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**Washington DC - OMB Policy  
Memo**



THE DIRECTOR


EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 19, 1997

Wash DC -  
OMB Policy Memo

MEMORANDUM FOR THE PRESIDENT

THROUGH: Erskine Bowles

FROM: Franklin D. Raines 

SUBJECT: Status of The National Capital Revitalization and Self Government Improvement Plan

**Introduction: Advancing the President's Plan**

The President's Plan was introduced on January 14 and in the five weeks since introduction has gained considerable support in the community and in Congress.

Speaker Gingrich has designated Congressman Tom Davis (R-VA) as the point person to gain Congressional support for the President's Plan. Davis is very enthusiastic about all of the elements of the plan and he has scheduled hearings, beginning February 20th, to build a record toward introduction of legislation in April with passage before Memorial Day Recess.

I have been briefing community leaders and members of Congress for the past several weeks. From town meetings arranged by Delegate Norton to Congressional leadership meetings on the Hill, the reaction has been generally positive. Predictably, some groups want more funding in certain areas that they care about. Others have expressed specific concerns in areas such as community safety, sentencing, education, and District governance. However, the fundamental elements of the President's Plan are widely supported.

Our immediate next steps are:

- **Agree with District on Memorandum of Understanding** - An important message in the President's Plan was the need for the District officials to demonstrate a willingness to be accountable and accept responsibility for meeting conditions necessary for the success of the Plan. The Memorandum of Understanding (MOU) is designed as the mechanism for demonstrating this accountability. It will be signed by the Mayor, The President Pro Tem of City Council and signed or affirmed by the Chair of the Financial Responsibility Authority. The City Council and the Authority will be asked to formally approve the MOU before the Administration transmits legislative language implementing the President's Plan to Congress. (Key elements of the MOU are described below)

- **Prepare Legislative Language** - Under the direction of OMB's Legislative Resources Divisions, agencies are drafting the relevant sections of a bill that would implement the President's Plan. Preliminary draft language and sectional analysis have been received from all agencies and concerns or conflicts are being addressed. As noted above, Congressman Davis has indicated that it is his intention to introduce a bill in late April and initiate a process that would include final passage by both Houses by the Memorial Day recess. While White House Legislative Affairs and OMB staff both agree that the timetable is ambitious, we believe that the best hope for success lies in bi-partisan, bi-cameral, bi-branch cooperation centered on Davis' leadership.
  
- **Continue Community Outreach** - A separate memorandum (attached) outlines the continuing two-part strategy for community outreach. While gaining support for the President's Plan is a key element of the outreach because of the keen interest in its elements, an equally important component is letting the community know of our concern for the District and the fact that we will work with them as fellow DC neighbors to make our community a better place. The education event you are participating in on February 21 is the latest in a series of outreach events designed to reinforce these dual messages. In the coming weeks, it may be important to use your office to emphasize particular elements of the President's Plan, such as the Economic Strategy.

### **Status of Major Elements of the Plan**

While the President's Plan is organic in nature, some of the elements were more developed than others when they were released in January. Further work toward legislation has led to some modifications and this process will continue to evolve. Presented below is the current status of the elements along with the MOU conditions that are being discussed with the District.

- **Criminal Justice System:**

**DC Courts** -- The January 14 proposal calls for the Federal government to take responsibility for funding DC Courts. We are tentatively planning to fund the DC Courts (\$129 million in 1998, inflated in subsequent years) as a pass through in a new account under the State Justice Institute, an independent Federal agency. Neither DOJ nor the Judiciary wanted to be responsible for this funding, even on a pass through basis, out of fear that it would create competition for their own budgets within the CJS appropriations subcommittee.

**DC Offender Services** (pretrial services, parole commission, and supervised release programs) -- The proposal calls for these services to be funded through a Trustee until such a time as ultimate responsibility is transferred to the Courts and the Federal government (\$10 million in 1998, inflated in the outyears). Questions remain about: the scope of offender services to be provided (the January 14 proposal called for funding of parole services; DO

believes it would be more efficient to fund pretrial services as well); who appoints the Trustee; and how the Federal funds will flow to the Trustee.

**DC Corrections (sentenced felons)** -- The January 14 proposal called for the operations of the District's prison system to be placed under a Trustee until certain conditions are met, after which responsibility for sentenced inmates would be transferred to the Federal Bureau of Prisons. Funding for operations (\$169 million in 1998, inflated in subsequent years) and for capital improvements (\$900 million over three years for repair of Lorton and the construction of additional facilities) would be through the Trustee for a transition period of 3-5 years.

Questions remain over who will appoint the Trustee and whether the Trustee will be a District or a Federal entity. DO is proposing that the AG pick the Trustee, with the approval of the Oversight Board, but we are unsure whether this is acceptable to DC.

**Sentencing Guidelines** -- The proposal calls for the Bureau of Prisons to take responsibility for incarcerating District felons who are sentenced in accordance with Federal "standards" that are now being defined. To meet these standards, the MOU will require DC to amend its criminal code to provide sentences comparable to those imposed on Federal prisoners for comparable crimes. In addition, the District will need to sentence these felons in accordance with truth-in-sentencing requirements (determinate sentencing, abolishing parole and limiting good time release). The DO, White House Counsel and OMB are now considering how to incorporate these changes into legislative language. One issue is the extent to which the Federal government will need to amend the DC criminal code directly rather than waiting for the District government to make the needed changes itself.

- **National Capital Infrastructure Fund** -- The proposal announced January 14 provides Federal funding of \$125 million for 1998 only for any highway or mass transit capital project in the District. In addition, the NCIF would be authorized to accept payments in lieu of taxes from tax-exempt organizations (such as hospitals and universities) and other entities. The NCIF would be governed by a five member Board responsible for selecting the projects to be funded. The Board would consist of one member each appointed by the Mayor, the city council, the Financial Authority, and two members appointed by the Secretary of Transportation. Secretary Slater would like to add several new elements to this proposal:
  - Have the NCIF assume responsibility for DC's "National Highway System" (75 miles of the District's 1,086 total road mileage). National Highway System (NHS) routes include all principal arterials into the District -- bridges plus roads like Connecticut Avenue, Wisconsin Avenue, and Pennsylvania Avenue;
  - Additional Federal funding of \$17 million yearly for operations and maintenance of the NHS routes in DC. In addition, DC would be allowed to use certain other Federal-aid highway funds for local roads;

- Allow the Board to choose either the DOT or the DC Department of Public Works administer contracts for NHS projects.

OMB regards the DOT suggestion as an improvement on the original NCIF proposal, and is working to vet the idea with relevant District and Congressional officials.

