of enforcing the definition of "bona fide residents." The other is the result of behavioral changes induced by lower taxes. According to the Joint Committee on Taxation, such behavioral changes result in a potential annual cost to the federal government of $1.8 billion by 2006. The DC Revenue Project's proposal costs the federal government less and provides the District with direct budget relief.

CONCLUSION

Restructuring the District's revenues is essential to ensure the survival of the nation's capital. It is not the first step; nor is it a silver bullet. First, services must improve. Present and potential taxpayers must perceive a value received for their tax dollars. Second, financial accountability and prudent fiscal management must be in place. Aid to the District, as well as taxes, no matter how justified, cannot be wasted. Third, a long-term financial plan must set out all the revenue and spending changes.

But even if the District were providing services efficiently and operating under state-of-the-art systems, our analysis indicates that its revenues would fail to keep pace with spending over the long term. In addition, as tough management decisions are made, District residents, employees, and political leaders need to know that there will, eventually, be a more rational revenue structure on which the District's budget will rest.

The proposals presented here are budget neutral and can be phased in. For example, the income tax proposal requires a planning process for the IRS that should begin immediately. Changes in the property tax calendar and payment schedule need to precede cuts in the property tax rates (and revenues) to avoid making bondholders nervous over the District's ability to repay debt. Further, the property tax cuts can proceed hand in hand with the refinancing of existing debt and the bonding-out of the accumulated deficit over the coming

years. Or the gross receipts tax could be dedicated to paying off the accumulated deficit. The elimination of the business taxes can be linked to changes in spending or the introduction of an independent economic development agency. And, of course, the introduction of state aid and federal sharing of state-type spending can be linked to improvements in the District's delivery of these services and greater efficiencies in their operations and can be provided through the Control Board, if necessary.

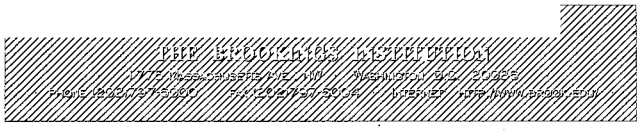
Finally, we must note that while the addition to annual federal spending proposed here is not great, the federal budget is moving toward balance, and federal budget constraints are real, too. The case presented here for the federal fiscal role with respect to the District rests on a constitutional obligation set out in Article 1. From the point of view of federal budget scoring, this obligation should translate into all of the aid's being properly categorized as mandatory spending, thus not subject to the cap faced by discretionary spending.

The DC Revenue Project has demonstrated that the nation's capital suffers from a limited tax base and the absence of a state government, a situation that has produced an unsustainable revenue structure. Because Washington's solvency is in the national interest, the study proposes a revenue structure more comparable to that of other American cities, including the fiscal relationships with the states that granted them home rule. It is fair; it is manageable; it is the least that the nation can do for its own capital city.

The DC Revenue Project has been financed by the Brookings Institution and by generous contributions from individuals, local foundations, and the Ford Foundation. The author has benefited from conversations with District residents, community groups, an advisory group for the project, economists, and wide-ranging meetings with policymakers and analysts in greater Washington. All have been extraordinarily generous with their time and expertise.

The project's completion would not have been possible without the cooperation of staff at two particular District institutions. We thank John Hill and his staff at the Control Board for being there whenever we needed help. We also owe much to the District of Columbia's chief financial officer, Anthony Williams, who provided generous access to his time and to his staff. We are especially grateful for his designation of Dr. Julia Friedman, chief economist at the Department of Finance and Revenue, as liaison to this study. She expedited our data requests, answered our many questions, and deserves a huge thank you.

Previous issues of the *Policy Brief* series are available on the internet at URL: HTTP://WWW.BROOK.EDU.



Mr. DAVIS. Dr. Fuller, thank you very much for being here.

Mr. FULLER. Good afternoon. It is a pleasure to be here.

Over the years, I have been involved in a variety of studies on the District of Columbia's economy and the Washington area; and from that work I have drawn several conclusions. I will start with my conclusions and then give you a few comments.

First, the District economy is substantially underperforming its potential. Second, the District's economic recovery depends, among other actions, on reducing the cost of living and the cost of doing business in the city by reducing the local tax burden and by implementing a carefully crafted economic development program. Third, the economic revitalization in the District would generate substantial benefits for both District and suburban economies.

There are many reasons to explain why the District's economy is weak. These include a negative business image, high tax rates, high operating costs, high prime rates, poor quality infrastructure, poor quality public services, deteriorated physical environment, physical conditions and ineffective public leadership. All of these conditions, to differing degrees, have taken their toll on the District's economy.

Success in building the District's economy will depend on reducing the counterproductive costs of doing business or of living in the District. Bringing the District's local tax burden into line with other cities is important. The President's proposal provides a partial solution to the District's uncompetitive tax environment. However, it is only a partial answer, as it ignores important fiscal inequities.

The President's proposal is a significant step in the evolving solution. I applaud the administration for its recognition that the Federal Government must be a partner with the District's taxpayers in funding basic, State-level public services. The Commonwealth of Virginia is a partner of its cities and counties.

I could argue with some of the funding levels proposed for cost-sharing, but I won't at this point. I will leave that to others. However, I will argue that the reasoning is flawed behind the proposal to trade the Federal payment for this Federal commitment to share in the costs of State-level public services. Whether it is called a Federal payment or not, the Federal Government's responsibility to the District extends beyond fulfilling its cost-sharing duties as the District's parent jurisdiction.

The District is unlike any other city to the extent to which its property tax base is constrained as a consequence of hosting the Federal Government. Where in other large central cities tax-exempt properties account for approximately 15 percent of the land normally subject to property taxes, in the District this percentage is three times greater.

This large proportion of tax-exempt land includes not only land owned and occupied by Federal facilities but also property, international organizations, embassies and other properties owned by foreign governments and property owned by organizations granted tax-exempt status by the Congress, such as the National Education Association and the National Geographic Society. Studies have put the value of these lost real estate taxes in the neighborhood of $300 million annually.

This amount could be accurately calculated each year and used to determine a Federal payment in lieu of taxes. This payment, in combination with the Federal Government's participation in cost-sharing in the provision of State-level public services as proposed under the President's plan, would enable the District's local tax burden to be reduced, making it more similar to those of other major cities. This would substantially increase the District's attractiveness as a place within which to live and to do business.

Reducing the local tax burden, targeting tax incentives and establishing an administrative vehicle to initiate and manage an economic development program in the District are ideas that have substantial merit. I support them fully.

Still, even if the playing field is leveled by a reduction in local tax burdens and incentives are available for business development, economic growth in the District will not be automatic. The District's competitive advantages that should be the basis for formulating effective economic growth strategies need to be fully understood.

Formulating economic development strategies around the District's core businesses offers it the greatest opportunity for early success. Strategies that build on the District's inherent economic strengths will yield better and faster results than strategies designed to compete head to head with suburban economic development programs.

My research has shown that the healthier District of Columbia economy will pay substantial dividends to the Washington area's suburban economies. Because of the strong interdependencies within the regional economy, economic growth in the District spins off benefits to the suburbs.

While the suburban economies have performed well in recent years compared to the District, the suburban economies can't grow much faster than they are now, unless either the national economy performs better than is expected or unless the District's economy is strengthened. In fact, the easiest way for the suburbs to promote their own faster economic growth in the short term would be to find ways to accelerate the District's economic recovery.

The District's economic base has inherent advantages in growth potentials. These must be understood and built on. Only then will the incentives and support proposed by the President's package have a chance to stimulate long-term economic development in the District of Columbia.

If successful, the revitalization of the District economy will generate substantial benefits throughout the metropolitan economy.

Thank you. I will be happy to answer questions.

Mr. DAVIS. Dr. Fuller, thank you very much.

[The prepared statement of Mr. Fuller follows:]

Testimony Presented Before The House District of Columbia Subcommittee on the President's National Capital Revitalization and Self-Government Improvement Plan

By

Stephen S. Fuller, Ph.D.
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March 25, 1997

Good morning. My name is Stephen S. Fuller. I am Professor of Public Policy at George Mason University. Over the past 15 years I have written more than 100 reports and publications on the metropolitan Washington area economy with several of these focusing specifically on the District of Columbia. The most recent of these, entitled "The Economy of the District of Columbia and Its Impact on the Washington Area and Its Suburbs," was released last December. It is my conclusion from this body of research that: (1) the District of Columbia economy is highly interdependent with the economies of the Washington suburbs, (2) the District's economy is substantially underperforming its potential; (3) the District's economic recovery depends on aggressively reducing the costs of living and doing business there by reducing the local tax burden and implementation of a carefully crafted economic development program; and (4) economic revitalization in the District will generate substantial economic benefits that will also accrue to the suburbs.

The District of Columbia economy is the largest of any jurisdiction in the metropolitan Washington area and, while its relative importance as a source of economic activity (measured in terms of gross regional product) has steadily diminished with the growth of the suburbs, it still accounts of more than 25 percent of the metropolitan area's economy. That share totaled approximately $44 billion in 1996. And, however big this 25 percent share may sound, it still understates the strategic importance of the District to the metropolitan Washington area economy.

The regional economy is more interrelated and interdependent than are other metropolitan economies where the economic functions originally established and developed in the central city have either

relocated to the suburbs, declined as core businesses, or disappeared (gone out of business) altogether. Where these core businesses were manufacturing based, changes in the national and global economies have rendered many of these obsolete with the resulting decline and deterioration that has substantial undercut the central city's economic base. Additionally, the shifting population base from the central city to the suburbs has taken the retail industry and many of the service-base activities to the suburbs, too. And, the deterioration of the central city environment has forced other central functions, such as corporate headquarters, to leave for high-amenity or campus-like locations well removed from the central city.

At first glance, this pattern of metropolitan development might seem to describe what has been happening in the Washington area. However, the Washington area economy is different. Its core businesses still have strong ties to the central city and these central city-suburban interdependencies actually constitute the structural strength of the economy where in most other large metropolitan areas the suburban economy appears better off without the historical central city linkages. The difference is the unique structure of the Washington area economy. Its core business is central city-based; in many aspects the economy's core businesses are geographically fixed in the District of Columbia.

What are these core businesses? The most important core business is the federal government and the national capital functions that evolve from the federal government and the District's function as the nation's capital. Direct federal spending in the metropolitan area totaled approximately $60 billion last year accounting directly for about 35 percent of the region's total economic activity.

A second core business is the visitor industry. Each year more than 20 million out-of-town tourists and business visitors are attracted here primarily because of the District's national capital functions. Tourists visiting monuments and museums and business visitors attending conferences would not likely come here, to stay in the District or the suburbs, if Washington was not the nation's capital. Direct visitor spending in the area totaled an estimated $5 billion last year.

International business is the third core business function in the area economy. The location of the federal government, foreign consulates and embassies, international organizations and associations, and

supporting business and professional services represents a major source of economic activity that is clearly tied to the District of Columbia with activities extending throughout the region. We have not yet measured the full value of these activities although there is no doubting their importance to the area's economy. If I were to guess, I'd put their direct contribution to the regional economy in the neighborhood of $12-15 billion annually

The fourth leg of the regional economy is technology-based business. While the bulk of the technology firms in the region are located in the suburbs, these firms have strong historic and on-going business relationships with federal agencies, international organizations, and professional services firms located in the District or with agencies and firms tied to other agencies and firms located in the District. The direct contribution of the region's technology firms to gross regional product has been estimated at approximately $15 billion.

The District of Columbia is a headquarters city. The federal government is headquartered in the District. Foreign governments have their U. S. headquarters in the District of Columbia. The predominance of international institutions and membership organizations are located in the District. The places most frequently visited by tourists are located in the District and most business conferences and conventions take place in the District. This is not likely to change. The core business of the region, as described above, is centered on the District. As such, the District will continue to be the nucleus of the region's economy.

A simple illustration of the District's importance to the vitality of the suburban economy is provided by answering the question: What kind of economy would the suburbs have if the District's national capital functions did not exist?

My research has shown that a healthier District of Columbia economy will pay dividends to the Washington area suburban economy. Because of the strong interdependencies within the regional economy, economic growth in the District spins off benefits to the suburbs in greater amounts that the initial local gain in the District. This concept is called a multiplier. How does it work? Because of the District's small geographic size and dependency on external sources of inputs for most of what is produced and consumed in the District, income generated in the District largely goes to pay for resources

imported from the suburbs and other locations throughout the nation and world.

Two-thirds of the labor resources used within the District economy come from the suburbs. This fact is often pointed to in a negative way; that these commuters are taking value out of the District in the form of income that no longer benefits the District. Look at this relationship another way. Without these workers, the economy of the District would be two-thirds smaller.

The importation of labor is not to dissimilar from the importation of capital, building materials, food and other retail goods, or water. The fact that the District is a major market for these commodities ties it closely with the suppliers of these goods and services.

Tourists are no different. The tourists staying in Arlington hotels and visiting District attractions benefit both jurisdictions. The same relationships exist around the Beltway between suburban jurisdictions as well as with them and the District of Columbia. The bigger the economy of any one jurisdiction the more business it can do with its neighbors and the greater the economic benefits that these interdependencies can generate.

The suburban economy has performed well in recent years compared to the District. It grew at an estimated 2.5 percent last year while the District's economy contracted slightly (-0.6%) as the impacts of federal downsizing have had a disproportionally greater impact in the District than in the suburbs. Forecasts for 1997 show the suburban economy to well positioned for a strong year (3.6%). At this rate of growth, the suburban economies cannot grow much faster unless the national economy performs better than expected or unless the District's economy strengthened. In fact, the easiest way for the suburbs to promote faster economic growth in the short term would be to find ways to accelerate the District's economic recovery.

If this is true, then the question is: Is there any hope for the District economy? Does it have unrealized growth potential? The answer is a resounding yes!

Why, then, isn't the District economy performing better? There are many reasons that explain the District's weak economy. These include: its negative business image, its high tax rates, its high operating costs, its high crime rates, its poor quality infrastructure

and public services, its deteriorated physical conditions, and its ineffective public leadership. All of these conditions to differing degrees have taken their toll on the District's economy. However, not all of these conditions are unique to the District; many other central cities suffer from these negative forces, too.

