



Highlights of [GAO-03-666](#), a report to the Ranking Minority Member, Subcommittee on the District of Columbia, Committee on Appropriations, United States Senate; and the Honorable Eleanor Holmes Norton, House of Representatives

## Why GAO Did This Study

District officials have recently reported both a budget gap and a more permanent structural imbalance between costs and revenue raising capacity. They maintain that the structural imbalance largely stems from the federal government's presence and restrictions on the District's tax base. Accordingly, at various times District officials have asked the Congress for additional funds and other measures to enhance revenues. In a preliminary September 2002 report, GAO concluded that the District had not provided sufficient data and analysis to discern whether, or to what extent, it is facing a structural imbalance. At that time, GAO also agreed to perform a more comprehensive analysis and was asked to (1) determine whether, or to what extent, the District faces a structural imbalance between its revenue capacity and its public service responsibilities, (2) identify any significant constraints on the District's revenue capacity, (3) discuss factors beyond the control of District officials that influence the District's spending in key program areas as well as factors within its control, such as management problems, and (4) report on the District's deferred infrastructure projects and outstanding debt service and related expenses that might be affected by a structural imbalance.

The District concurred with our key findings.

[www.gao.gov/cgi-bin/gettrpt?GAO-03-666](http://www.gao.gov/cgi-bin/gettrpt?GAO-03-666).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6806 or [daltonp@gao.gov](mailto:daltonp@gao.gov).

## DISTRICT OF COLUMBIA

# Structural Imbalance and Management Issues

## What GAO Found

GAO used a multifaceted approach to measure structural imbalance that GAO defines as a fiscal system's inability to fund an average level of public services with revenues that it could raise with an average level of taxation, plus the federal aid it receives. This approach compared the District's circumstances to a benchmark based on the average spending and tax policies of the 50 state fiscal systems (each state and its local governments). However, the benchmark is adjusted by taking into account circumstances that are beyond the control of state and local government officials (e.g., number of school-age children and value of tax bases). GAO supplemented this analysis with reviews of the District's key programs to provide insights on factors influencing spending, and reviewed deferred infrastructure and outstanding debt. GAO found:

- The cost of delivering an average level of services per capita in the District far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and a high cost of living.
- The District's per capita total revenue capacity is higher than all state fiscal systems but not to the same extent that its costs are higher. In addition, its revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Data limitations and uncertainties surrounding key assumptions in our analysis made it difficult to determine the exact size of the District's structural deficit, though it likely exceeds \$470 million annually. Consequently, even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.
- The District's significant management problems in key programs waste resources and make it difficult to provide even an average level of services. Examples include inadequate financial management, billing systems, and internal controls, resulting in tens of millions of dollars being wasted, and hindering its ability to receive federal funding. Addressing management problems would not offset the District's underlying structural imbalance because this imbalance is determined by factors beyond the District's direct control. However, addressing these management problems would help offset its current budget gap or increase service levels.
- The District continues to defer major infrastructure projects and capital investment because of its structural imbalance and its high debt level. These two factors make it difficult for the District to raise taxes, cut services, or assume additional debt.

Although difficult, District officials could address a budget gap by taking actions such as cutting spending, raising taxes, and improving management efficiencies. In contrast, a structural imbalance is largely beyond District officials' direct control. If this imbalance is to be addressed, in the near term, it may be necessary to change federal policies to expand the District's tax base or to provide additional financial support. However, given the existence of structural imbalances in other jurisdictions and the District's significant management problems, federal policymakers face difficult choices regarding what changes, if any, they should make in their financial relationship with the District.