- **Economic Development Corporation**

Our proposal to establish an Economic Development Corporation for the District of Columbia is intended both to promote job creation and stimulate new investment in the District. While years of disinvestment in the nation's capital cannot be reversed overnight, our strategy here is to foster local development of long term, viable economic development strategies that will increase the District's tax base and induce greater employment by the private sector of DC residents. The EDC will be an independent agency of the District governed by a nine member Board of 6 local business and community leaders plus representatives from the DC government, the Control Board and the Federal government.

Although it will receive an initial injection of Federal funds (\$25-50 million), its primary economic resource will be a variety of tax benefits -- totaling approximately \$250 million over 5 years -- that the EDC may use to stimulate the hiring of DC residents by businesses located in the District and to foster new investments. Over half of these tax benefits are expected to take the form of wage credits. Small business expensing and additional tax exempt financing will be provided. Finally, we propose to have the EDC make available an innovative new form of allocable tax credits that it will be able to use as incentives for financial institutions making loans for new investment in buildings and equipment as well as to encourage direct equity investments. It is our intention to stimulate participation, including equity investment, in the Economic Development Corporation by District regional and national business.

- **Medicaid**

It is our proposal to assume an increased share of the District's Medicaid payments by treating the District as if it was a City contributing the maximum possible under current laws and regulations. This would change the District's matching rate from 50% to 30% and save more than \$150 million for the District in Fiscal 1998.

Before the end of Fiscal 1997, the District will be required to cooperate with HHS to create a plan for upgrading Third Party Liability systems and staffing; settling cost reports with hospitals on a timely basis; acquiring a comprehensive management information systems and improving behavioral health service delivery.

This proposal has meet with good support and there has been no adverse reaction to date. We expect that changing the formula will evoke additional requests from other States and spark debate in Congressional committees.

## ■ Pensions

The Federal Government will assume specific liabilities for police, firefighters, teachers, and judges. This assumption of liability recognizes that when these plans were transferred to the District they had an unfunded liability of more than \$2.0 billion. While the District has made current payments, this liability has grown to about \$5.0 billion. This is beyond the fiscal capacity of the District to fund.

Before the assumption by the Federal Government of liability, the District must establish, through collective bargaining as required, a new plan to fund the benefits for police, firefighters, teachers and judges that were not assumed by the Federal Government; comply with all funding standards on the new plan; and transfer to the Trustee or the Federal Government all assets as well as books and records.

This proposal has been technically challenging. I want to acknowledge the excellent support of from the NEC staff and the staff of the Pension Benefit Guaranty Corporation. The proposal is not yet fully understood by District officials and we will be sharing more detailed information as it is available from the actuary. The primary objection to the pension portion of the Plan has come from those who believe that the Federal Government should fund its pension obligations on an actuarial rather than a pay as you go basis. They assert that "spending down" the District pension assets to pay current beneficiaries of the plan is irresponsible despite the "full faith and credit" pledge that we make to all beneficiaries. They further assert that it is just a budget gimmick. The Plan is consistent with the way we treat other Federal employees and does not attempt to unduly benefit balancing the Budget.

## ■ Treasury Lending

Treasury will make available short-term and intermediate-term (15 year) loans to the District. The short-term loans would finance essentially intra-year cash needs while the intermediate-term loans would be designed finance up to \$500 million of the District's accumulated deficit. Both loans would ease the cash problems of the District, but they are not required to use either, especially if the capital markets are available to them.

The MOU will require that at the time of the borrowing, the District and the Authority must certify that there is no access to capital markets; that borrowing is consistent with the current Budget and Financial Plan; and the Secretary may require certain security conditions.

The District and the Authority recognize the need for the lending provisions. They are determining the best mix of borrowing to allow the District continual liquidity. Treasury is also working on language regarding security and other terms. It is likely that there will be some Federal budget scoring for the loans.

## ■ **Personal Income Tax Collection**

The Internal Revenue Service would be allowed to offer to the District, at no cost, its services for collection of Personal Income Taxes.

The MOU will require that before the District can use the IRS's services, the DC code be amended to conform to the requirements of the Internal Revenue Code and the District would need to enter into an agreement with the IRS.

The District has been lukewarm to this at best. It is not clear what their objections are. We have not included any economic benefits from this proposal in our estimates of District budget savings.

## **Evaluating New Ideas**

Throughout the Administration have been formal and informal mechanisms for evaluating new ideas generated from within and outside the Administration. A prime example of a good idea put into place was from Rodney Slater when he was administrator of the Federal Highway Administration and suggested deferral of the District's match under the Federal Aid to Highway's program. This has allowed much needed construction to continue despite the District's fiscal situation.

Not all ideas have been good. Senator Jeffords and others proposed private school vouchers which the Administration, led by the Education Department, resisted in the strongest possible way. It is not an overstatement to say that each day members of the President's DC Force, coordinated by Carol Thompson-Cole, are meeting with District Officials, community groups and Congressional representatives. In the course of these meetings, they receive and evaluate many new ideas. Some of these are vetted with other Departmental or White House staff while others are set aside.

For example, Secretary Rubin met yesterday with Representative Eleanor Holmes Norton to discuss the latest iteration of her tax plan. While the Secretary cannot recommend support, he and Delegate Norton came to an agreement that the Administration would continue to remain essentially silent on her new idea. This was communicated to the other members of the DC group so that they could proceed accordingly.

Last year, Chairman Gingrich asked a group of Congressmen to constitute task forces to address a series of DC's problems. He recently shared with me his observation that the problems of the District were significantly more complicated than he had realized a year ago. Currently, I do not know of any major proposals coming from the Speaker, but we have good channels of communication.

The two major new ideas currently under discussion are related to governance of the District (Charter Change and the Council Manager form of government) and Community Safety (Particularly the Mayor's relationship to the police). Our posture is described below:

- Governance - Carol Thompson-Cole has been participating as a member of the Federal City Council DC Agenda Project. This group is looking at the historical antecedents of Home Rule in the District and will, at some point, make recommendations for change in the Charter or recommend that the District formally undertake a Charter Review. Delegate Norton is particularly sensitive that this unelected group not overstep its bounds and has asked Carol to keep her apprised of developments. Both Senator Lauch Faircloth (R-NC) and Representative Charles Taylor (R-NC) have stated an interest in considering a City Manager form of government in the District. Both men chair the Appropriations Subcommittees on DC in their respective chambers. There is considerable opposition to an imposed change in the form of government in the community, and we continue to monitor the situation. I do not believe that there is anything inherent in the current Mayor/Council form that inhibits good management of government.
  
- Community Safety- The Financial Responsibility Authority has initiated a study, along with the City and Eric Holder the US Attorney, to determine what steps need to be taken to improve police protection in the District. This study was undertaken even before the recent police shooting. White House Counsel Charles Ruff was active in this effort as DC Corporation Counsel and has maintained his involvement at OMB's request. The Authority is being briefed by its consultant this week, and I have asked to meet with them shortly thereafter to assess the situation.





THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

December 27, 1996

Mr. President:

I have cleared with Leon sending you the attached memorandum concerning the District of Columbia on an expedited basis. The options have been vetted by Leon, Gene, and the Principals of the D.C. Task Force. The wording of the memorandum is my responsibility. We still have time to include these proposals in the budget if you so choose.

I am looking into the tax issue as you requested.

A handwritten signature in black ink, appearing to read "Frank Raines".

Frank Raines



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ID:

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December 27, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines 

SUBJECT: Restructuring Federal Assistance to the District of Columbia

**Introduction**

The principals represented on the Administration's District of Columbia Task Force are convinced that the current financial arrangements between the federal government and the District should be changed. The current approach features strict congressional controls on District taxing powers and budgets, broad District responsibilities for state, county and local functions, and a relatively static annual federal payment. This memorandum seeks your approval for a three-part strategy for restructuring the economic relationship between the federal government and the District. Although presented as a single package, the elements of this plan are separable and can be acted upon individually should you so desire. - who?

First, the strategy eliminates the current static Federal payment and replaces it with an assumption of pension liabilities; an increased Federal contribution for Medicaid, and a take over of courts and prison funding. A second element of the strategy creates an economic development initiative featuring a District-wide development corporation with capital grants and tax incentives similar to empowerment zones. Finally, Federal agencies will target increased technical assistance to the District.

**Background**

The status of the government in the District of Columbia has varied enormously since the federal district was carved from the states of Virginia and Maryland in 1791. (Alexandria and Arlington were later retroceded to Virginia.) The city has been governed as a federal department, a territory, and since 1974 under a limited-Home Rule charter. Under none of these arrangements has the District been able to maintain financial solvency for extended periods, if measured by the standards that are applied to other state or local governments. Three factors have led to this result. First, the District and its voters have for almost two centuries wanted an activist government providing a wide range of services and facilities. To some extent this view was necessitated by the many dependent persons who have been attracted to the nation's capital over the decades. Second, Congress and the surrounding jurisdictions have wanted to limit the ability of the District to impose taxes on federal facilities, favored organizations, and non-residents who work in the city. Finally, Congress has

exercised its constitutional right to legislate for the District to keep a close rein on the affairs of the city, either directly through appropriating locally raised funds or indirectly by serving as an appellate body for anyone dissatisfied with decisions by local officials.

The District is again in financial extremis. A financial control board has been established to guide the city back to solvency and to reform the administration of government functions. While there has been extensive debate on the reasons for the financial crisis and its solution there has been little discussion of a radical restructuring of the status of the District. You were perfectly correct to point out the in between nature of the District as not quite a city, a county or a state. We are monitoring local efforts to create a charter review process that will address a broader range of restructuring solutions.

Members of the Cabinet and other agency officials, the staff of the task force, and I have spent considerable time meeting with District officials, organizations involved with District affairs, and community leaders discussing the future of the District. We have found uniform concern about the future of the city.

We have paid close attention to recommendations that have been made by the Mayor, the City Council, the Financial Authority, and some members of Congress to rearrange some of the responsibilities of the District government. These recommendations have focused on relieving the District of the financial responsibility for certain government functions and perhaps the administrative responsibility as well. Advocates have argued that the District cannot manage certain responsibilities that have been given to the District by the federal government. They also argue that state government-type activities are too burdensome for a city to carry on its own. Functions frequently mentioned are the pension programs for police, fire fighters, teachers and judges; the mental health system (both transferred to the District government after the Home Rule government took control); prisons; Medicaid; the university, and social welfare programs that are typically run by states.

*State functions*  
*Federal interest*

We have sought a rationale for how the federal government might respond to the request to relieve the District of certain burdensome functions. Some would have us equate the federal government to taking the role of the state government for the capital city. There is merit to this approach, but it might strip too much authority from the Home Rule government and increase federal responsibility to deliver services to local residents. Others have focused on divining the federal interest in the federal district and allocating responsibility accordingly. Under this view the Federal government might consider taking on certain law enforcement functions, but would not federalize the District Medicaid program.

We have heard other messages as well. Some in the community would have us simply increase the federal payment to support all current District government activities, and some in Congress would prefer to see the District pare its activities to equal its revenue. Delegate Norton and the Speaker favor a radical restructuring of the federal tax system in the District to provide powerful incentives for economic activity in the city to increase the attraction of the city for tax-paying residents which would eventually increase District government revenue. (Each of the non-contiguous federal territories has a special status under the federal tax code.) This memorandum does not address tax

changes but we may be drawn into a tax discussion as the Financial Authority, Brookings, and Congress finalize work now underway.

The task force has chosen to recommend to you a series of actions to rearrange the responsibilities of the federal government and the District government. The recommended approach is a hybrid of the state functions and Federal interests models. We make this recommendation with caveats. We believe that strict conditions must be met before the Federal government takes on any current District functions to ensure that the takeover will be successful. We believe that city officials must confront the important home rule issues implicit in ceding parts of their current responsibilities. We also believe that adequate funding must be provided to enable federal agencies to carry out new responsibilities in a manner consistent with federal operations. We also believe that taking on District functions will require a major trade-off with the existing annual federal payment to the District.

In the past week I have met with the Mayor, the chairman of the Control Board, a majority of the City Council and Delegate Norton to test their willingness to agree to the tough conditions we might insist upon if we endorsed their recommendations regarding District functions. The Mayor, the Board Chairman, the Delegate and a majority of the Council agreed that they could endorse a takeover of District functions with tough conditions as long as the financial result was positive for the City. They agreed that they would express that support publicly should you choose to move in that direction.

In addition to the transfer of government functions we also make recommendations regarding economic development incentives and how federal programs can be better targeted to meet the needs of the District. A number of members of the Cabinet have expressed an interest in taking a leadership role in providing technical and other assistance to the District to help local officials do a better job with available federal funds.

The following recommendations will not resolve the governance, financial or management problems of the District. They amount to a renegotiation of the terms of limited home rule granted to the District almost a quarter of a century ago. If enacted, these proposals will give the Home Rule government a better chance to succeed. But the two century old conundrum of how the federal district should be governed will remain with us.

### Recommendations

Part I of this Section recommends that the Federal government directly assume certain governmental functions, such as pensions and criminal justice, in areas where it has a clear interest, capability and/or responsibility. In exchange, the existing Federal payment of \$712 million (a general purpose payment of \$660 million plus \$52 million for pensions) would end, and the Federal government would give up its right to approve the District's annual budget.