The real mystery is why the District's economy has continued to perform as well as it has under these adverse conditions. The reasons that the District's economy survives in the face of mounting negative forces provide the very basis for designing a successful economic recovery program. This program must address the "push" factors so that the inherent "pull" factors can attract investment and build the economy. The success in building the District's economy and, as a result grow the local tax base, will depend on reducing the nonproductive costs of doing business or living in the District of Columbia. A flat tax isn't the answer; I have already testified against that. However, bringing the District's local tax burden into line with other cities is important. The President's proposal provides a partial solution to the District's uncompetitive tax environment. However, it is only a partial answer as it ignores other fiscal inequities.

In order for the District economy to achieve its growth potentials several major barriers that have undermined the economy's growth must be removed. To a large extent, the ground work for these solutions have already been laid. The fiscal crisis in the District is now well understood and efforts to bring the budget into balance offer some promise that this problem will become history in the near future.

The President's proposal is a significant step in the evolving solution. I applaud the Administration for its recognition that the federal government must be a partner with the District's tax payers in the funding of basic state-level public services, just as the Commonwealth of Virginia is a partner with the taxpayers of Richmond and Fairfax City. I could argue with some of the funding levels proposed for cost sharing but other experts are better qualified to do this.

I will argue that the reasoning behind the proposal to trade this federal commitment to share in the costs of state-level public services for the elimination of the federal payment is flawed. Whether it is called a federal payment or not, the federal

government's responsibilities to the District extend beyond fulfilling its cost-sharing duties as the District's parent jurisdiction.

The District unlike any other city jurisdiction in the extent to which its property tax base is constrained as a consequence of hosting the federal government. Where in other large central cities tax exempt properties account for approximately 15 percent of the land area normally subject to property tax, in the District this percentage is three times greater. This large proportion of tax exempt land includes not only land owned and occupied by federal facilities but also property of international organizations, embassies and other property owned by foreign governments and multinational entities, and property owned by organizations granted tax exempt status by Congress, such as the National Education Association and the National Geographic Society. Studies have put the value of these lost real estate taxes in the neighborhood of $300 million.

This amount could be accurately calculated each year and used to determine a federal payment in lieu of taxes. This payment in combination with the federal government's participation in cost-share in the provision of state-level public services would enable the District's local tax burden to be reduced making it more similar to those of other major cities. This would substantially increase the District's attractiveness as a place in which to live and do business.

Reducing the local tax burden, targeting tax incentives, and establishing an administrative vehicle to initiate and manage an economic development program are ideas that have substantial merit. I support them. A survey of Washington area business leaders that I conducted for the Washington Business Journal earlier this month showed substantial support for the use of tax incentives to make the District more attractive for new business development and the expansion of existing businesses and 96 percent of the respondents were "somewhat" or "strongly" supportive of establishing an Economic Development Authority to manage the District's economic revitalization.

Still, even if the playing field is leveled by reductions in local tax burdens and incentives are available for business development, economic growth in the District will not be automatic. The District's competitive advantages that should be the basis for formulating effective economic growth strategies need to be fully understood. Formulating economic development strategies around the District's

core businesses offers it the greatest opportunity for success. Strategies that build on inherent economic strengths will yield better results than strategies designed to compete head-to-head with suburban economic development programs. Careful targeting offers a much greater potential return on public investment dollar than an ad hoc or shot-gun approach or one driven by unrealistic objectives. The District's economic base has inherent advantages and growth potentials; these must be understood and built on. Only then, will the incentives and support proposed in the President's package have a chance to stimulate long-term economic development in the District of Columbia.

It will take a multi-pronged approach to put the District on a sound economic and fiscal basis. Fixing the District is like repairing a leaky bucket, one with many holes. Fixing the ones in the bottom first will yield the best early results. As other "holes" are plugged, the foundation for future vitality improves. But just fixing the old bucket is not enough. The bucket needs to be modernized as well as expanded, so its capacity is enlarged.

The President's proposals for cost-sharing will plug leaks that were created when Home Rule was adopted in 1973. The proposals to create an economic development authority with the power to offer business development incentives will provide the basis to achieve the District's economic potentials. However, enlarging the District's capacity for economic growth should not be overlooked.

This capacity-building process takes time and is complex. It involves building the institutional framework for economic growth including strong leadership, a high quality labor force, and modern infrastructure and supporting services. Without this modern and expanding capacity, the District's economy will not achieve its potentials within the regional economy. And the under-performance of the District's economy will constrain job and income growth in the suburbs. Without this expanded capacity, all the well-intentioned efforts of the Administration and Congress will end up fixing the leaks in the old bucket rather than shaping a new modern bucket that has increased capacity for generating a higher future standard of living and quality of life for residents of the District of Columbia and the surrounding Washington suburbs.

Ms. O'CLEIREACAIN. You have two economists here who came in under time and under budget.

Mr. DAVIS. And I substantially agree. I mean, there are a number of issues that I think you agree on.

Dr. Fuller, you stated in your testimony that the cost of doing business in Washington, DC, has to be reduced by, "reducing the local tax burden in an economic development program." Why do you think the local tax burden is so important? How do you compare the importance of local to the Federal tax burden? Do you have any specific ideas or reactions to the President's economic development package, the elements of the President's proposal? Do you think they will work? Do you think they are not enough?

I will ask Carol the same thing.

Mr. FULLER. I focus on the local tax burden because the Federal tax burden is consistent, regardless of what jurisdiction you do business in.

As we look at the District economy, I see it as having enormous growth potential. It is different than central cities anywhere else in the country inasmuch as the economy of this region is geographically tied to the central city. The core businesses of this region—the Federal Government, international business, the hospitality industry, even the technology industry, as we spoke earlier—all have strong connections physically, physically fixed to the District of Columbia.

I see that efforts to make doing business in the District of Columbia more cost competitive with the suburbs will allow those businesses that would more efficiently operate in the District, would choose a District location, want to be in the District to make a decision unencumbered by this tax differential.

So reducing high costs in the District and improving the quality of services at the same time I think go hand in glove. Most businesses won't complain, actually, about high costs if they get high-quality services in return. So it is not just reducing the cost of tax, it is the other costs of doing business in the District.

Any of these proposals, those in the President's plan, which are not a complete package, or others I think need to be balanced very carefully against each other so that as we look at the revitalization efforts in the District, that all of the—as I call them—push factors are actually dealt with. The factors that attract business and people to the District are really quite persuasive; and, right now, they are being undercut by these push factors that can be easily corrected.

Mr. DAVIS. Carol, do you want to respond?

Ms. O'CLEIREACAIN. I substantially agree with that.

I would also cite the economics literature, frankly. That makes it really clear that the tax costs of doing business, as the other costs—I mean, the panel that came before us talked about unemployment costs, other insurance costs here, regulatory costs, whether they are direct financial costs or indirect. In terms of time consumption, all of those matter for location decisions; they matter, in terms of the smaller the space within which you are trying to make this decision.

Mr. DAVIS. And particularly when there is no value added is what I gather?

Ms. O'CLEIREACAIN. Absolutely. The literature says that this stuff is important and that the most important tax rates in particular are the commercial property tax rates. And when you look at the District, those commercial property taxes are—they are 45 percent out of line with the next highest region, which is a very tiny little core of Bowie; you know, part of one county in one surrounding area.

So you can't look at the literature and not be warned. And then you look at what is happening on the ground and you talk to people and you see that this is basically a small, open economy, where location is—you can do the same business in a number of different locations.

Mr. DAVIS. There are class A office buildings, for example, in the suburbs now. There weren't 25 years ago.

Ms. O'CLEIREACAIN. That is right. That is right. And there is a lot more of the work force out there, too.

Mr. DAVIS. One thing that neither one of you mentioned, and that is transportation in and out of the city is really better than in most metropolitan areas, isn't it? At least with Metro and everything. Or how would you describe it?

Mr. FULLER. I don't think transportation is really the problem in this discussion, whether it is better or not than other places. We know that people move long distances to seek jobs, and the job growth in the suburbs is definitely attracting residents from the District who live in the District and now work in the suburbs and vice versa. This is what makes economic development opportunities within the District quite attractive, that they can attract the resource base necessary to support them.

I have written in my longer statement that, in fact, the suburban work force that works in the District is actually quite an asset for the District. It provides labor resources that supports and helps grow this economy. The idea of only trying to create jobs in the District for District residents would actually be counterproductive.

I think the sooner we begin to think of this economy as a regional economy and that the benefits are shared around the Beltway and among and between jurisdictions, the easier it will be to sell the idea that this is a good investment, building up the District's economic capacity.

Ms. O'CLEIREACAIN. And that is true. As an economist, I know that is true.

But it seems that when you look at the political reality that the District faces, you are talking about an entity that is small compared to the region. You are talking about an entity that doesn't have a State government to protect it.

When you look, for example, at the economic development programs in the State of Maryland, the entire strategy is set by the State. It is a biotech, a health-sector, strategy. The State of Maryland bears half of the cost of property tax incentives that localities in Maryland give for businesses to locate.

You don't have a State to do that for the District.

Mr. DAVIS. Although Virginia is little bit different, I know Fairfax spends more in economic development than the State of Virginia itself.

Ms. O'CLEIREACAIN. Right. But it is a two-tier system. I mean, there are Virginia incentives and then there are local incentives. Here in the District, it all has to come out of the same pocket.

Mr. DAVIS. Right. Although now with the Board of Trade they do have a regional group that Fairfax contributes to, so there is a recognition. I agree with you in terms of it being a regional economy and being interdependent.

Let me just ask a couple of other questions. Which comes first, the business growth or the residential growth? If you attract more businesses, does this bring residents in? Any thoughts on that?

Mr. FULLER. If I were organizing economic development strategy, I would approach both. We need more residents because they support the retail base. They support the local-based economy, which is different than the kind of economic actors that we attract through business incentives and through a well-heeled economic development program.

Employees in the District, whether they live here or just work here, also constitute a market. So we have to buildup the market base that supports local businesses. I think doing one without the other will not be successful.

Ms. O'CLEIREACAIN. I would also like to point out that I think he is absolutely right. Much of what I dealt with in my tax proposal gets at that, because it gets at both households and also small business. It seems to me this is a very tough town for small business.

I also think, coming from New York, and this is just my way of looking at it, but I was also raised in Chicago, that this is a central city that because of the way it has been planned and the structure of its buildings and the height of its buildings, this is not a terribly dense central city. It does not have the level of density that other central cities have, so that a lot of both the negatives and the positives of central city location are not as vigorous here.

Mr. DAVIS. OK. Let me ask, what could zero capital gains do for the city if you were to bring that down for both business and residents?

Mr. FULLER. Do you want to start on that one?

Ms. O'CLEIREACAIN. No. I don't have a clue.

Mr. FULLER. I don't think that is where to start in helping the city. I don't think it would have much effect at all.

Mr. DAVIS. Where would you start? If you could outline it just at different tiers, if you could work on a program to bring the city back on a tax-incentive basis, recognizing that regulations are part of that?

Mr. FULLER. Well, to say it needs to be a comprehensive solution sounds oversimplistic, but I can't point to one area that will achieve the results. There are many things that have to be done. Most important, as an economic development agency comes into being, if that is what happens, they need to understand the strengths of the District economy so they go with that strength rather than trying to look at what other jurisdictions are doing and copying them, or trying to go head to head with what sounds popular at the time.

The District is fortunate that it has a substantial economic base to build off of, and in large part it has ignored it, because it is either old hat, or it isn't as sort of attractive as high technology.

Technology may not be—I don't think it is the District's future. I don't think the economy should be built around that, not that it can't be a part. But it is losing its economy to the suburbs by default, and I think it can work to retain and grow some of its inherent strengths and then start looking for new activities or different sectors to stimulate.

Ms. O'CLEIREACAIN. Representative Davis, let me support something that the previous panel said. Here I am going to put on my hat as somebody who spent 4 years in New York City government.

Of all of the things that I said to you about what is broken in the Department of Finance and Revenue, you could say double that for economic development in the District of Columbia. There isn't an entity, there isn't a focus; there is a tool box of policies, but there is no strategy to which that policy is addressed. So as somebody who has been in government, I come here and I look and I listen to what business people are saying, and I can see it, and it is a place where they simply have abdicated policy.

Mr. DAVIS. This is not brain surgery then, is it? This is just basic blocking and tackling and executing the fundamentals.

Ms. O'CLEIREACAIN. Absolutely.

Mr. DAVIS. And it is not happening, is it?

Ms. O'CLEIREACAIN. It is not noticeable.

Mr. DAVIS. But the irony is that the city is doing reasonably well in spite of—it shows the underlying strength of the city.

Mr. FULLER. That is why I am so hopeful. The District economy is actually doing quite well in spite of all of the negatives. So with a little bit of help, it is bound to start growing and, in fact, picking up, helping to boost the entire region and the national economy.

Ms. O'CLEIREACAIN. But not its tax base, because you have to have a phenomenal amount of growth to get something out of the tax base, because it is severely limited. You can't run a local government without a tax base. It is derivative of the private sector.

Mr. DAVIS. OK. Ms. Norton.

Ms. NORTON. Mr. Chairman, I don't have any questions for these witnesses. I would like to thank them for very thoughtful testimony and for the time that they have given to studying the problems of the District of Columbia.

If I could say to Dr. Fuller, I know a straw man when I see one. Your notion that only trying to create jobs for DC residents doesn't make a lot of sense is astonishing in its lack of generosity. The fact is that employers tell me that 8 and 9 jobs out of every 10 go to suburban residents.

We are not trying, and we have never tried, to exclude suburban residents from jobs here. I spend a lot of my time trying to keep Federal jobs in this city, and those jobs overwhelmingly go to the suburban residents.

This city has shown no hostility to the suburbs, but we do think that the turnover in residency is a disaster for this city, and we do think we are within our rights to try to create some jobs, at least of the jobs that go here, for DC residents.

So do understand that nobody here is advocating that those of you who live in Virginia and Maryland not get any jobs; you already have the lion's share of jobs in the DC government, and certainly in the economy. We are not advocating, and I resent the no-

tion that the point was only trying to create jobs for DC residents. We are saying DC residents surely deserve some of the jobs that the economy produces in this city. The economy is going well, and you know what? Unemployment in this city is going up. The economy is going very well, but it is not profiting the people who live here. It is not profiting the people who pay for the services that residents of Virginia and Maryland use. It is not profiting the people who pay the highest taxes, combined Federal and local, in the country.