For this proposed restructuring to be successful, the District will have to take some actions that may be very difficult politically, such as, legislating higher sentences for criminals convicted in the District. For this reason, our proposal would have the Federal government assume new responsibilities only

after the District had met its obligations under a Memorandum of Understanding (MOU) that we propose be reached between the Administration, the Financial Authority, the Mayor, and the Council. Preliminary discussions with all of these parties, as well as Delegate Norton, indicate serious interest in this approach, together with a recognition that pursuing this path will require that further difficult decisions be made.

Part II of this section recommends the creation of an economic development corporation to provide the District with grant and tax-based economic development incentives. //

Part III recommends the Executive Branch agencies provide more intense technical assistance in areas like education, procurement, housing, transportation, and Medicaid that can make a real difference in the District's success as a city. The agencies already have been engaged in this process quietly over the past two years. Their activities would be given a higher profile, perhaps with the involvement of the First Lady or the Vice President. //

*As shown on Table 1, the approach outlined here would cost the Federal Government about \$866 million in FY98, about \$154 million more than current payments to the District. Over five years, Federal costs would be \$5.7 billion, about \$2.1 billion more than the baseline. Budget savings to the District Government would be \$818 million in FY98, or \$106 million more than the current Federal payment (savings to the District exclude funding for the economic development initiative, the National Capital Infrastructure Fund, and one-time capital-improvement and construction costs at Lorton); five-year budget savings to the District would be \$4.483 billion (\$923 million more than with current payments).*

The restructuring plan proposed in this memo would relieve the District of significant budget costs and administrative responsibilities, and end Congressional micromanagement of the District's budget. Such actions are necessary, but not sufficient, to make the District a safe, attractive and prosperous city. In the end, the District's success will depend on its own actions to improve the management of its resources, business climate, and quality of residential life.

### I. Federal Assumption of Certain Governmental Functions

Current law requires the District to balance its \$5 billion annual budget by FY 1999. In September, Congress approved an FY 1997 budget and multi-year financial plan that reflected a consensus among the Authority, the Mayor, and the District Council. The plan provides a good start at improving the District's fiscal condition, but lacks some of the hard choices that will be needed to achieve sustainable budget balance and improve the District's long-term fiscal outlook. The District now projects its FY 1997 deficit at \$85 million. Absent further measures, this deficit will likely grow in the out-years.

The District currently must discharge its responsibilities with scarce budget and management resources and in the presence of an unusual degree of Congressional intervention. To remedy this, we

recommend that the Federal government directly assume certain governmental functions, such as pensions and criminal justice, in areas where it has a clear interest, capability and/or responsibility. In exchange, the existing Federal payment would end, and the Federal government would no longer approve the District's annual budget. Elements of this proposal could include:

**Option 1: Have the Federal government take over the District's pension plans for law enforcement officers and firefighters, teachers and judges.** Prior to 1979, the Federal Government was responsible for these three pension plans and financed them on a pay-as-you-go basis. In 1979, the District of Columbia Retirement Act (Act) transferred to the District responsibility for both the plans and their associated \$2.7 billion in accrued unfunded liability. The Act authorized the Federal Government to pay the District's retirement system \$52 million annually for 25 years. In 1979, the estimated present value of this payment stream was \$646 million, well below the \$2.7 billion unfunded liability.

Since 1979, the District government and participants have made contributions to the retirement system that have more than covered the costs of benefits that accrued in each year, but that have not been enough to prevent the unfunded liability from growing to its current level of about \$5.4 billion. When the Federal payments authorized by the Act end in 2004, the District will be required to cover the full cost of the remaining unfunded liability.

Under this option, the Federal government would assume both financial and administrative responsibility for these pension plans. These plans have an accrued liability of \$8.8 billion; the District government would transfer to the Federal Government or its designee \$3.4 billion in associated pension assets, leaving the Federal Government to assume the \$5.4 billion unfunded liability. The existing assets will be used first to make benefit payments. Actual Federal outlays would not be required for many years. This would be done by having the District transfer the existing assets and responsibility for plan administration to a third party trustee. Fees of the trustee would come from the earnings on the assets.

While the details of this option still must be worked out, we expect that the MOU would require that (1) the existing pension plans would close upon assumption by the Federal Government and that the District would establish new plans for its current and future employees; (2) a third-party Trustee, likely an independent contractor, be appointed to administer the plan and invest the pensions assets; (3) there be a determination of how to treat current employees who are partially vested under the old system; and (4) adequate employment records be provided by the District Government to the third-party trustee.

Approve option 1

Disapprove option 1

Discuss

*Summ R*

**Option 2. Have the Federal government assume responsibility for parts of the District's criminal justice system.** There is a long precedent for special Federal involvement in the District's

criminal justice system, including having the U.S. attorney prosecute all serious crimes in the city. Under this option, the Federal government would provide full funding for the District's Court System, take over the District's Lorton facility, and assume responsibility for setting the standard for sentences for crimes in the District and incarcerating its sentenced felons. Through these actions the Federal Government would help to improve the District's criminal justice system and thereby would enhance the effectiveness of the District as the Nation's capital.

**Option 2a. Have the Federal Government fund the District Court System.** Given the budget limitations under which it operates, the District Court System works well. The Department of Justice believes that the System would work better, however, if it were given adequate resources. Under this option, the Federal government would assume responsibility for funding the District Court System through the Administrative Office of the Courts (the Judiciary branch).

Approve option 2a       Disapprove option 2a       Discuss

**Option 2b: Have the Bureau of Prisons (BOP) assume responsibility for Lorton and for incarcerating the District's sentenced felons.** Under this option the Federal government would take on the responsibility for incarcerating the District's sentenced felons (a responsibility that elsewhere is borne by States). DOJ believes that this option could be successful only under the following conditions: that the Federal government would set the standards for sentences for District crimes, that there be a 3-5 year phase-in period and that the DOJ's Bureau of Prisons (BOP) be given sufficient management flexibility. In addition, legislation must address issues of parole and community corrections.

- *Renovate Lorton and Provide New Facilities to House Inmates Adequately.* Absorbing Lorton prisoners would increase the BOP population by roughly 10 percent. The BOP system is already seriously overcrowded in its high and medium security facilities like Lorton. Accordingly, it could absorb Lorton inmates only after Lorton had been renovated and new capacity had been constructed (partially on Lorton's extensive unused property and partially at other locations). One-time renovations at Lorton and the new prison construction would cost \$300 million in 1998 and \$900 million over 3-5 years.
- *Hiring Flexibility.* Current Lorton staff would have to reapply for positions and meet BOP standards.
- *BOP Flexibility in Absorbing District Inmates.* BOP's general goal is to house inmates as close to home as is operationally possible. However, to maintain order, to meet the security needs of inmates, and to disperse District gangs and "crews," the BOP will need the ability to transfer a significant number of inmates to BOP prisons throughout the nation. No commitments would be made regarding maximum distances from the District or the concentration of District inmates in specific Federal

prisons.

- Sentencing Conformity. D.C. inmates receive significantly shorter sentences than similarly situated Federal inmates, and are eligible for parole after serving only one-third of their sentences. Federal inmates generally serve 85 percent of their sentences. There are two possible approaches that could be taken to avoid tensions between similarly-situated inmates facing different sentences and parole standards. Under the first, the Federal government would accept responsibility only for those District felons sentenced and paroled in accordance with statutes and legislation applicable to Federal prisons. Alternately, the District could achieve conformity by ceding to the Federal government its sentencing authority over felons.
- Rely on Federal Community Corrections Operations. The District's Community Corrections operations, reportedly fraught with mismanagement and employee misconduct, would be phased out. As District felons become the responsibility of BOP, they would be released through Federally controlled community corrections programs.
- Absorb District Parole Board Functions into the U.S. Parole Commission. The U.S. Parole Commission would be responsible for all District felons with sentences subject to provisions of parole. This would mean an extension of the U.S. Parole Commission (and its approximately 50 employees) beyond scheduled termination date (2002 unless terminated earlier by the Attorney General).
- Use phase-in period to keep responsibility for outstanding lawsuits and court orders with the District. A number of lawsuits are pending against the District's Department of Corrections (DOC) regarding, among other things, conditions of confinement, medical treatment and sexual harassment. There are also court-directed population caps. The District must maintain responsibility for the defense of and liability from these lawsuits. Federal liability should be based only upon actions taken after the Federal government takes responsibility for the inmates. caps?
- Until all of the above changes are made, Lorton will continue to have major problems, which will become Federal government problems under this plan unless a separation is maintained during the transition period. Accordingly, it is essential to appoint a receiver responsible to the Control Board to oversee the D.C. Department of Corrections during a transition period of capital construction and renovations, changes in sentencing systems, and resolution of lawsuits and court orders.

Approve option 2b

Disapprove option 2b

Discuss

Option 3. Decrease to 30 percent the District's share of costs associated with its Medicaid



program. Total FY98 costs for the District's Medicaid program will be roughly \$880 million. Under current law, the District will pay 50 percent of these costs, the maximum amount that any State must pay. Like many States, the District believes that the Medicaid matching rate does not take into account its high poverty rate and the health needs of its urban population. Unlike States, however, the District cannot spread the cost of an urban Medicaid program across a broader economic region.

Current law allows States to require that localities pay up to 60 percent of the non-Federal share of Medicaid expenditures. Thus, in States with a 50 percent share of Medicaid costs, localities can pay up to 30 percent of total Medicaid expenditures. Currently, 14 States, including California and New York, require local funding of at least some portion of the State's share of Medicaid payments. New York City, for example, pays 25 percent of the cost of Medicaid expenditures in the City; non-city residents subsidize roughly half of the non-Federal share of New York City's Medicaid program (note, however, that New York State does collect a portion of State revenue from the city—part of which may implicitly pay for the State contribution). The District does not have access to such State subsidies.

Under this option, the Federal Government would take on the role of both the Federal and "State" governments for the District, and pay a total of 70 percent of total Medicaid expenditures in the District (compared to the current 50 percent Federal share). Changes in the Federal share would be conditioned on the District improving the management of its Medicaid program. Other options for controlling costs and assisting the District with its Medicaid program could also be explored. This option would cost \$176 million in 1998 and approximately \$1 billion over five years.

why cost more?

Approve option 3       Disapprove option 3       Discuss

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Approve option 4       Disapprove option 4       Discuss

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Approve option 5       Disapprove option 5       Discuss

//

**Option 6. Create a National Capital Infrastructure Fund (NCIF).** The NCIF would pay for infrastructure projects that benefit not only District residents, but also commuters. Eligible projects would include: 1) road and bridge capital costs (including local roads and bridges and the local match for Federal-aid road and bridge capital projects) and 2) transit capital expenses. The District would determine from the list of eligible expenditures how best to spend the funds.

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Approve option 6

Disapprove option 6

Discuss

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**Option 7. Create an economic development program to improve the economic viability of the City.** Under this option, the Administration would propose legislation to establish an economic development corporation (EDC) for the District. The EDC initially would be autonomous from both the District and the Federal government, and would operate like a public authority. The Board of the EDC would be appointed jointly by The President and the Mayor.

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We are currently developing the list of incentives that would be available to the EDC. These will require new legislation and will be similar in nature to those available in empowerment zones. In

1998, these incentives would cost \$25 million in discretionary funds, and \$60 million in tax benefits. The five year cost would be \$125 million in discretionary funds and \$260 in mandatory tax benefits.

Approve option 7

Disapprove option 7

Discuss

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Examples of activities that could be undertaken are:

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Approve option 8

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Discuss

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<u>New Federal Expenditures and Tax Benefits</u>	<u>FY 98 Impact</u>	<u>Five-Year Impact</u>
<b>Criminal Justice (discretionary):</b>	<b>605</b>	<b>2,519</b>
Lorton Facility operations *	176	934
Capital improvements to Lorton Facilities (one-time)	80	80
High and Medium Security Construction at Lorton	220	820
District Court System operations	129	685
<b>Economic Development Initiative:</b>	<b>85</b>	<b>285</b>
Discretionary spending component	25	25
Tax benefit component	60	260
<b>Unfunded Pension Liability (mandatory):</b>		
Annual payments to District's pension plans	337	1,863
<b>Medicaid (mandatory):</b>		
Decrease District's share of Medicaid payments to 30%	176	1,001
<b>National Capital Infrastructure Fund [Non-add]</b>	<b>[93]</b>	<b>[465]</b>
<b>Total, Proposed Federal Resources</b>	<b>1,203</b>	<b>5,668</b>
Discretionary Spending (see Note 1)	630	2,544
Mandatory Spending	513	2,864
Tax benefits (mandatory)	60	260
<b>Proposed Offsets</b>	<b>(1,049)</b>	<b>(5,423)</b>
Annual Federal payment to the District	(660)	(3,300)
Special contribution to the pension plans	(52)	(260)
Drawdown of pension assets (Mandatory)	(337)	(1,863)
<b>Net New Federal Resources</b>	<b>154</b>	<b>245</b>

**Addendum:**

<b>Total budget savings to the District Government (See Note 2)</b>	<b>818</b>	<b>4,483</b>
<b>Increase in budget savings to District Government (i.e., savings net of current Federal payments)</b>	<b>106</b>	<b>923</b>

Note 1: Table does not include any additional resources given to IRS to administer the District income tax system.