So yes, you are going to find that we want to make some jobs for residents of the District of Columbia, and we are not advocating that those jobs only go to residents of the District of Columbia. It is so lopsided the other way, we should think that the region would want also to stand up and say, help these folks who live in this city to get some jobs, because we are getting our share.

I can't say that we are getting our share in Fairfax and Montgomery, however. I appreciate that the chairman understands that there are jobs out there to be gotten, and keeps talking about ways like UDC to help match those jobs out there with the skills needed for those jobs.

Ms. O'Cleireacain is an old friend. Occasionally we disagree. I note that she has a few paragraphs on my tax plan that were gratuitously added to her own study. I want to note for the record that those paragraphs look like they track the work of Citizens for Tax Justice, and I don't think it was her intention to do a study of my own plan. This does not involve an independent study of our plan, but since she has seen fit to toss in a few paragraphs against my plan, I ask permission to put into the record a rebuttal of what is there, because it is a rebuttal I have already done in relation to the Citizens for Tax Justice.

Mr. DAVIS. Without objection.

[The prepared statement of Hon. Eleanor Holmes Norton follows:]

ELEANOR HOLMES NORTON
DISTRICT OF COLUMBIA

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

SUBCOMMITTEES
SURFACE TRANSPORTATION
PUBLIC BUILDINGS AND ECONOMIC DEVELOPMENT

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

SUBCOMMITTEE
RANKING MINORITY MEMBER, DISTRICT OF COLUMBIA

CIVIL SERVICE

CO-CHAIR
CONGRESSIONAL CAUCUS FOR WOMEN'S ISSUES

STATEMENT OF CONGRESSWOMAN ELEANOR HOLMES NORTON ON "THE ORPHANED CAPITAL: ADOPTING A REVENUE PLAN FOR THE DISTRICT OF COLUMBIA"

I appreciate the work and testimony of Carol O'Cleireacain concerning assistance to the District of Columbia. I feel compelled, however, to place in the record my response to her brief critique of my tax cut bill, the District of Columbia Economic Recovery Act (DCERA) that was attached to her written testimony. Her response to the bill fails to understand the incentive purpose of the DCERA, a unique bill designed to help make up for the District's unique inability to recapture any new revenue from fleeing taxpayers because the District is not part of a state.

Ms. O'Cleireacain does not claim to have done her own investigation of the DCERA. The data and analysis in the O'Cleireacain critique is strikingly similar to one that Citizens for Tax Justice released last year.

Working from this analysis, O'Cleireacain states that, "the greatest benefits of the cut would go to those with the highest incomes . . ." In fact, the bill has the opposite effect. After passage of the DCERA, half of D.C. residents would be off the federal income tax rolls altogether. O'Cleireacain fails to mention that the DCERA's large up-front deductions for single filers ($15,000 vs. $6,550 now), single heads of household ($25,000 vs. $8,450 now) and joint filers ($30,000 vs. $11,800 now) mean that the working poor and lower middle income working people would pay no federal income tax -- because they often make less than $15,000, $25,000 or $30,000 respectively. Moreover, these deductions are central to the steep progressivity of the bill. When applied up the income scale, these deductions guarantee very substantial progressivity in the way the tax savings are distributed. Residents earning less than $200,000 receive 71.5% of the dollar benefit of the DCERA.

Moreover, there will be no tax break on much of the income of the wealthy. The wealthy are wealthy because of their investments -- in stocks and other investments. Unlike flat tax schemes, which do not tax investment income at all, my bill taxes *investment* income at the higher IRS rate for all non-D.C. investments, in keeping with the bill's purpose to induce businesses and residents to remain and come here. Thus, by allowing only the deductions that matter most to middle and low income workers (mortgage interest, charitable deductions and earned income tax credit), the DCERA eliminates the numerous loopholes in the current code that aid only the rich, who use them to shelter income from taxation.

The analysis on which Tax Justice and O'Cleireacain rely is a traditional one that might

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make sense if the DCERA were a traditional tax cut. However, unlike most tax reductions, the DCERA has a unique and unprecedented purpose. In the absence of a state to return and recycle some revenue to the city, the bill seeks to replenish a tax base *across-the-board* for the District in *every income category* so as to replicate the normal low, middle and high income distribution one finds in states and healthy cities. To have the intended effect, *all* taxpayers must get tax breaks sufficiently large to make them want to remain or move here. The DCERA accomplishes this purpose in a very progressive fashion -- the smaller the income, the larger the tax break. (See attached chart.)

O'Cleireacain uses comparisons that ignore the purpose of the bill. For example, she reports that residents making $40,000-- $75,000 would save approximately $2,100 to $2,700, while those earning $100,000 a year would save $6,500 to $7,000. However, the average tax reduction for those making $40,000 -- $50,000 represents a more than 50% cut in what they currently pay, while the reduction is only a 36% for the average filer who earns $100,000. A taxpayer will judge the *incentive* effect on her by looking at whether she is getting a large enough tax break based on her income and compared with previously. The DCERA will fail its only purpose, to help stop the taxpayer flight that is occurring in all categories at frightening rates, if *each* bracket does not receive a financial incentive sufficiently large to meet *its* income level. Thus, the 51% break the $40,000 taxpayer gets is necessarily smaller than higher bracket savings in absolute dollars; but it is the percentage savings compared to her overall income that is primary to the taxpayer as an incentive to remain or come to the District.

O'Cleireacain mischaracterizes the DCERA as a "flat tax" and thus leaves the impression that the DCERA is not progressive. The primary purpose of the 15% uniform rate in the bill is to eliminate "bracket creep" -- the partial taxing away of a worker's earnings as she moves up the income scale into higher tax brackets. Bracket creep can hurt all except those already in the top bracket. This factor is important in the DCERA because the incentive effect of the bill will be significantly reduced if a taxpayer's savings merely pushes her into a higher bracket and a portion of that income is taxed away. The DCERA has been carefully crafted as a bipartisan bill. Yet, it is steeply progressive in the tradition of Democrats in general and the 1963 JFK tax cut in particular.

Finally, O'Cleireacain falls to mention or refute the reasons for a federal tax reduction for the District. Rather, she analyzes the tax cut generically as if it had general applicability. It obviously does not. The District is the only city without a state to recycle revenue from wealthier areas; the only city that pays for state, county and municipal functions; the only city prevented by Congress from taxing commuters who use city services; and the only jurisdiction that pays federal income taxes and all other federal taxes without full congressional representation and full self-government. The most pertinent question to ask is why the District, which has the same representation as four territories that pay *no* federal income tax, should be taxed at all. The discriminatory treatment of the District cannot be justified under any set of economic or political principles.

The President's Plan to relieve the District of some, but not all, state functions will leave District taxpayers still paying for the vast majority of District of Columbia services. The President's Plan assumes a tax base capable of doing so. At the present rate of taxpayer flight, this assumption is faulty. The President's Plan cannot succeed unless very significant action is taken to halt rapid taxpayer flight and replenish the tax base.

O'Cleireacain's own plan does not address the District's lethal flight (nor does she address the most explosive costs of all -- the District's congressionally created pension liability). More seriously, in defiance of more than 200 years of history, her plan assumes that the federal government would pay increasing subsidies to the District of Columbia. At an initial cost of $1 billion annually, she would subsidize the District through a more realistic federal payment (based on assessment of land occupied by the federal government) and the value of state functions.

The logic of these ideas is indisputable, and commendable, but they cannot obscure the political and financial obstacles to getting a billion dollar federal payment to the District. O'Cleireacain's work is careful and thoughtful, but the core ideas have been debated and largely discarded because throughout the history of the District, large increases in the federal payment have been rare and because when increases do occur, they remain stagnant, lose value, and do not keep up with inflation, as with other federal appropriations. Most recently, the District's federal payment has been raised only once in the last dozen years, and this increase did not fully make up for the prior years during which there had been no increases. As a result, the $660 million federal payment is worth about $500 million today. In planning for its future, the District must learn from its own history. That history teaches that even more friendly congresses do not attempt to meet the rising costs built into other appropriations by voting for a federal payment that increases every year.

To avoid a cycle of recurring crises, the District's unique predicament demands a financial and political solution that takes account of the city's historical relationship with Congress. Given this calculus, it is difficult to avoid the conclusion that the District cannot revive without relief from state functions as provided by the President's Plan and that the utility of the President's Plan will diminish unless action is taken to shore up the District's dangerously depleting tax base.

DCERA PROVIDES SIZABLE PROGRESSIVE TAX REDUCTIONS

	IRS DEDUCTION	DCERA DEDUCTION
Single Filer	$6,550	$15,000
Head of Household Filer	$8,450	$25,000
Married-Joint Filer	$11,800	$30,000

Income Range	Number of Filers	Percent Reduction in Tax Liability*
Under $15,000	50,390	100%
$15,000-$29,999	87,117	79%
$30,000-$49,999	52,060	51.2%
$50,000-$74,999	23,568	44.2%
$75,000-$99,999	9,822	36.8%
$100,000-$199,999	10,259	35.7%
$200,000+	4,286	34.2%
Total Filers	237,502	44.3%

* Includes a tax rate of 15% and charitable and mortgage deductions, which are retained.

Ms. NORTON. Mr. Chairman, I ask for permission to place into the record the Washington Times article from which I quoted for the last panel.

Mr. DAVIS. Without objection.

[The information referred to follows:]

Business Times - The Wash. Times March 17, 1997

Clinton plan fails to motivate small D.C. firms

By Dawn Kopecki
THE WASHINGTON TIMES

President Clinton's $300 million plan to help revitalize Washington business drew raves from legislators and big business last week, but several D.C. entrepreneurs say the plan offers them little relief or in[illegible]ive to expand.

theory, this would compel me to [create] more jobs, but in reality it's not enough. . . . I don't think the carrot he's offering is enough alone to make me want to hire District residents," said John Shulman, the chief executive officer of Onyx International, a six-person investment banking firm in the District. "It's a lot of propaganda right now."

Mr. Shulman was referring to a part of the president's plan that calls for a D.C. Jobs Credit program. It would give a 40 percent federal tax credit to D.C. employers hiring city residents who earn less than $28,000 a year. The break would apply to the first $10,000 of earned income.

White House aides say the provision could generate 78,000 jobs over five years if Congress passes it.

Business owners and lawmakers acknowledge that the tax incentives and job credits form the first presidential proposal to boost D.C. business in decades. But small-business owners are critical of the overall package.

"There is nothing in it for me," said Bonnie Cain, the publisher of D.C. City Desk, an on-line newsletter about city politics, and an advisory neighborhood commissioner

see PLAN, *page D19*

PLAN

Continued from page D3

for Ward 1. "I'd like to say that the plan makes me more interesting to investors, but I don't see anything in the plan that does."

The Clinton proposal also would create the D.C. Economic Development Corp., a quasi-governmental agency that would control $95 million in tax credits for investors in, or lenders to, D.C. businesses.

Business owners said other provisions in the plan, such as tax credits for expansion costs, would give companies a much needed boost, especially those poised for an upgrade.

"My strategic plan calls for me to expand. This just makes it more attractive and more timely," said Donald Delandro, the president of Affordable Supply Co., a custodial and food service supply company that employs 10 in Northeast. But he said the plan would not be enough by itself to fuel his expansion.

"If I get the contracts, I could envision getting at least five more people, but that's contingent upon the contracts I'm going after," he said.

"In my view, the real key is getting the federal agencies to see what contracts they can give to businesses in the inner city. . . . That's where the rubber meets the road," Mr. Delandro said.

Despite the plan's drawbacks, some entrepreneurs said it's a long-awaited step in the right direction.

"The devil is in the details. I don't think [the plan is] all that grand myself, but before there was nothing," said Caple Green, owner of a Chesapeake Bagel Bakery franchise in Washington. "Now that [the president] has put his foot forward, Congress should pick it up from there and take it up another notch."

Mr. DAVIS. Just a couple of other questions. First of all, Carol, if we could get that book as soon as possible, we would be very eager to look at that.

Ms. O'CLEIREACAIN. It would be my pleasure.

Mr. DAVIS. Second, I think we can fall very quickly into going in the wrong direction as we take a look at the unemployment rate in this city versus the suburbs of trying to do things. Where the city can benefit is appropriate training and education for its people for jobs that are here and to adjust an economic development strategy.

For example, on the tourism side with the MCI Arena and the new convention center coming down, the city can adjust to that. We just need to be smart about a strategy. That can increase—the city can be the greatest beneficiary of the jobs that are created into hospitality industry, it seems to me. What I like about both of you, is your straightforwardness. We may not agree on every single piece of the plan, but you have been, I think, very straightforward, laying out the facts as you see them, some economic realities here regarding where the marketplace is, where we are likely to score gains and where we aren't.

I think that if we handle this correctly, and we look at the city in a couple of years, we are going to see some significant progress. If we go back the other way, though, and overreact to this and try to structure jobs and try to structure an economic development program that doesn't fit the cloth of the marketplace, we will be wasting time with another generation not benefiting from that.

So I appreciate very much each of your comments, and the ability to put those markers out here for us to follow. I hope that we will benefit from them and take them accordingly.

Ms. O'CLEIREACAIN. We will be happy to help in any way that we can.

Mr. DAVIS. I appreciate that. Thank you both very much.

Mr. FULLER. Thank you.

I see the vice chairman of the subcommittee has just arrived, our Representative from Maryland, Mrs. Morella. We are happy to have you. Would you like to make an opening statement?

Mrs. MORELLA. Mr. Chairman, in the interest of time, I would like to submit an opening statement for the record.

Mr. DAVIS. Without objection, it will be submitted for the record.

[The prepared statement of Hon. Constance A. Morella follows:]

Statement of Congresswoman Constance A. Morella
Hearing on
The White House Proposal for the District of Columbia
D.C. Business and Community Leaders' Perspective
Subcommittee on the District of Columbia
March 25, 1997

Mr. Chairman, once again we focus on the President's plan to revitilize the District of Columbia, this time through the eyes of business and community leaders. As we all know by now, the White House proposal would eliminate the annual federal payment to the District. Instead, the federal government would assume responsibility for several expension functions, such as Medicaid, prisons and pensions. A second part of the proposal calls for the creation of an Economic Development Corporation, responsible for providing $95 million in tax incentives for D.C. businesses.

From my perspective, any plan to revitilize the District must begin with an understanding of the unique status of our Nation's Capital. D.C. functions as a city, yet it is burdened with responsiblities usually assumed by most States. Most cities do not pay for Medicaid, yet the District is responsible for 50% of the costs of the program. Most cities do not operate a major prison system, located in an adjacent state.

The presence of the federal government costs the District billions of dollars in lost revenue. For example, 57 percent of its land is tax-exempt, because most of this land belongs to the federal government. Moreover, the District cannot tax the property of international organizations, embassies, and the property of foreign governments. Revenue restraints also include a limitation on building heights throughout the District.

With no industry and no agriculture, the District has a limited tax base. High property and sales taxes have driven businesses from the city, and income tax levels for D.C. residents are the highest in the region.

As you can probaly tell, I have been reading Carol O'Cleireacain's "The Orphaned Capital." I look forward to hearing her testimony, and to reaction from the private sector and from organized labor.

I also have been reading Dr. Stephen Fuller's articles on The Economy of the District of Columbia and its Impact on the Metropolitan Washington Area and its Suburbs. Dr. Fuller states that "....for each $1 of additional growth in the District economy, the suburban economy would realize a gain of $1.57." I look forward to discussing with Dr. Fuller the economic

linkages between the District of Columbia and the Maryland and Virginia suburbs.

I look forward to hearing from the other distinguished members of our panels today on the continuation, or elimination, of the federal payment. I do not view the federal payment as a handout or a charitable gesture representing preferential treatment for the District. Rather, it is a compensation for the specific services provided by the local government at the request of the federal government. It is a compensation for money that is denied the District of Columbia as a result of federally imposed requirements. My concern is with how the federal payment, as well as other revenues to the city, has been managed, or mismanaged, by the District government. The White House proposal seems to have some built-in "accountability" because the federal payments would be

targeted for specific expenses, and it would be more difficult to divert funds for other purposes.

Thank you, Mr. Chairman, for holding this important hearing.

Mr. DAVIS. We move now to our last panel. I appreciate those on our last panel for bearing with us. We have been looking forward to your comments and to taking questions.

We have Joslyn Williams, president, Metropolitan Washington Council AFL–CIO; Ms. Kathryn Pearson-West, executive co-chairperson, Coalition for Political and Financial Accountability, Inc.; and Joseph Daniels, Washington Interfaith Council.

We look forward to your comments today.

[Witnesses sworn.]

Mr. DAVIS. We will go in this order, just the way I scripted. Mr. Daniels, why don't we start with you and go straight down the row, unless the four of you have agreed to something else.

Mr. DANIELS. No. That is fine.

Mr. DAVIS. Try to stay to 5 minutes. We want to get into the questions as much as possible. Thank you for being here.

STATEMENTS OF JOSLYN N. WILLIAMS, PRESIDENT, METROPOLITAN WASHINGTON COUNCIL AFL–CIO; KATHRYN PEARSON-WEST, EXECUTIVE CO-CHAIRPERSON, COALITION FOR POLITICAL AND FINANCIAL ACCOUNTABILITY, INC.; MARK THOMPSON, PRESIDENT, DC BRANCH, NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE; AND REVEREND JOSEPH DANIELS, WASHINGTON INTERFAITH COUNCIL

Reverend DANIELS. Sure.

My name is Joseph Daniels, and I am the pastor of Emory United Methodist Church on Georgia Avenue in Northwest Washington, and I am a member of the strategy team of the Washington Interfaith Network. We are an organization of 50 congregations of all denominations created with the assistance of the Industrial Areas Foundation.

I know the purpose of this hearing is to solicit reactions to the President's proposals for the fiscal restructuring of the District. I thank the committee, Chairman Davis and Representative Eleanor Holmes Norton for the opportunity to speak on behalf of the Washington Interfaith Network.

Let me begin by saying that the President's proposals, along with the proposals and initiatives suggested by the Financial Control Board, the Brookings Institution, and Representative Norton, provide a wide array of responses to the current fiscal and structural mess that the District finds itself in.

We in WIN are encouraged that so many powerful institutions and impressive minds are grappling with these matters. We believe that constructive change in this area of the city's life is critical. The best thing that we can do is to encourage you to see our representative as a reliable and knowledgeable player in these negotiations, someone whom we will count on to sort out the wheat from the chaff and present to the city the best options that emerge.

A few words of warning, however, from the Washington Interfaith Network.

First of all, we ask that you be like the best of doctors and do no harm. Even the most powerful institutions and supple intellects can create damaging policy, like the recent welfare reform bill.

And please don't use your distaste for an individual or several individuals as a reason to delay or derail constructive change. Imagine the overwhelming majority of decent citizens who make up this city and region. I invite you to come to my church this Sunday or any WIN congregation this Sunday to get a healthy picture of the city in your mind's eye. We ask that you make policy for the whole of the city.

As important as the fiscal restructuring of the city is, it is necessary, but not sufficient, to transform this city. There are two other kinds of change that must also take place. The second kind is the long-term and incremental improvement of the city's public schools. And the third kind is the shorter-term, visible and tangible gains in the construction of affordable homes, the lowering of the rates of crime, and the upgrading of streets, parks and other recreational facilities.

WIN applauds the action of the Financial Control Board in taking charge of the public schools and installing a new leadership team. Our opening assembly of 2,200 delegates on May 28 last year committed itself to participating in a long-term effort to change and improve the culture within the city's public schools. WIN has already started one after-school effort, funded privately by the Fannie Mae Foundation, in J.O. Wilson Elementary School, which is in Northeast Washington, and intends to begin at least nine more over the next several years. The purpose of these efforts is, of course, to provide quality extended-day activity to as many as 2,000 youngsters in our city. Equally important to WIN is the goal of training and developing parent leaders in each of these schools—parents capable of addressing the issues that affect their children's education and other issues that destroy the quality of life in the communities surrounding these schools.

A third kind of change, shorter-term, dramatic, and highly visible, must take place in the District, we believe. To that end, WIN has raised $2.5 million in church financing to serve as a revolving construction fund for the construction of more than 1,000 new, affordable, Nehemiah townhomes in the District. Washington, DC, has the lowest homeownership rate of any city of its size in the Nation, it is 38 percent, and one of the highest rates of population loss at the same time. These two facts are connected. Decent working families who wish to remain in the city or move to the city have very little in the way of quality affordable housing to buy. WIN will build critical masses of 250 to 300 such homes on any sizable site in the city. After 9 long months of negotiation, Mayor Barry has recently signed an agreement with WIN that will lead to the construction of the first 250 homes on the Fort Lincoln site in Northeast. The city needs to be rebuilt, on a large scale, with great impact, in a number of locations, and WIN is ready to do what its sister organizations in Brooklyn, NY, and Baltimore, MD, have already done.

Another tangible gain can be registered in the reduction of the rate of crime. We believe that the Financial Control Board did only half the job when it intervened in the issue of police management. The Board, we believe, should have removed Chief Soulsby and replaced him with a top-flight, proven police manager from another city. We know from New York that drastic reductions in crime re-

quire professional leadership, tight accountability, and effective community participation. WIN stands ready to hold up its end, as soon as the right leadership is in place.

Other physical improvements, in streets, parks, recreation centers, are critical. They signal to those already here and those who are considering following their job to the city that the city is on the mend. The money set aside in the President's plan for improved infrastructure could prove very useful.

None of these more immediate changes are easily accomplished. We in WIN deal daily with a political culture that features bureaucratic obstructionism, gross incompetence, low-level thuggery, and occasional corruption. These features are not unique to Washington, although at times they seem present in a more distilled form. We are ready to confront these conditions, and, like the Old Testament leader Nehemiah, we will rebuild the old charred walls of our great city with a trowel in one hand and a sword in the other.

But to do this tough work, we must count on you, ladies and gentlemen, to handle your part of the rebuilding project. Work closely with our representative, we ask, and come to a fair and responsible conclusion, and then reinforce WIN and all of the other good citizens of Washington, DC, in the two campaigns that we suggest that are already now underway. Thank you very much.

Mrs. MORELLA [presiding]. Thank you, Reverend Daniels.

[The prepared statement of Reverend Daniels follows:]

TESTIMONY FOR CONGRESSIONAL SUBCOMMITTEE
ON THE DISTRICT
March 25, 1997

My name is Joseph Daniels. I am the pastor of Emory United Methodist Church on Georgia Avenue in Northwest Washington, and a member of the strategy team of Washington Interfaith Network -- an organization of 50 congregations of all denominations created with the assistance of the Industrial Areas Foundation.

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reliable and knowledgeable player in these negotiations -- someone whom we will count on to sort out the wheat from the chaff and present to the city the best options that emerge.

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As important as the fiscal restructuring of the city is, it is necessary, but not sufficient, to transform this city. Two other *kinds* of change must also take place as well. The second kind is the long-term and incremental improvement of the city's public schools. And the third kind is the shorter-term, visible, and tangible gains in the construction of affordable homes, the lowering of the rates of crime, and the upgrading of streets, parks, and other recreational facilities.

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responsible conclusion. And then reinforce WIN and all the other good citizens of the city in the other two campaigns of change now underway.

Thank you.

Mrs. MORELLA. Now I would like to recognize a good friend, Mr. Williams, for his statement.

Mr. WILLIAMS. Thank you very much, Congresswoman.

Let me say at the outset, my comments are not the complete comments of this organization, and unfortunately, we did not receive our invitation until yesterday. So I am going to—in the great tradition of the Congress, I am going to ask the chairman's permission to revise and extend my remarks prior to the close of the record.

Mrs. MORELLA. Without objection, that will be the case, Mr. Williams. The record will be open also for 10 days.

Mr. WILLIAMS. Thank you very much.

Members of the subcommittee, my name is Joslyn Williams, and I am president of the Metropolitan Washington Council, AFL–CIO, which is made up of 175 local unions with 150,000 union members. I am happy to be here representing the working people of the District of Columbia and the Maryland suburbs of Montgomery, Prince George's, Charles, Calvert and St. Mary's Counties. Our members in both jurisdictions, as well as working families in northern Virginia, have been impacted by the financial decline of the Nation's Capital and will stand to benefit by its resurrection as a model capital city.

We believe the President's plan in general is a good one. It focuses on the key causes of the District's current financial problems; namely, the basic structural defects built into the District by Congress. These defects have unduly restricted the District's revenue-raising abilities thereby undermining its tax base, have saddled it with an enormous pre-home rule pension liability, and have overburdened it with city and State functions without providing it with a State.

Study after study looking into the District's financial crisis has identified the same structural defects. The Rivlin Commission, of which I was a member, the McKinsey report to the Federal City Council, a report by the Appleseed Foundation, and the recent Brookings Institution Policy Brief for the DC Control Board, have all laid the District's basic problems at the feet of structural defects.

The President's plan addresses two of these three defects. Relative to the unfunded pension liability, which was accrued prior to home rule when Congress was in charge, it is only fitting and proper that Congress should reshoulder this burden. Two of our affiliated unions represent workers affected under this pension plan and, therefore, we would be interested in ensuring that upon closure of the current plan, future workers would not find themselves in an inferior plan. We look forward to labor participation in the development of any new plan.

The second structural defect addressed in the President's plan is the District's lack of a State. Takeover of certain functions which are normally under the purview of States, or fuller Federal funding for these functions, is key to helping the District stabilize its financial situation. As the Brookings Institution Policy Brief points out, other comparable cities like Boston, Memphis, and Baltimore receive 28 to 38 percent of general revenues from State aid. The current Federal payment represents only 19 percent of the District's

revenues, leaving a shrinking tax base, which is restricted by Federal law, to make up the difference. It hasn't.

Medicaid is clearly an area where the District has suffered through lack of a State. The District has been paying 50 percent of costs while cities in like circumstances have been paying 25 percent with the State and Federal Government together picking up the remainder. When the large percentage of DC residents below the poverty line is factored in, it is not hard to see why social services expenditures have been one of the biggest culprits in busting the District's budgets.

There is a part of the President's plan with which we take exception, and that is the wholesale elimination of the Federal payment. This payment has not been made to the District to take the place of a State nor has it been a gift from the Congress to the District. It represents lost revenue due to the 41 percent of District land that is unavailable for property taxes due to the presence of the Federal Government. It also represents payment for the additional expenses the city has had to bear because of the Federal presence.

The AFL–CIO has taken the position the Federal payment has been inadequate as it is. It has not kept pace with inflation, nor has it represented realistically the revenue lost to the District.

Our belief is that the Federal payment should be viewed separately. The District needs a rational and stable revenue base and the Federal payment should be a part of that base. The Brookings Institution estimates that this payment in lieu of taxes, which should be nonnegotiable and based on property assessments and the commercial property tax rate, would currently be about $382 million.

Additionally, to help stabilize the revenue base, we feel that the President's plan should make it clear that there is a preference for the location of the Federal Government in the District. We cite the recent study by George Mason University.

Notwithstanding the tremendous job being done by our current incumbent in the House of Representatives, the District's lack of representation in the Congress undermines its ability to make its case regarding efficiencies, impact on the community, and other cases cited by Congresspersons for relocation.

The President's economic development component is rather vague but is a key ingredient to the future success of the District financially. No District revenue issues are addressed, save the takeover of tax collection by the IRS. Unless the District's tax structure is streamlined, even the IRS may have trouble administering it. Collections and enforcement have clearly been a severe problem. While the District of Columbia's Tax Revision Commission, on which I serve, will be looking at recommending a tax overhaul, this in itself does not stimulate economic development.

Congresswoman Norton's Economic Recovery Act, which we support, addresses another required segment of a stable tax base, and that is individual taxpayers. In addition to jobs fleeing, individuals have fled to the suburbs, taking with them their incomes and their revenue-generating potential. Middle and upper class taxpayers must be lured back, and this bill will help do that.

In summary, we support most of the President's plan. Its focus in addressing some of the structural deficiencies created by Con-

gress is correct. Its requirement that the District manage itself acceptably is correct. It is not, however, complete in its approach, as we have outlined.