Note 2: Budget savings to the District Government exclude the costs of capital improvements and construction at Lorton as well as the economic development initiative and the National Capital Infrastructure Fund. Also, no effects from IRS collection of DC income taxes are included.

\* \$7 million is included for parole functions.



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN

1-6-97

~~UNCLASSIFIED~~  
E

File: DC

cc - ~~Blair~~  
Dennis

December 27, 1996

Leon/Est  
C-2-2000  
ASAD  
BSC

Mr. President:

I have cleared with Leon sending you the attached memorandum concerning the District of Columbia on an expedited basis. The options have been vetted by Leon, Gene, and the Principals of the D.C. Task Force. The wording of the memorandum is my responsibility. We still have time to include these proposals in the budget if you so choose.

I am looking into the tax issue as you requested.

Frank Raines

Call Bob - out

MS: HRC  
VP  
Rabin  
Guns  
Power




EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE DIRECTOR

December 27, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines   
SUBJECT: Restructuring Federal Assistance to the District of Columbia

**Introduction**

The principals represented on the Administration's District of Columbia Task Force are convinced that the current financial arrangements between the federal government and the District should be changed. The current approach features strict congressional controls on District taxing powers and budgets, broad District responsibilities for state, county and local functions, and a relatively static annual federal payment. This memorandum seeks your approval for a three-part strategy for restructuring the economic relationship between the federal government and the District. Although presented as a single package, the elements of this plan are separable and can be acted upon individually should you so desire.

*Can we  
for...  
...  
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...*

First, the strategy eliminates the current static Federal payment and replaces it with an assumption of pension liabilities; an increased Federal contribution for Medicaid, and a take over of courts and prison funding. A second element of the strategy creates an economic development initiative featuring a District-wide development corporation with capital grants and tax incentives similar to empowerment zones. Finally, Federal agencies will target increased technical assistance to the District.

**Background**

The status of the government in the District of Columbia has varied enormously since the federal district was carved from the states of Virginia and Maryland in 1791. (Alexandria and Arlington were later retroceded to Virginia.) The city has been governed as a federal department, a territory, and since 1974 under a limited-Home Rule charter. Under none of these arrangements has the District been able to maintain financial solvency for extended periods, if measured by the standards that are applied to other state or local governments. Three factors have led to this result. First, the District and its voters have for almost two centuries wanted an activist government providing a wide range of services and facilities. To some extent this view was necessitated by the many dependent persons who have been attracted to the nation's capital over the decades. Second, Congress and the surrounding jurisdictions have wanted to limit the ability of the District to impose taxes on federal facilities, favored organizations, and non-residents who work in the city. Finally, Congress has

exercised its constitutional right to legislate for the District to keep a close rein on the affairs of the city, either directly through appropriating locally raised funds or indirectly by serving as an appellate body for anyone dissatisfied with decisions by local officials.

The District is again in financial extremis. A financial control board has been established to guide the city back to solvency and to reform the administration of government functions. While there has been extensive debate on the reasons for the financial crisis and its solution there has been little discussion of a radical restructuring of the status of the District. You were perfectly correct to point out the in between nature of the District as not quite a city, a county or a state. We are monitoring local efforts to create a charter review process that will address a broader range of restructuring solutions.

Members of the Cabinet and other agency officials, the staff of the task force, and I have spent considerable time meeting with District officials, organizations involved with District affairs, and community leaders discussing the future of the District. We have found uniform concern about the future of the city.

We have paid close attention to recommendations that have been made by the Mayor, the City Council, the Financial Authority, and some members of Congress to rearrange some of the responsibilities of the District government. These recommendations have focused on relieving the District of the financial responsibility for certain government functions and perhaps the administrative responsibility as well. Advocates have argued that the District cannot manage certain responsibilities that have been given to the District by the federal government. They also argue that state government-type activities are too burdensome for a city to carry on its own. Functions frequently mentioned are the pension programs for police, fire fighters, teachers and judges; the mental health system (both transferred to the District government after the Home Rule government took control); prisons; Medicaid; the university, and social welfare programs that are typically run by states.

We have sought a rationale for how the federal government might respond to the request to relieve the District of certain burdensome functions. Some would have us equate the federal government to taking the role of the state government for the capital city. There is merit to this approach, but it might strip too much authority from the Home Rule government and increase federal responsibility to deliver services to local residents. Others have focused on divining the federal interest in the federal district and allocating responsibility accordingly. Under this view the Federal government might consider taking on certain law enforcement functions, but would not federalize the District Medicaid program.

We have heard other messages as well. Some in the community would have us simply increase the federal payment to support all current District government activities, and some in Congress would prefer to see the District pare its activities to equal its revenue. Delegate Norton and the Speaker favor a radical restructuring of the federal tax system in the District to provide powerful incentives for economic activity in the city to increase the attraction of the city for tax-paying residents which would eventually increase District government revenue. (Each of the non-contiguous federal territories has a special status under the federal tax code.) This memorandum does not address tax

changes but we may be drawn into a tax discussion as the Financial Authority, Brookings, and Congress finalize work now underway. *We will be*

The task force has chosen to recommend to you a series of actions to rearrange the responsibilities of the federal government and the District government. The recommended approach is a hybrid of the state functions and Federal interests models. We make this recommendation with caveats. We believe that strict conditions must be met before the Federal government takes on any current District functions to ensure that the takeover will be successful. We believe that city officials must confront the important home rule issues implicit in ceding parts of their current responsibilities. We also believe that adequate funding must be provided to enable federal agencies to carry out new responsibilities in a manner consistent with federal operations. We also believe that taking on District functions will require a major trade-off with the existing annual federal payment to the District.

In the past week I have met with the Mayor, the chairman of the Control Board, a majority of the City Council and Delegate Norton to test their willingness to agree to the tough conditions we might insist upon if we endorsed their recommendations regarding District functions. The Mayor, the Board Chairman, the Delegate and a majority of the Council agreed that they could endorse a takeover of District functions with tough conditions as long as the financial result was positive for the City. They agreed that they would express that support publicly should you choose to move in that direction.

In addition to the transfer of government functions we also make recommendations regarding economic development incentives and how federal programs can be better targeted to meet the needs of the District. A number of members of the Cabinet have expressed an interest in taking a leadership role in providing technical and other assistance to the District to help local officials do a better job with available federal funds.

The following recommendations will not resolve the governance, financial or management problems of the District. They amount to a renegotiation of the terms of limited home rule granted to the District almost a quarter of a century ago. If enacted, these proposals will give the Home Rule government a better chance to succeed. But the two century old conundrum of how the federal district should be governed will remain with us

### **Recommendations**

Part I of this Section recommends that the Federal government directly assume certain governmental functions, such as pensions and criminal justice, in areas where it has a clear interest, capability and/or responsibility. In exchange, the existing Federal payment of \$712 million (a general purpose payment of \$660 million plus \$52 million for pensions) would end, and the Federal government would give up its right to approve the District's annual budget.

For this proposed restructuring to be successful, the District will have to take some actions that may be very difficult politically, such as, legislating higher sentences for criminals convicted in the District. For this reason, our proposal would have the Federal government assume new responsibilities only



after the District had met its obligations under a Memorandum of Understanding (MOU) that we propose be reached between the Administration, the Financial Authority, the Mayor, and the Council. Preliminary discussions with all of these parties, as well as Delegate Norton, indicate serious interest in this approach, together with a recognition that pursuing this path will require that further difficult decisions be made.

Part II of this section recommends the creation of an economic development corporation to provide the District with grant and tax-based economic development incentives.

Part III recommends the Executive Branch agencies provide more intense technical assistance in areas like education, procurement, housing, transportation, and Medicaid that can make a real difference in the District's success as a city. The agencies already have been engaged in this process quietly over the past two years. Their activities would be given a higher profile, perhaps with the involvement of the First Lady or the Vice President.

*As shown on Table 1, the approach outlined here would cost the Federal Government about \$866 million in FY98, about \$154 million more than current payments to the District. Over five years, Federal costs would be \$5.7 billion, about \$2.1 billion more than the baseline. Budget savings to the District Government would be \$818 million in FY98, or \$106 million more than the current Federal payment (savings to the District exclude funding for the economic development initiative, the National Capital Infrastructure Fund, and one-time capital-improvement and construction costs at Lorton); five-year budget savings to the District would be \$4.483 billion (\$923 million more than with current payments).*

The restructuring plan proposed in this memo would relieve the District of significant budget costs and administrative responsibilities, and end Congressional micromanagement of the District's budget. Such actions are necessary, but not sufficient, to make the District a safe, attractive and prosperous city. In the end, the District's success will depend on its own actions to improve the management of its resources, business climate, and quality of residential life.

### **I. Federal Assumption of Certain Governmental Functions**

Current law requires the District to balance its \$5 billion annual budget by FY 1999. In September, Congress approved an FY 1997 budget and multi-year financial plan that reflected a consensus among the Authority, the Mayor, and the District Council. The plan provides a good start at improving the District's fiscal condition, but lacks some of the hard choices that will be needed to achieve sustainable budget balance and improve the District's long-term fiscal outlook. The District now projects its FY 1997 deficit at \$85 million. Absent further measures, this deficit will likely grow in the out-years.

The District currently must discharge its responsibilities with scarce budget and management resources and in the presence of an unusual degree of Congressional intervention. To remedy this, we

recommend that the Federal government directly assume certain governmental functions, such as pensions and criminal justice, in areas where it has a clear interest, capability and/or responsibility. In exchange, the existing Federal payment would end, and the Federal government would no longer approve the District's annual budget. Elements of this proposal could include:

**Option 1: Have the Federal government take over the District's pension plans for law enforcement officers and firefighters, teachers and judges.** Prior to 1979, the Federal Government was responsible for these three pension plans and financed them on a pay-as-you-go basis. In 1979, the District of Columbia Retirement Act (Act) transferred to the District responsibility for both the plans and their associated \$2.7 billion in accrued unfunded liability. The Act authorized the Federal Government to pay the District's retirement system \$52 million annually for 25 years. In 1979, the estimated present value of this payment stream was \$646 million, well below the \$2.7 billion unfunded liability.

Since 1979, the District government and participants have made contributions to the retirement system that have more than covered the costs of benefits that accrued in each year, but that have not been enough to prevent the unfunded liability from growing to its current level of about \$5.4 billion. When the Federal payments authorized by the Act end in 2004, the District will be required to cover the full cost of the remaining unfunded liability.

Under this option, the Federal government would assume both financial and administrative responsibility for these pension plans. These plans have an accrued liability of \$8.8 billion; the District government would transfer to the Federal Government or its designee \$3.4 billion in associated pension assets, leaving the Federal Government to assume the \$5.4 billion unfunded liability. The existing assets will be used first to make benefit payments. Actual Federal outlays would not be required for many years. This would be done by having the District transfer the existing assets and responsibility for plan administration to a third party trustee. Fees of the trustee would come from the earnings on the assets.

What about merging w/ fuel system?

While the details of this option still must be worked out, we expect that the MOU would require that (1) the existing pension plans would close upon assumption by the Federal Government and that the District would establish new plans for its current and future employees; (2) a third-party Trustee, likely an independent contractor, be appointed to administer the plan and invest the pensions assets; (3) there be a determination of how to treat current employees who are partially vested under the old system; and (4) adequate employment records be provided by the District Government to the third-party trustee.

Approve option 1

Disapprove option 1

Discuss

**Option 2. Have the Federal government assume responsibility for parts of the District's criminal justice system.** There is a long precedent for special Federal involvement in the District's

criminal justice system, including having the U.S. attorney prosecute all serious crimes in the city. Under this option, the Federal government would provide full funding for the District's Court System, take over the District's Lorton facility, and assume responsibility for setting the standard for sentences for crimes in the District and incarcerating its sentenced felons. Through these actions the Federal Government would help to improve the District's criminal justice system and thereby would enhance the effectiveness of the District as the Nation's capital.

**Option 2a. Have the Federal Government fund the District Court System.** Given the budget limitations under which it operates, the District Court System works well. The Department of Justice believes that the System would work better, however, if it were given adequate resources. Under this option, the Federal government would assume responsibility for funding the District Court System through the Administrative Office of the Courts (the Judiciary branch).

Approve option 2a                       Disapprove option 2a                       Discuss

**Option 2b: Have the Bureau of Prisons (BOP) assume responsibility for Lorton and for incarcerating the District's sentenced felons.** Under this option the Federal government would take on the responsibility for incarcerating the District's sentenced felons (a responsibility that elsewhere is borne by States). DOJ believes that this option could be successful only under the following conditions: that the Federal government would set the standards for sentences for District crimes, that there be a 3-5 year phase-in period and that the DOJ's Bureau of Prisons (BOP) be given sufficient management flexibility. In addition, legislation must address issues of parole and community corrections.

*Immediately  
on in 3-5yr?*

*Renovate Lorton and Provide New Facilities to House Inmates Adequately.* Absorbing Lorton prisoners would increase the BOP population by roughly 10 percent. The BOP system is already seriously overcrowded in its high and medium security facilities like Lorton. Accordingly, it could absorb Lorton inmates only after Lorton had been renovated and new capacity had been constructed (partially on Lorton's extensive unused property and partially at other locations). One-time renovations at Lorton and the new prison construction would cost \$300 million in 1998 and \$900 million over 3-5 years.