As representatives of many of the workers to be affected by the Federal takeover of several agencies, we have one final concern and that is the potential displacement of a large number of workers. The prison takeover, for example, requires all employees to reapply for their positions. We requested the plan addressing this potential displacement be developed with the input and involvement of labor representatives.

Thank you for your consideration of labor's position. We look forward to working with the committee, especially Congresswomen Morella and Norton and Congressman Davis, more closely as you work on plans to revise our Nation's Capital. Clearly, the interests of your respective constituencies are also at stake. With Professor Fuller pointing out that for every $1 of additional economic activity generated in DC, the suburbs realize $1.50 in new growth, it is clear that our region must work together for the benefit of all. Thank you.

[The prepared statement of Mr. Williams follows:]

Chairman Davis, and members of the Subcommittee, my name is Joslyn Williams, and I am president of the Metropolitan Washington Council, AFL-CIO, which is made up of 175 local unions with 150,000 union members. I am happy to be here representing the working people of the District of Columbia and the Maryland suburbs. Our members in both jurisdictions, as well as working families in Northern Virginia, have been impacted by the financial decline of the nation's capital, and will stand to benefit by its resurrection as a model capital city.

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Study after study looking into the District's financial crisis has identified the same structural defects. The Rivlin Commission, of which I was a member (1990), the McKinsey Report to the Federal City Council (1994), a report by the Appleseed Foundation (1996), and the recent Brookings Institution Policy Brief for the DC Control Board, have all laid the District's basic problems at the feet of structural defects.

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it is only fitting and proper that Congress should reshoulder this burden. Two of our affiliated unions represent workers affected under this pension plan, and therefore, we would be interested in ensuring that, upon closure of the current plan, future workers would not find themselves in an inferior plan. We look forward to labor participation in development of any new plan.

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wholesale elimination of the federal payment. This payment has not been made to the District to take the place of a state, nor has it been a gift from the Congress to the District. It represents lost revenue due to the 41% of District land that is unavailable for property taxes due to the presence of the federal government. It also represents payment for the additional expenses the City has had to bear because of the federal presence. Labor has taken the position that the federal payment has been inadequate as it is. It has not kept pace with inflation, nor has it represented realistically the revenue lost to the District. Our belief is that the federal payment should be viewed separately. The District needs a rational and stable revenue base, and the federal payment should be a part of that base. The Brookings Institution estimates that this "payment in lieu of taxes", which should be non-negotiable and based on property assessments and the commercial property tax rate, would currently be about $382 million.

Additionally, to help stabilize the revenue base, we feel that the President's plan should make it clear that there is a preference for the location of the federal government in the District. A recent study by George Mason University Professor Stephen Fuller has pointed out the dependence of the entire region on the federal government, either directly through employment, or through the procurement process. With 36.8 percent of all jobs in DC being in the federal sector, its withdrawal, absent tremendous private sector job creation, would devastate DC. Since two-thirds of these jobs are held by suburban residents, the effects on the suburbs would be devastating as well, and have been, as 32,000 federal jobs have been lost in the metro area over the last five years.

Notwithstanding the tremendous job being done by out current incumbent in the House of Representatives, the District's lack of voting representation in Congress undermines its ability to make its case regarding efficiencies, impact on the community and other reasons cited by Congresspersons for relocation. Location decisions for federal government offices and buildings should be weighted to favor the District.

The President's economic development component is rather vague, but is a key ingredient to the future success of the District financially. No District revenue issues are addressed, save the takeover of tax collection by the IRS. Until the District tax structure is streamlined, even the IRS may have trouble administering it. There are currently 20 different taxes and 115 fees and charges on the books. Collections and enforcement have clearly been a severe problem. While the District of Columbia Tax Revision Commission, on which I serve, will be looking at recommending a tax overhaul, this in itself does not stimulate economic development. While the suburbs gained 180,000 private sector jobs over the last five years, according to Professor Fuller, the District lost 48,000 jobs.

Congresswoman Norton's Economic Recovery Act, which we support, addresses another required segment of a stable tax base, and that is individual taxpayers. In addition to jobs fleeing, individuals have fled to the suburbs, taking with them their incomes and their revenue-generating potential. Middle and upper class taxpayers must be lured back, and this bill will help do that.

In summary, we support most of the President's plan. Its focus on addressing some of the structual deficiencies created by Congress is correct. Its requirement that the District manage itself acceptably is correct. It is not, however, complete in its approach, as we have outlined.

As the representative of many of the workers to be affected by the federal takeover of several agencies, we have one final concern, and that is the potential displacement of a large number of workers. The prison takeover, for example, requires all employees to reapply for their positions. We request that a plan addressing this potential displacement be developed with the input of labor representatives.

Thank you for your consideration of labor's position. We look forward to working with you, Chairman Davis, and our Congresswoman from Montgomery County, Mrs. Morella, as well as Congresswoman Norton, more closely as you work on plans to revive our nation's capital. Clearly, the interests of your respective constituencies are also at stake. With Professor Fuller pointing out that for each $1 of additional economic activity generated in DC, the suburbs realize $1.50 in new growth, it is clear that our region must work together for the benefit of all.

Mrs. MORELLA. Thank you, Mr. Williams.

We will now hear from Ms. Pearson-West.

Might I ask you, Ms. Pearson-West, if you could summarize. Your written testimony in its entirety will be in the record.

Ms. PEARSON-WEST. Good afternoon. I'm Kathryn Pearson-West, executive co-chair for the Coalition for Political and Financial Accountability. I have summarized, made some points, and I would like to enter my testimony into the record.

Mrs. MORELLA. Without objection, it will be entered.

Ms. PEARSON-WEST. I'm so disappointed that Mr. Davis had to leave because I especially wanted him to hear some of the concerns of some of our citizens in the Nation's Capital. But I am glad to have you here.

Mrs. MORELLA. He will be right back. We will make sure that he hears them.

Ms. PEARSON-WEST. Thank you very much.

The Coalition had written to Congressman Davis because we were quite concerned that DC residents were not being heard on this plan, so that is why I am especially pleased that this hearing is being held today, so in bullet fashion, I will just highlight some of my points.

DC is unique and takes on burdens that other cities don't have. We have $19 billion going out of this city every day by commuters returning to the suburbs whose income we cannot tax. $730 million could be raised through taxing income of commuters at 2 percent. As it stands, 48 States are actually subsidizing Maryland and Virginia. The first call must be for a commuter tax or for an adjusted annual Federal payment that adequately compensates for that loss of income.

DC is home to over half a million people. The city is more than just the Federal enclave. This is a place for people who reside in well-established communities. There are taxpayers here and families and any proposals must address those issues.

We also have a large contingent of poor people whose interests must be addressed as well. There are some people that must count on government. We can support the President's plan with some modifications and clarifications as long as it does not amount to government rearranging our lives and priorities without our involvement.

Therefore, we have to take this discussion and others all the way to the grass-roots level where we can include elected advisory neighborhood commissioners, civic associations, other community residents, and definitely our council members. And I see our Shadow Representative is in the audience as well. We need people like that involved.

We support the continuation of the annual Federal payment; that is a must and that has been described enough today. We must recognize that there is nothing that need be done autocratically that cannot be done democratically. We call upon Congress to adhere to the democratic principles. We understand that the status quo is not working and we are committed to change. However, it is imperative that those who will be affected by that change be involved.

Thus far, most proposals and ideas have been imposed upon us. In fact, we tend to be treated like an urban laboratory. There has

been a loss of power within the unions and efforts appear to be union busting. Unions have played a great part in this country and they are needed more today than ever.

There was an article in the paper today that I found most distressing. Union participation is essential in negotiating any proposals in DC. But unions must really represent their workers. Americans don't know what is being done to the citizens of Washington, DC. Americans don't know that we are being disenfranchised. Some of us wonder whether people in other States are electing their Representatives just to come to the Nation's Capital to disenfranchise us.

Another bullet. It is important that before this summer we begin to restore a sense of accountability and stability and a sense of involvement. At this point, all DC residents can do is sit on the sidelines and watch various forms of government arrange our lives. Racial tensions are being exacerbated. Many of us recognize that we are losing control of our city.

In Communist countries or dictatorships, the Communists take over education and then the media. The military is also taken over. We know that we have lost the media which relentlessly describes the negative about DC. We have recently seen the takeover of the schools. The police force is the equivalent of the military, and we are fighting desperately to hang on to the police and avoid another hostile takeover.

I hope the President will give more funds and Congress will give more funds to our police instead of any attempts to take it over. I hope that the Board of Education wins its lawsuit. That case is desperately needed to remind us of the validity of our vote, and I think it is important that education and democracy can coexist. The struggles by our forefathers and mothers to achieve the vote has been lost as home rule and democracy are diminished in the Nation's Capital. That particular case might need to go to the Supreme Court, but it is one that we must win. There must be as much support and involvement in the formulation and implementation of public and social policy. Democracy is not an observers' sport.

We need to focus more on education. Our school board must be restored so that we can have the necessary input to guide our young people. Just think about this new emergency board of controllers, they are closing schools like McKinley High School and Taft when a better approach would be to talk to citizens and look at possibly a school like a Banneker or a communications school or another magnet school, but instead we have closed door meetings.

This is where my own Congressman gets a little annoyed with me on this. We have disagreements with the flat tax. There should be other types of tax incentives. I do understand what she is trying to achieve, but I think we need to be clear about the ramifications of this type of tax. Would the flat tax, coupled with the possible loss of rent control and other things, accelerate the exodus of lower middle class and low-income people? And we need another approach to maintaining and attracting residents and businesses. A better focus might be to improve schools and make the streets safer.

The Economic Development Corp. should consist mostly of DC residents and must assist small minorities' and disadvantaged businesses. There must be an aggressive effort to target and improve New York Avenue, Georgia Avenue, Rhode Island Avenue, Ivy-City Trinidad and Anacostia. At the same time these areas are improved, we cannot force out the people that have made those areas their homes or current places of business. Before we drastically change welfare in DC, we had better get some jobs or crime is going to increase as well as the pain and suffering on our young people.

We must also avoid displacement of people and social dislocation and alienation, and we must be careful about establishing super agencies out of the reach of local government and taxpayers and voters.

While the Federal Government is to assume the financial role of assuming some State functions, the control and implementation of policy must remain with the DC government and local residents, at least with certain functions. In that light, the Federal Government needs to give more financial assistance to the University of the District of Columbia in order to make it a flagship institution and not a community college. There also needs to be money for the schools to make them state-of-the-art facilities and to construct new schools.

We support the efforts to reduce DC's Medicaid payments. We are happy to see DC will be relieved of the unfunded pension liability. There is much too much talk of mismanagement in DC, as if Congress had no part. That has to stop. The DC bashing must stop, and we must move on to accomplish our goals.

The President and Congress must join in helping to promote the positive aspects of DC. I invite you all to come to North Michigan Park and Lamond Riggs, which a lot of people refer to as Precinct 66, where Ms. Norton has really been a friend to us, so that you can see that people believe in civic responsibility and they maintain their homes and they send their children to school. We in DC have dreams and aspirations just like those in other jurisdictions.

I am coming to an end.

We should not try to privatize all of government because once we downsize we still have people looking for jobs. We have to create jobs. DC should be able to restructure and refinance its debt. It should not be required to balance its budget early because Congress and the Federal Government have yet to balance the Nation's debt, and we figure we should at least get the same amount of time. The infrastructure fund must look at residential communities and not just the thoroughfares to the suburbs.

The President's plan should not be viewed as a bailout. It is still inadequate to truly transform this city to its intended greatness. A bailout is what we have given to other countries throughout history, and is what we gave to Russia. We don't seem to have that much interest in our own cities. Cities across the Nation for many years have needed help in revitalization and the failings of DC are not an isolated phenomenon. Fortunately, help is beginning to go to cities, and I am glad there is attention focused on the Nation's Capital. The President's plan should include an extension of Metro to connect Georgetown with Fort Lincoln and New York Avenue.

Finally, the President's plan should address full voting representation and empowerment of the citizens. Our vote has been nullified with the existence of the control board and the citizens got a slap in the face when the school board was rendered powerless on Election Day.

The President in concert with Congress should call for the repeal of Public Law 104–8, which created the control board and robbed DC residents of the power of a vote. We need votes in the House and the Senate, not this dictatorship that dictates public policy and ignores the will of the people. This plan should have been presented long ago and there would have been no need for a control board. This plan is going to help give us a level playing field.

It is important to note, and I am glad to see that there was no imposition on DC residents on the type of governance. The President did not address that. In my opinion, we need to maintain the strong mayor form of governance but that choice should remain with the people, and just wanted to let you know that since there has been a discussion on DC governments, the DC Democracy Initiative, which is a nonbiased group but which I attend, will look at the various forms of government and DC financial issues, and it will be held on Saturday, April 5, from 10 to 2 at Martin Luther King Memorial Library.

Thank you for the opportunity to speak this afternoon.

Mrs. MORELLA. I thank you. You almost covered it all.

Ms. PEARSON-WEST. I tried.

Mrs. MORELLA. Thank you, Ms. Pearson-West.

[The prepared statement of Ms. Pearson-West follows:]

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Testimony Presented Before
the House District of Columbia Subcommittee
on the
President's National Capital Revitalization and Self Government Improvement Plan
Tuesday, March 25, 1997, 11:00 a.m.
2154 Rayburn House Office Building

Washington, D.C. is a great place to live, work, play, enjoy, and do business. I am sure that many Congressmembers can attest to that and were eager to come to Washington to serve. Each of you I am sure is eager to make your temporary home or place of business just a little bit better before you leave. I know that you want to accomplish this under the principles of democracy and with the approval and support of D.C. residents. It is important that Congress join D.C. residents and businesses in trying to promote the nation's capital in a positive light. Too often only the negative is reported and the good about Washington, D.C. is lost. Hopefully, members of Congress will begin to read some of the community newspapers to get a different picture of this great city. The D.C. bashing has to stop. It does a disservice to our city, our nation, and it especially hurts our young people who may see little in their future by what they hear from their adult leaders. The nation's capital deserves to be treated better than it has.