- **Hiring Flexibility.** Current Lorton staff would have to reapply for positions and meet BOP standards.
- **BOP Flexibility in Absorbing District Inmates.** BOP's general goal is to house inmates as close to home as is operationally possible. However, to maintain order, to meet the security needs of inmates, and to disperse District gangs and "crews," the BOP will need the ability to transfer a significant number of inmates to BOP prisons throughout the nation. No commitments would be made regarding maximum distances from the District or the concentration of District inmates in specific Federal

prisons.

*The ones  
already in  
custody by law  
at time of confinement  
right? -*

*Good - could  
make a  
NATS model*

- **Sentencing Conformity.** D.C. inmates receive significantly shorter sentences than similarly situated Federal inmates, and are eligible for parole after serving only one-third of their sentences. Federal inmates generally serve 85 percent of their sentences. There are two possible approaches that could be taken to avoid tensions between similarly-situated inmates facing different sentences and parole standards. Under the first, the Federal government would accept responsibility only for those District felons sentenced and paroled in accordance with statutes and legislation applicable to Federal prisons. Alternately, the District could achieve conformity by ceding to the Federal government its sentencing authority over felons.

*↳ proposed*

- **Rely on Federal Community Corrections Operations.** The District's Community Corrections operations, reportedly fraught with mismanagement and employee misconduct, would be phased out. As District felons become the responsibility of BOP, they would be released through Federally controlled community corrections programs.

- **Absorb District Parole Board Functions into the U.S. Parole Commission.** The U.S. Parole Commission would be responsible for all District felons with sentences subject to provisions of parole. This would mean an extension of the U.S. Parole Commission (and its approximately 50 employees) beyond scheduled termination date (2002 unless terminated earlier by the Attorney General).

- **Use phase-in period to keep responsibility for outstanding lawsuits and court orders with the District.** A number of lawsuits are pending against the District's Department of Corrections (DOC) regarding, among other things, conditions of confinement, medical treatment and sexual harassment. There are also court-directed population caps. The District must maintain responsibility for the defense of and liability from these lawsuits. Federal liability should be based only upon actions taken after the Federal government takes responsibility for the inmates.

- **Until all of the above changes are made, Lorton will continue to have major problems, which will become Federal government problems under this plan unless a separation is maintained during the transition period. Accordingly, it is essential to appoint a receiver responsible to the Control Board to oversee the D.C. Department of Corrections during a transition period of capital construction and renovations, changes in sentencing systems, and resolution of lawsuits and court orders.**

Approve option 2b     
  Disapprove option 2b     
  Discuss

**Option 3. Decrease to 30 percent the District's share of costs associated with its Medicaid**

**program.** Total FY98 costs for the District's Medicaid program will be roughly \$880 million. Under current law, the District will pay 50 percent of these costs, the maximum amount that any State must pay. Like many States, the District believes that the Medicaid matching rate does not take into account its high poverty rate and the health needs of its urban population. Unlike States, however, the District cannot spread the cost of an urban Medicaid program across a broader economic region.

Current law allows States to require that localities pay up to 60 percent of the non-Federal share of Medicaid expenditures. Thus, in States with a 50 percent share of Medicaid costs, localities can pay up to 30 percent of total Medicaid expenditures. Currently, 14 States, including California and New York, require local funding of at least some portion of the State's share of Medicaid payments. New York City, for example, pays 25 percent of the cost of Medicaid expenditures in the City; non-city residents subsidize roughly half of the non-Federal share of New York City's Medicaid program (note, however, that New York State does collect a portion of State revenue from the city--part of which may implicitly pay for the State contribution). The District does not have access to such State subsidies.

Under this option, the Federal Government would take on the role of both the Federal and "State" governments for the District, and pay a total of 70 percent of total Medicaid expenditures in the District (compared to the current 50 percent Federal share). Changes in the Federal share would be conditioned on the District improving the management of its Medicaid program. Other options for controlling costs and assisting the District with its Medicaid program could also be explored. This option would cost \$176 million in 1998 and approximately \$1 billion over five years.

Approve option 3                       Disapprove option 3                       Discuss

**Option 4. Ease taxpayer burdens and improve collection by having IRS collect D.C. income taxes.** Having the IRS collect District income taxes benefits the District by reducing its costs and by increasing its collections through more efficient administration. It would also reduce burdens on District residents by reducing the number of forms that need to be filed. Having the IRS collect these taxes would require both new statutory authority (at both the Federal and DC level), and added budget resources for the IRS. The IRS has indicated that it is willing to assist in this way.

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Discuss

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Approve option 8       Disapprove option 8       Discuss

→ it would have been targeted off the investment program

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Lorton Facility operations *	176	934
Capital improvements to Lorton Facilities (one-time)	80	80
High and Medium Security Construction at Lorton	220	820
District Court System operations	129	685
<b>Economic Development Initiative:</b>	<b>85</b>	<b>285</b>
Discretionary spending component	25	25
Tax benefit component	60	260
<b>Unfunded Pension Liability (mandatory):</b>		
Annual payments to District's pension plans	<b>337</b>	<b>1,863</b>
<b>Medicaid (mandatory):</b>		
Decrease District's share of Medicaid payments to 30%	<b>176</b>	<b>1,001</b>
<b>National Capital Infrastructure Fund [Non-add]</b>	<b>[93]</b>	<b>[465]</b>
<b>Total, Proposed Federal Resources</b>	<b>1,203</b>	<b>5,668</b>
Discretionary Spending (see Note 1)	630	2,544
Mandatory Spending	513	2,864
Tax benefits (mandatory)	60	260
<b>Proposed Offsets</b>	<b>(1,049)</b>	<b>(5,423)</b>
Annual Federal payment to the District	(660)	(3,300)
Special contribution to the pension plans	(52)	(260)
Drawdown of pension assets (Mandatory)	(337)	(1,863)
<b>Net New Federal Resources</b>	<b>154</b>	<b>245</b>
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<b>Addendum:</b>		
<b>Total budget savings to the District Government (See Note 2)</b>	<b>818</b>	<b>4,483</b>
<b>Increase in budget savings to District Government (i.e., savings net of current Federal payments)</b>	<b>106</b>	<b>923</b>

Note 1: Table does not include any additional resources given to IRS to administer the District income tax system.  
 Note 2: Budget savings to the District Government exclude the costs of capital improvements and construction at Lorton as well as the economic development initiative and the National Capital Infrastructure Fund. Also, no effects from IRS collection of DC income taxes are included.

\* \$7 million is included for parole functions.