I was born and reared in this wonderful city. I went to the D.C. Public Schools and then on to receive degrees at Georgetown and Howard Universities. I am now raising two teenage children who you may one day call President, Congressmember, Chief Justice., Secretary of State, or perhaps Chief Executive Officer of a global enterprise. I live in Upper Northeast Washington in North Michigan Park adjacent to the equally nice Lamond Riggs community. My area is commonly referred to as Precinct 66 because we take our civic responsibilities seriously and traditionally have a high voter turnout. We vote well and we maintain our yards, send our children to school every day, work hard, and take pride in our communities. I say this because it is important for you to know that we are more than what you hear on the news. All our citizens are not drug crazed criminals looking for a government handout.

I invite you to come to one of the North Michigan Park Civic Association meetings and see how civic minded our citizens are. I invite you to walk with us through our communities or visit in our homes. Just let me know a convenient time for you and I'll be happy to make the arrangements. And the Ft. Totten Metro station is conveniently located nearby to make your trip easy and comfortable.

I am the product of a father who lived most of his young life in Virginia where my grandfather was a Republican and a minister. My mother is from the tobacco fields of North Carolina. where so many travelled up north for a better way of life through greater economic opportunities and more freedom. There are so many people in the nation's capital that have come from large states to make this place their home. The nation's capital is more than the federal interest , a tourist attraction, or a source of employment for suburbanites, it is home to over half million people, living in many proud communities.

I am glad that you have chosen to hold this meeting. The Coalition for Political and Financial Accountability wrote a letter to Congressman Davis requesting an opportunity for D.C. citizens to speak on their destiny in the District of Columbia. Many of my colleagues called to get on the witness list for the February 20th hearing on the President's Plan but were turned away. I am glad that you realize that the people of Washington, D.C. do have a voice, feelings, and concerns. No plan will work in this city unless the citizenry take part. You may have noticed that we are big on freedom and democracy in this city. Perhaps we take too seriously the goals of freedom espoused in the Constitution, the Pledge of Allegiance, and the examples of freedom fighting around the struggle continues to end communism, dictatorships, and as we look toward South Africa to solidify after the many years of Apartheid. Yes, people in this city also cheered when the Berlin Wall came tumbling down and the Russia moved away from communism toward capitalism. We believe in all that ideological stuff in Washington, D.C. and so we are eager to participate in the actions of government. and in any activity that impacts on us. In the light of Democracy, I come to address this body today.

The President's Plan is a great start toward making the nation's capital , the seat of democracy, a model for the world. However, it will not provide the revitalization that our city needs unless it addresses some of the concerns presented by the elected and electorate of the District of Columbia. It does not go far enough. We must also must ensure that local self governance is well maintained and enhanced. The President's Plan must not be a hostile takeover or a clever way to deny D.C. residents Home Rule and gain

Many of us are pleased to see that the Federal government is going to assume some of our state functions. We do need to be clear as to what that assumption or takeover will entail. The D.C. government needs to remain in control of the operations. The Federal government does not need to become another excessive overseer like our undemocratic, unelected control board. We need to define a clear role regarding this Federal-D.C. government partnership. The fundamentals of Home Rule must be protected in this partnership and this new partnership should not be one that we come to hate where it becomes evident that this partnership is another means to take control of the D.C. government and its leadership. St. Elizabeth's Hospital should be added to this list. In my college days, I worked one summer at this hospital while it was a part of the Federal government. This facility was transferred to D.C. totally flawed and in need of extensive renovation and funding. Once again, the Federal government transferred a liability to D.C. Before that transfer, the Federal government should have invested in its improvements.

The President and Congress need to look at some of the causes of the District's problems. It has been so easy for people to say that it was mismanagement. Others are let off the hook when we blame all the city's woes on management; the problems with D.C. go beyond management. No measure of efficiency or management would have kept the District out of its current financial crisis. There needs to be a level playing field before blaming all the problems on D.C. and demanding the continued budget cuts with little means to raise revenue. The citizens are hurting too much from the budget cuts. We have a significant population that is dependent on government services. A large part of the region's poor is concentrated in D.C. Are they to move to Maryland and Virginia so that some other jurisdiction can help them. It is time to take the shackles off the District so that there can be a way to generate more income. I am glad that President's Plan recognizes that the unfunded pension liability that D.C. inherited is major culprit in our current situation. I am saddened to see that the annual federal payment is to be terminated and that there is no mention of a reciprocal income or wage tax included in the plan. Just watch the evening and morning traffic and you can see all the job holders traveling back to the suburbs.

The federal payment has helped to subsidize Maryland and Virginia because they pay no taxes to D.C. Their taxes are used to improve services in their cities and state, but during the day they use our services and abuse our streets. I 'd like to know what other jurisdictions are prohibited from imposing reciprocal income taxes. There should be a stable, formula based annual federal payment that takes into account the loss of this revenue due to the prohibition of a commuter tax. The federal payment also compensates D.C. for services to the Federal government so that the there won't be a pay as you go account payment set-up. It also compensates for our inability to tax certain non-profit and federal properties. The payment thus far has been woefully inadequate and should have been at least a billion dollars annually. That would be fair play. It would be unwise and unfair to abolish the payments and to subject it to the political whims of Congress instead of to a formula based mechanism for deciding the payment.

My time is short, so I can not address every issue that I may like. It is important to note that people are still trying to move in this city and that it appears that we may be forcing some out. This city is home to many low income people who are desperately looking for a way to provide for their families. We need jobs in this city, and not just jobs where the residents are pushing the brooms. The suburbanites seem to have most of the professional, money making jobs. Hopefully, the President's plan for the Economic Development Corporation will help address the need for new businesses and job creation. I caution against creating a super agency outside of local government. We need to restore more power to the District, not take away from D.C. The board of directors for this entity should be composed mostly of District residents and should have more local control. There should be a substantial effort to help small businesses which tend to hire from the communities. D.C. needs small business incubators and tax incentives to attract the business community. Minority business must be encouraged.

There should be an extensive effort to target development and business improvement to New York Avenue, Georgia Avenue, Anacostia, Rhode Island Avenue, and Ivy-City Trinidad. Development and once there is development, these areas should not force current residents and

businesses out, but should improve the quality of life. These streets serve as gateways to the city. At all times we must remember that D.C. is a multi-ethnic, multi-culture, diverse city and we should strive to continue a diverse population and not make D.C. a place for just the rich. We also must make sure that Washington, D.C. is perceived and becomes more than just a government town or tourist attraction. We need to be known for other industries. We also need to be able to attract the dollars and investments from the international community. The nation's capital must truly become a great international city and become a mecca for international trade--a true global society..

The President's Plan should address education and at the same time ensure local control--without this emergency board of education controllers. D.C. needs money for school renovation and new construction. We need to have our schools wired for state of art computer , telecommunications, and Internet technology. Education is one of the surest tickets out of poverty and must be a priority if D.C. is to genuinely improve.. I understand that the President's Plan protects the federal interest, however, our children are the future and epitomize the federal interest. With our global economy, you can be sure that residents trained in our D.C. public schools will one day be the doctors, lawyers, engineers, and politicians in states and nation's elsewhere. They must be well trained so that they can one day, perhaps, help run Virginia, North Carolina, or Georgia or help negotiate with Russia, China, Cuba, the Middle East, or Korea. If our children are to be competitive in the workforce, they need model schools.

Instead of closing schools like McKinley High School where Blacks once could not go and where developers have now focused their real estate interests, the Federal government could help turn it it into a model communications, business, international affairs, academic, or technology school. With the proper resources, we wouldn't have to close so many schools, but could provide smaller classes and concentrate on better, motivational teaching methods. Junior high schools like Taft which sits in a middle class neighborhood with an active community could become a progressive school that feeds into to McKinley High School. Once one looks at the potential of these schools, no one would dare close them or some of the others on the list to be closed. Top schools attract residents and improve neighborhoods. The University of the District of Columbia also needs the help of the Federal government. Normally public universities are provided for by the state. This could clearly be a state function. It should be made into a flagship university that continues with open admission, but has strong standards and expectations for graduation. Education is the key to the city's future. And our young people must be made a priority.

Recreation and care of our parks could also be considered state functions. Our young people need some place to go and something to do in their leisure time. They tend to congregate on the streets, open to all sorts of temptations. Quality summer jobs are needed. Adequate recreation/leisure activities, education, and economic opportunities might be the greatest crime deterrents. We need to help break the cycle of poverty. It is imperative that we focus on crime prevention and looking out for our young and our families is major crime prevention plan. As we look out for people and their ability to take care of their families and we take care of our youth, there will be less of need to pay for more and more cops. Let't take care of our people on the

front end instead of putting more and more money on the great new industry, prisons.

While I recognize the goal of my own Congressmember Norton to call for a progressive flat tax, I am glad that the President's Plan does not include it. With all respect to her, I am afraid that if we pay a lower amount of Federal taxes, we as a city will be made more vulnerable to Congressional and Federal influence. We will lose our collective voice and means of leverage. Who will listen to someone who doesn't pay their fair share of Federal taxes. We'll be considered a welfare state. Instead of "no taxation without representation", there should be taxation with representation. Congress and the President's Plan should call for a voting member in the House and, for now, a delegate in the Senate. We need to move toward full voting representation. The greatest incentive to attract people and maintain residents and businesses is to maintain good schools and safe and clean streets. And we need the affordable, quality housing that is attracting my peers to the suburbs.

The Infrastructure Fund could be a boon in terms of helping maintain our streets, but this entity definitely should have more local control and streets in the residential neighborhoods need to be serviced. When we had the big snow storm, D.C. looked out more for the commuter thoroughfares than for the residential streets. Located just off a major thoroughfare, I was able to travel to the suburbs to dig my sister out so that she could leave her beautiful neighborhood with sprawling lawns and go to work. My suburbanite brother was able to help after his neighbors were able to hire contractors to clear their streets in their beautiful community. Too bad they didn't have easy access to public transportation.

The President's Plan should address the need to extend Metro so that neighborhoods in Georgetown , Ft. Lincoln, and New York Avenue can be connected. Metro helps make this the great city that it is. We need a purple, pink, or silver Metro line.

I support IRS handling the District's tax collection provided that there is no fee to D.C. There needs to be a way to collect from those who actually make their home here but have found a loophole to pay taxes elsewhere. We need to look at those businesses that through some quirk in the law, do not have to pay taxes here. I am also glad to see that there is to be a change in the amount of money that the District will have to contribute toward Medicaid payments. I am concerned about sentencing guidelines. D.C. sentencing guidelines should be maintained. D.C. should also be allowed to appoint its own judges. We must make sure that in no way will the police be subjected to a Federal takeover, however, they do need additional funds.

The District of Columbia should not be forced to balance its budget immediately. The Federal government has a few years to do so and we should be granted the same. It is cruel to keep balancing the budget on the backs of the poor. D.C. residents have endured enough budget cuts. D.C. needs to be able to refinance its debt like New York and Philadelphia were allowed to do.

I would hope that the President's Plan and any Congressional plans or compromises would insist that the financial control board be removed and its corresponding Emergency Transitional

Education Board of Trustees. The plan should speak more to real local self governance and help rid the city of the tyranny imposed on us. There must be a return to democracy. I am troubled when I see unelected bodies running this city with no accountability to the citizens. It is insulting and unmitigated. There should be a call for the repeal of Public Law 104-8. That law has created an adversarial approach to governing. I am further troubled when I hear members of Congress suggest that they will expand the law if the D.C. elected school board win their lawsuit. Congress has given absolute power to an unelected body. Absolute power corrupts absolutely. We preach democracy everywhere else in the world but deny it in the nation's capital. Here it is treated as a convenience to be retrieved when times could tough. Democracy and quality services and academic excellence can co-exist. D.C. needs legislative and budget autonomy.

Additionally, I am glad that the President's Plan does not deal with the issue of D.C.governance. Dealing with governance at a time when the city is trying to deal with a financial crisis would be definitely be viewed as another political ploy to control the city and to try to decide who shall lead the city. We do not need a city manager form of governance, especially one that reports to an appointed Control Board. That is the ultimate in tyranny. In a democracy, it is the people, the voters that decide their leaders. I could have concerns about the Speaker of the House, but I wouldn't want to go down to Georgia and rob the citizens of their right to elect their own leaders. Nor would I advocate doing away with Congress. I subscribe to democratic principles and the notion of majority rules. I believe that Georgia residents and those in other jurisdictions have a reason for choosing the leaders that they do and that the reason could not have been to strip D.C. of democracy and to run this city like a high paid City Council. The D.C. Democracy Initiative, a grassroots, broad based coalition is hosting a forum on Saturday, April 5, from 10:00 to 2:00 at the Martin Luther King Memorial Library to address issues of governance and D.C. finances. Various points of view will be presented and Congressmembers are encouraged to attend, listen, and join in the discussion.

The President and Congress need to meet with civic associations, Advisory Neighborhood Commissions, the ANC Assembly, D.C. Federation of Civic Associations, the D.C. Federation of Citizens Associations, and other community groups to learn more of the concerns and needs of D.C. residents. After all, they are taxpayers, too, and have a keen investment in this city. It is imperative that Congress meet with our City Council, especially the ward representatives to learn more about community needs.

A true and improved relationship between the Federal and District government could significantly improve the nation's capital. However, D.C. citizens are not going to allow themselves to be treated as guinea pigs or as a laboratory for someone else's urban agenda. We demand to be treated with respect and dignity and want to have input on our future, our destiny. We must be consulted to make any plan work. This is not the home of communism and is not a dictatorship, but truly the international home of democracy where Congress and the President are located.

The President's Plan is a good first step, but the details of the plan is what counts. We have heard little about the details and as we learn more about the plan we may find that we're giving up to

much. The maintenance of local control and independence must be a given in any changes. Working with the citizens and our elected officials will ensure that the District of Columbia will be improved. And, let's be very clear. The President's Plan is not a bailout. The money that we have given to Russia and to Japan in the past is a bailout. The money we have given to other countries is a bailout. We have improved other countries with the money the United States has given or loaned. Our nation's capital deserves no less. The money in this plan is far short of all that we need or desire. It is a start that D.C. can build upon. But it must be expanded to address the issues that have been outlined by the people. I encourage Congress to adopt the President's plan as amended by the residents of the nation's capital. Washington, D.C. is by far one of the best cities in the world and the people make it grand. It is America's first city, but it is our hometown.

Mrs. MORELLA. It is a pleasure now to recognize Mr. Mark Thompson.

Mr. THOMPSON. Thank you. To Congresswoman Norton, Congresswoman Morella and the staffs and to our Congresswoman seated in the audience, Congresswoman Sojourner, it is an honor to be here with you. I am literally pinch hitting for the president of our branch, Reverend Morris Shearin, who was unavoidably called to another meeting, hence the brevity of my written and submitted statement. I would ask the same indulgence of our elder statesman, Mr. Williams, that I submit further comments.

Mr. WILLIAMS. As a point of service, not age.

Mr. THOMPSON. Of course, certainly. I did not mean that chronologically. That I would submit further comments within the 10-day period and also I may depart and very briefly extend my comments here now.

Mrs. MORELLA. Indeed, without objection, you may do so and submit extended comments for the record.

Mr. THOMPSON. Thank you.

The NAACP welcomes the initiative taken by President Clinton. However, we have some very specific concerns about several provisions within the President's plan. First of all, we believe that the criminal law and the sentencing code should remain in local control. Consistent with the Home Rule Act and the long-standing independence in the nature of District law, the DC Criminal Code should not be required to comply with Federal standards. Any changes in District law should come from DC voters and should emanate as well from elected officials.

We also feel that District prisoners should be kept close to home. As it is according to the President's plan, District prisoners will be held in the Federal prison system and they are then subject to assignment anywhere in the country.

This can be addressed by keeping our prisoners within a certain radius of the District of Columbia, but this is important because if we are talking about any kind of rehabilitation or any kind of transition back into normal life hopefully once prisoners are released, it is important that they maintain some family relationships. Those family relationships and community ties for that reintegration cannot take place if people are spread out all over the country.

Also, it is high time in the District of Columbia that we look at alternative sanctions for nonviolent offenders. Many nonserious or nonviolent offenders can be sentenced to intermediate sanctions without imperiling public safety. The District should be free to expand pretrial diversion, probation, drug treatment centers, halfway houses, and other sanctions. The President's plan, as it currently exists, restricts such options at exactly the time when they should be expanded.

We do not support the removal of the Federal payment in exchange for the resolution of the unfunded pension liability. Both the resolution of the unfunded pension liability and the Federal payment are owed to the District. The Federal payment is wholly inadequate, but it is some form of payment in lieu of what we lose when almost 70 cents on every dollar earned in income in the District daily leaves the city and the $2 billion cost of the Federal presence annually. The unfunded pension liability is owed. It is

time that that be taken care of. By the year 2000, the amount of money that the District budget has paid to the unfunded pension liability will have quadrupled since the year 1980.

Also, we feel that there is a need for more local representation on the new Economic Development Corp. Some of the President's plans with this corporation are, indeed, visionary but we want to ensure that there is more local representation there.

Also, we would like to see the President's plan reflective of an interest in the maintenance of the University of the District of Columbia, our only urban land grant institution.

Last, any changes to the governing structure, whether proposed by the President or the Congress, should not be enacted without ratification through a ballot initiative or referendum. It is no secret that there are many discussions about changing the governing structure in Washington DC, whether that is through a city manager or moving the council to a more advisory role. We say that any changes should not take place without first being placed on the ballot so that the voters themselves might ratify those changes directly, any changes in the governing structure.

I know I do not need to recite the history of the NAACP to this panel, but we feel that these recommendations are consistent with our long history of social justice. We would hope that the panel will reflect some of our concerns and would also uphold that spirit. I thank you very much.

[The prepared statement of Mr. Thompson follows:]

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DISTRICT OF COLUMBIA BRANCH

**TESTIMONY OF MARK THOMPSON,
POLITICAL ACTION CHAIR,
DC BRANCH, NAACP
BEFORE THE HOUSE SUBCOMMITTEE
ON THE DISTRICT OF COLUMBIA
MARCH 25, 1997**

Ladies and gentleman, good afternoon. On behalf of our Branch President, the Rev. Dr. Morris Shearin, it is an honor to have the opportunity to appear before your committee today. The NAACP welcomes the initiative taken by President Clinton, however, we have some concerns about several provisions in the President's plan.

First of all, we believe that the criminal law and the sentencing code should remain in local control. We also feel that District prisoners should be kept close to home, and that there should be alternative sanctions for non-violent offenders.

Secondly, we do not support the removal of the federal payment in exchange for the resolution of the unfunded pension liability. Both the unfunded pension liability and the federal payment are owed to the District.

Lastly, any changes to the governance structure, whether proposed by the President or the Congress should not be enacted without ratification through a ballot initiative or referendum.

Mr. DAVIS [presiding]. Thank you very much. Thank you all for your testimony. We will open it for questions at this point.

Ms. Norton, would you like to start?

Ms. NORTON. Yes, I would, Mr. Chairman; and I appreciate that these witnesses have testified today. It is very important testimony.

May I acknowledge what two of the witnesses referred to, our Statehood representative, Sabrina Sojourner, is here and who I know would support particularly what Mr. Thompson had to say; and there are other activists from the DC community who are here. I would like to ask the chairman if he would leave the record open for 30 days so that we might insert testimony from other groups and leaders and residents in the city.

Mr. DAVIS. Without objection, it is so ordered; and their statements will be part of the permanent record.

Ms. NORTON. Thank you.

To these four witnesses I have—I do have one question; but I do want you to know, Mr. Chairman, that this is a very diverse representation of residents from the District.

I want to commend Reverend Daniels for what you have done in this city in a very short time. This is a city where, too often, there is a lot of talk and very little action. A lot of folks are walking around with a microphone or even without one, frankly. And what the Washington Interfaith Network has done is unprecedented in my time, to see some folks coming into this town, then do an extraordinary grass-roots job. I don't know if people were in that church on two occasions but to see that this was not top down. When they talk about $2.5 million, is it?

Reverend DANIELS. Yes.

Ms. NORTON. The reason that the folks on top of the religious hierarchy came up with that money is that the organizational work had been done in the congregations, and it was a sight to behold. It has attracted the attention of the First Lady, of Mr. Cisneros, and now you have gotten, after a long struggle, the appropriate land from the city so we're going to see houses built in this city for people of moderate income, the very people who cannot possibly afford to live in this city anymore. Sixty-three percent of the taxes are paid by people making $30,000 a year or less; and they are the ones fleeing the fastest because there is so little housing, because the cost of living is so high.

I know, Reverend Daniels, that you will accept from me the notion that your concern to have the police department shook up, as it has been, and the schools shook up need not involve the control board or can be done by the city. The city could have, and the school board agreed to turn over its power to Mr. Becton to allow him to do what had to be done.

And shame on the control board for insisting that it be done the way it has been done. I will never forgive them for it. Because the school board was willing to do the right thing the right way.

As to the police department, the Control Board did that one the right way. They did a memorandum of understanding that involved the Police Chief, the Mayor, the City Council; and everybody agreed to the changes that are being made in the police depart-

ment. So I think we have demonstrated there are ways to do what has to be done in this city consistent with home rule.

Mr. Williams, I just want to note what has happened to DC workers. We have a very sophisticated trade union movement in this town that knows how to sit down and bargain, and I think the workers in this city have been put to needless suffering—absolutely needless. You don't take people and go for 5 years, and not only don't give them a raise but insist upon give-backs each of those 5 years and then complain that your work force is not productive. That's not the way it's been done in other places.

Now we have people coming forward, saying, we will give a raise to the police department and to the teachers. Yeah, give them a raise, but sit down and figure out how to do your reductions so that everybody gets some raise.

How are you going to have a work force where you selectively give raises? Who ever heard of such a thing? Unknown in the history of mankind.

There is a way to sit down and do it the way every business does it and the way every city has done it. If you have to do your layoffs, you do your layoffs. Then you begin to give increases to your workers, and you do it across the board. Maybe some get more than others. But you won't say, "You field Negroes, you're not going to get nothing; but you people who we need, we're going to give raises."

I'm opposed to that. Because I think there's a way to do it for everybody, so the workers begin to know that they will be rewarded for the productivity we are asking from them.

All I can say about this labor movement is I know them and I know them well, and I know they know how to sit down and bargain. They are tough bargainers, and they are as sophisticated labor leaders as there are anywhere in this country. I just regret the way this has been done, because I regret needless suffering. There is a lot of suffering we all have to do. This was unnecessary and continues to be unnecessary.

Ms. Kathryn Pearson-West, who always offers constructive and principled criticism, you have done so again today; and I salute you for it.

I do want to correct for the record that my progressive flat tax involves no loss of rent control. I stood up here by myself on rent control, and I think the Congress got——

Mr. DAVIS. She is right about that.

Ms. NORTON. I think the Congress got the message. You're not going to lose rent control.

I do want to say for the record what many Washingtonians may not realize, even though my bill has overwhelming support in this city, that the bill contains many protections against increases, unnatural increases in the cost-of-living or justification; and I worked on that part at least as hard as I worked on the tax cut part. I do know where I come from, and where I come from is wanting a broad tax base. I'm not putting a tax cut in to chase out the very people I'm trying to help.

Finally, Mr. Thompson, first may I put on the record that the Court of Appeals of the District of Columbia has overturned your conviction for standing up for statehood, and I congratulate you for standing up. We entered an amicus brief in your behalf in the

Court of Appeals as well, but I'm not sure we anticipated what has happened. You have served time in jail, so I'm not sure what it does when they overturn it after you've done your time. What it will remind us of is your leadership on statehood and your unbending principle that this city not be reformed at the cost of home rule.

Only in America and only for the District of Columbia would anybody dare claim there is a tradeoff of democracy for efficiency. I would daresay that 95 percent of the governments in the world are inefficient; and if that is a standard we are going to apply, there's not going to be a lot of democracy left.

I commend you for standing tall and standing up for it and not letting people forget, that just because we're in trouble, that we're pulling ourselves out. We're not about to give up anything that any other American has.

We do have to keep reminding people, because people are so glad to see that a little bit of efficiency happens here or there. And it is a little bit, not a lot. It's certainly not a lot so that we want to give up anything for it.

There seem to be whole groups of Washingtonians that are willing to trade in their God-given rights. Well, I'm not trading in mine. If y'all want to trade in yours, go do it, but they're going to have to roll over me to get to mine.

That is why I want to commend the people who came up here to see Senator Faircloth; because when they came up here to see him, he listened. You don't have to sit down there and let people say anything they want to say up here or do anything they want to do to you up here, and you don't have to tradeoff anything you're entitled to. And you are entitled to a whole lot more than you have gotten in terms of democratic rights in this country.

I want to ask you a question now that I have said that. I want to ask you a question about what for you—just for the record, given the fact that you come from different perspectives, if you can say so—what for you would be the most important part of the President's plan to be enacted. I would just like each of you in whatever order it occurs to you to indicate your views on that.

Ms. PEARSON-WEST. If I may?

Ms. NORTON. Go right ahead, Ms. Pearson-West.

Ms. PEARSON-WEST. I didn't get out of my place, did I, Congresswoman?

I like the fact that the President is going to take over financial responsibility of these State functions. I think that's going to help the District of Columbia quite a bit.

My only concern is what role will the Federal Government play once they have assumed the finances of these functions. I know they're taking over Medicaid, Lorton. I am just concerned overall. There are State functions, and they will be taking over the financial aspects, but I would still like to see the District government still maintain some control over some of these.

Ms. NORTON. The District is going to continue to run everything except Lorton.

Ms. PEARSON-WEST. I wanted to make sure that was clear.

Thank you.

Ms. NORTON. Is there any other part of the plan that particularly appeals to any of the rest of you?

Mr. DAVIS. Excuse me, but with regard to the Lorton issue, we're trying to work a way where the city will still have a say over sentencing and those kind of issues. We're very sensitive to that. That has come through loud and clear from Ms. Norton and city residents.

Ms. PEARSON-WEST. Are we going to get any money when they take over Lorton? Are they going to sell Lorton or something like that?

Mr. DAVIS. Let me just say there is a huge cost avoidance right now where the city should have been putting money into infrastructure, that in my judgment has not been put in. You lose; you won't have to put that money in now. Hopefully, we'll be able to come up with savings through each of these. I don't know what it will be yet, there are a lot of negotiations, but if I have my way, there will be a little bit there for you.

Reverend DANIELS. For our network, we're happy with the infrastructure funding that will hopefully help our streets, our parks, our rec centers. Our kids have nowhere to play. Lord knows we know the pothole problem in DC. The street leaving our congregation is full of potholes. We have tried to get it refilled on numerous occasions, only to be unsuccessful.

However, I would hope that somewhere in the President's plan there would really be a strong commitment to the issue of critical mass housing in the city. The fact that we are the Nation's Capital yet have the lowest home ownership rate just to me does not make any sense at all. And the way you really rebuild a city and bring families back into the city is that you have affordable places for them to live. It all begins with the family and the family having a place where they feel good and comfortable and responsible and accountable to live in. My hope is that there will be significant attention somewhere within the plan given to that reality.

Ms. NORTON. Mr. Williams.

Mr. WILLIAMS. Congresswoman, the thing that strikes me about the President's proposal is the clear recognition that there is a relationship between this city and the Federal Government as that of a city and a State. And, finally, the Federal Government is recognizing and assuming many of those responsibilities that a State assumes elsewhere which the Federal Government should have assumed some time ago.

Particularly, of course, I think the relief of the unfunded pension liability is a key factor. It is the most burdensome and has been the most burdensome part on the District government and one which was not of the District's making. There is, I think, in the proposal a clear recognition that this was not of the District's making. It is the Federal's responsibility. It is a burden that was imposed on the city by the Federal Government. It did not ask the city whether it wanted to take it over or not.

That recognition, to me, is a very, very significant one. I just hope, without any disrespect to the Reverend to my right, I would court someone and say that, of course, the devil is in the details. We have not seen the details yet of the proposal. I would certainly hope that as details are worked out there is a clear recognition that workers in this city need to be at the table when those details have been worked out and not be asked for comments after the fact.

Mr. THOMPSON. Congresswoman Norton, thank you for your compliments; and thank you for your own eternal vigilance.

There are three aspects that I find—or two, rather—that I would highlight as being positive in the President's plan. However, they do have asterisks beside them.

First of all, the unfunded pension liability. It is about time for Congress to take that over. However, much of the context in which we have discussed this unfunded pension liability is as though it is some kind of a tradeoff with the Federal payment; and that is the only reason I place an asterisk there. I think one is an apple and the other one is an orange. However, an orange that is somewhat spoiled. The Federal payment must continue. The unfunded pension liability must not. I would hope that this Congress would be firm on seeing to it that one does not necessarily have a relationship with the other.

The new Economic Development Corp. as well is quite intriguing. I think that in Washington, DC, it is high time that there be economic development; and even in the President's plan there is an emphasis on developing those areas that have not been heretofore developed. There has been a lot of attention on downtown K street, et cetera, but there is some indication of interest in other areas. An asterisk is there only to ensure that that kind of attention is given to other areas of our community. There should be a broader local representation on that NEDC.

I know I said two, but actually three. The admission of the Federal Government that there is some need for a greater role since we do not have a State is fine; but I'm certain I speak on behalf of a number of my colleagues who have been vigorously involved in the statehood movement, which we have not surrendered by any means, that there is some trepidation.

Let me just put those of you on notice that just because there will be some financial takeover of some State-like functions, we by no means see this as any argument whatsoever for us to surrender our cause for full self-determination for District residents in the form of statehood.

With all due respect to you, Chairman Davis, and Congresswoman Morella, it will come the time very, very soon where some generation of this House will have to admit that the District can no longer afford to subsidize Virginia and Maryland. That is only addressed through us having our full autonomy and our right to work out some kind of reciprocal arrangement that we lose with that relationship and with that subsidy.

Thank you.

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

Mr. DAVIS. Thank you.

Kathryn Pearson-West, I apologize for being out when you testified. I had two groups of kids to get photographs with. It was the only time I could meet with them; but I have read your whole statement.

Ms. PEARSON-WEST. Maybe we'll get another opportunity to talk.

Mr. DAVIS. I would be happy to.

Let me just say to all of you—and I have read everybody's statements that have been submitted. I appreciate you being here today. You are stakeholders in this city. You and the groups that you rep-

resent are going to have to live with whatever comes out of this Congress as we work together with the administration. I am hopeful to keep you and the elected city leaders involved as we move through this process.

As I look at you out there—I don't consider you part of the problem—I consider you part of the solution. So I'm interested in what you say, although I have to tell you there are some things I disagree with that you're saying that come from my perspective. But it's important for me and other Members to hear your perspective and to weigh that in the mix.

I think if we keep looking for people to blame for this city's plight, nobody is going to be left standing at the end of this. There's plenty of blame to go around. There's no question about that. We can all share some of that.

This Congress is certainly close to the top of that list, in my judgment, not just in regard to the Home Rule Act but for failing to exercise appropriate oversight over the last 20 years and to instill in the city leaders a culture of accountability for decisionmaking. We make it harder to do that when decisions the city makes are not final, where they are constantly questioned by Congress and overturned in appropriation bills or by other threats out there. It makes it harder for city leaders to get up and make tough decisions when they are subjected to that.

I think that was one of the reasons that we didn't want the Federal payment to be part of the President's plan. So we try to make it up by relieving the city of certain services that they now have to provide under the Home Rule Charter.

But, regardless of that, we are at a historic moment where we have the President, city leaders and Republicans and Democrats in Congress engaged in the issue and focusing and recognizing that the city needs a new deal, that the one that was fostered in the early 1970's of statehood really no longer applies, given what has transpired in the meantime.

And the unfunded pension liability is just the tip of that iceberg. Each of you alluded to some of the other areas. I just hope you will continue to work with us, meet with us, and be involved.

Ms. Norton and I also talked about rent controls. I'm philosophically opposed to rent controls; but I also recognize the city is entitled to make its own decisions and, in some cases, make its own mistakes as is Congress and everybody else; we need to respect those rights as we work forward with this.

So if we can continue the dialog, recognize we are at a historic time, and work with what the President, Ms. Norton, and others have put on the table. We can do nothing but improve the city's plight over the next few years.

I yield now to Mrs. Morella.

I would be happy to let you respond, of course.

Ms. PEARSON-WEST. Mr. Davis, could you at least try to come out and meet with more of the residents, and could you take it upon yourself to call for a vote for Ms. Norton? She has worked so hard, she really deserves it, and this city deserves it.

Mr. DAVIS. She's tougher than a lot of members up here who have the full vote. I think she ought to have the full vote and I have called for it. Again, getting it through the conference and ev-

erything else is a little more complicated. We've talked about that. But I support that, I think Mrs. Morella does, and I think the Speaker does. It's a question of how you move that through at this point in an appropriate fashion. I look forward to working with you and her to do that.

Mrs. Morella.

Mrs. MORELLA. We are all here on this subcommittee for the betterment of the District of Columbia. As you have all mentioned in your statement, it helps the entire region.

I did notice that nobody truly talked about job retraining. I would guess, Mr. Williams, as you read the *Williams* v. *Williams* article in today's paper, that we would be looking to the role of unions in the revitalization. But I guess you would all agree that retraining has got to be an important part of filling those jobs that are available and to lure more companies into the District.

Ms. Pearson-West, in your statement you talk about school renovation and having the schools wired for state-of-the-art computer telecommunications and Internet technology. I just want to make sure that you are aware that the FCC is going to be coming up with a decision on May 8, which will deal with affordable access to the Internet for all schools and libraries. We think the District of Columbia would be eligible for that if they are ready for it, and I think they will be. So it is something to consider.

Ms. PEARSON-WEST. I'm so glad to hear that, because our children need so much, and they are really our future. If we're going to stop crime and make this a positive city, we've got to concentrate on the schools.

Mrs. MORELLA. I could not agree with you more.

Reverend DANIELS. Could I just address the job retraining, please?

Yes, job retraining is necessary. One of the concerns that we really have, and this extends into Maryland as well, is what is taking place with the whole welfare reform bill. Yes, something had to be done about welfare, but what has been done has brought on, we are seeing—has brought on worse problems than before.

What we are seeing happening is that, particularly in Maryland, but we know the District is going to need to address this issue, too, is that people making a livable wage are being pitted against welfare-to-work persons. You have got the poor pitted against the poor. Then you also have the middle class pitted against the middle class when it comes to bidding for contracts, and those middle-class small-business owners and other business owners who have a moral sense and believe that their employees ought to have a livable wage are losing out contracts to other middle-class businesses who hire welfare-to-work people.

This is an issue that is really going to need to be addressed. The churches are saying that we are not going to participate in a third-party situation. So that is something, not only job retraining, but that whole issue of subsidizing corporations so that welfare-to-work people can be hired, and there are not enough jobs to fill needs to be addressed.

Mrs. MORELLA [presiding]. I appreciate your mentioning that, and I know that you sense it through WIN, obviously. You really do get the people who are in search of guidance. But I submit from

the jobs we know are available, and if you read the paper you will find on top of that companies that have many jobs available, but they can't find the people. It may take a while, but I think this is where the challenge of retraining, we can do it. We have to rise above it. I just think we can do that.

We also did not mention, as an aside, something that I think we will have to look at on this subcommittee, and that is the University of the District of Columbia as well as St. Elizabeth's. These are two situations, one is mental health and education, that we're going to have to find some resolution.

I don't really have any questions. I just appreciated your testimony. Stay tuned. I know you will.

Mr. WILLIAMS. Mrs. Morella, I cannot let the opportunity go. I am sorry that Congressman Davis is not here.

Mrs. MORELLA. He always seems to go out at the right time.

Mr. WILLIAMS. You were not here earlier this morning, Congresswoman Norton was, when the Board of Trade and the Chamber of Commerce testified. Some of your comments, I think, also is reflective of something that I think I see wrong with our approach here, and that is that there seems to be a rush to try and solve these things by piecemeal approaches. Everybody seems to have a solution to one little piece. It seems to me we need to take a look at the whole problem and come up with a comprehensive approach rather than piecemeal.

This morning the business community took the opportunity to come up, to do a little piecemeal legislation on unemployment compensation, workers' compensation, the problem with inspection, the problem with licensing. These are all little pieces of the puzzle. By merely putting all these little pieces on the table, and by getting them addressed, we're not going to solve the larger piece of the puzzle.

I just wanted to go on record, and I hope that Congressman Davis ultimately reads this, and I know that I can count on Congresswoman Norton to certainly reflect our views, is that by merely talking to public workers, you are not solving the problem, and you are not doing our government any service. There seems to be an attempt around here on the part of politicians, on the part of several people, to blame District workers and their, quote/unquote, inefficiency as part of the problem that we have here. I just wanted the record to indicate that we believe that the District workers are some of the best that we have anywhere around, and we are certainly proud of the work that they do around here. If there is a problem with inspection, if there is a problem with licensing, it is not the rank-and-file workers who are on the front line every day that you should be blaming. It is that there is something structurally wrong with our system and that what we ought to be doing is addressing the problem and not looking for scapegoats, as many politicians and sometimes business leaders seem to want to do.

I am glad that Congressman Davis has just arrived back in, because I hope that he gets a chance to look up the record and read what I have just indicated here. I do not want this record to reflect that our silence, the silence of the AFL–CIO, is in any way an agreement with the attacks that seem to be made upon District workers and people who work for the District of Columbia.

Mrs. MORELLA. This subcommittee is not making any attack on the District workers.

Mr. DAVIS [presiding]. Which attacks are we talking about?

Mrs. MORELLA. Just in response to something the city had mentioned, Mr. Davis. I just want you to know that we are hoping to not do patchwork quilt, but to look at the various facets of the plan, to listen to everybody, and then to craft one piece that we think addresses most of the situation.

Mr. WILLIAMS. Congresswoman, when politicians complain about the fact that it takes so long to get a license or it takes so long for inspectors to come across, what you have done is you leave the impression that the problem rests with the workers, and I do not think that it is fair. If one is going to complain about how long it may take for someone to get a license to do a repair, if it takes a year for a Congressperson to get it, if it takes a while for someone to do it, it is not necessarily the fault of those employees who are out there working and working very, very hard. What we have seen here is a takeoff and an attack upon workers, but it is the ones who provided the licensing and the inspection who are at fault because it takes so long to get a license to do repair work.

Ms. NORTON. Mr. Chairman, I know you may want to respond, but I wonder if you would excuse Mrs. Morella and me, who are due at the House press gallery.

I just want to say one thing. What was said about workers, I'm sure the chairman agrees with actually, because of his concern for management and operational problems in the District. What you have said—what you have spoken is the truth, and I know it up close. When I came to the EEOC, every worker was being castigated. It is because there was a system in place that did not allow people to process cases in a timely fashion. The same workers, given a new system, then processed cases in one-third of the time it had taken.

There is no question that these are management problems, these are operational problems that start at the top. Workers don't come to work and say, let me do this job. They come to work and they are supervised and managed. That is the problem, and I know that is the view of the chairman.

I do want to go on record as saying, among the several things you have said, it needs to be reiterated that the District of Columbia must retain a 4-year university if there is to be any hope that what the chairman has spoken about, that these excess jobs out in Fairfax and elsewhere in the region can be filled. You will really keep that from happening if we end up with less than a 4-year college where many of our students must get their education or find no place to get an education.

I would ask the chairman if he would excuse Mrs. Morella and myself.

Mr. DAVIS. I will be happy to.

I will sum up quickly two things.

Ms. NORTON. First may I acknowledge that in the back row there are a number of DC residents who had come today in order to visit their Capitol and their Congresswoman, and may I thank you for coming and apologize that I was in the hearing. After you go to

visit the Capitol, perhaps you can stop back and I can have a few words with you.

Mr. DAVIS. Thank you all for being here.

Let me say two things. I think that a 4-year university with the right mission makes a lot of sense. The problem is that in so many cases, for the city, as we heard from Dr. Fuller and other economists, it is the wrong mission. We have a lot of city employees, as I said earlier, Mr. Williams, that are working hard every day, but in some cases they are performing tasks that don't need to be performed, working under regulations that shouldn't have been written, and filling out forms that shouldn't have been printed. That's not the workers' fault. Nobody's accusing the workers of that. I don't know why you're so sensitive about that. But the reality in some of these cases is that they are not focused on the appropriate mission, and that is a management and political leadership responsibility that has to be changed. I have said that.

If you sat through the hearings earlier, I wasn't trying to snub you in any way by leaving the hearing. I have been at this hearing as long as anybody. However, the reality at the end of the day is that over time the city has made some management decisions that have not been in the interest of workers. You have been silent during some of those times; during some other times you have spoken out; and as a result of that, we are at the situation today where Congress is now sitting with the President trying to help the city recover. It didn't have to be this way. I think if a lot of us had earlier on tried to engage in this process, maybe we could have intercepted this before we are where we are today.

My point is, let's quit putting the blame on workers or managers or Congress or city leaders. Let's focus. We have an opportunity with the President and with Members of both parties of good will engaged in this process to move ahead and try to solve it. We welcome you as part of this solution. You represent a lot of people from a very important perspective to the city because the city voters, the city residents, are the stakeholders who need to be involved in this. We don't want to dictate this from outside. It's not going to work without some buy-in.

We appreciate all of you being here today. Without objection all written statements are ordered to be included in the record. As Ms. Norton noted earlier, we have 30 days for opening the record for other comments that you or other groups may want to supplement.

Ms. PEARSON-WEST. A point of information. After you've made changes, do you come back to the community? Or is it a done deal after Congress has gone over the President's plan and made the recommendations?

Mr. DAVIS. What do you mean?

Ms. PEARSON-WEST. You've asked us our comments. Then you're going to, I guess, do some revisions or alterations to have a chance to add to the plan. Then do you come back and say to the DC residents, this is what we have on the table, is this OK?

Mr. DAVIS. I don't think we've determined exactly how we're going to proceed at this point, Kathryn, but you can stay in touch with our office and Ms. Norton's. This is not a secret what we're trying to do here. But, we're not going to go through a lengthy public hearing process after we have the key political leaders agreeing

to it. We'll never get anything done that way. But we will welcome your comments at any time in the process.

Ms. PEARSON-WEST. I would love to stay involved. Thank you.

Mr. DAVIS. The meeting is adjourned.

[Whereupon, at 2:10 p.m., the subcommittee was adjourned.]

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