



ANTHONY A. WILLIAMS
MAYOR

October 2, 2002

The Honorable George W. Bush
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Bush:

The purpose of this letter is to transmit a proposed amendment to the District of Columbia *FY 2003 Budget and Financial Plan*. Like 42 other states across the country, and like the federal government, the District government recently suffered a major drop in projected revenue for FY 2003. In response to this shortfall – projected at \$323 million and equaling 8.5 percent of the District's local budget – our elected leaders immediately and responsibly realigned this budget to ensure balance and our continued financial recovery.

In difficult times, maintaining fiscal balance requires sacrifices. The proposed budget amendment includes \$194 million in reduced spending and \$129 million of increased revenue, all of which were identified according to several guiding principles: This budget protects critical services for our neighborhoods and core human services for our most vulnerable residents; it also maintains the drivers of economic growth; and throughout all of its components, this plan ensures that we all accept a fair share of the sacrifice to be made.

Structural Imbalance

It should be noted, however, that there remains one major area where a fair share of sacrifice could not be allocated. The federal government currently mandates unfunded service requirements and unfair revenue restrictions, and the District has no authority to amend them. These challenges consist of the following:

- **Unfunded service requirements** – At local taxpayer expense, the federal government requires major services for federal employees and facilities, including transportation systems, infrastructure, police protection, and fire and medical services. This uncompensated service requirements cost local District taxpayers hundreds of millions of dollars each year.
- **Discriminatory taxing restrictions** – In addition to unfunded service requirements, the federal government places a restriction on the District that exists for no other city or state in the country – we

are prohibited from taxing income earned here by non-residents. This revenue source is a fundamental part of how municipal finances work, and without federal relief from this disparate provision District residents must shoulder an additional tax burden.

As a result of these two unfair measures, the District faces a pressing structural imbalance between revenue and expenditures, and cannot maintain fiscal solvency without relief. To address this problem, Congresswoman Eleanor Holmes Norton has introduced the *Fair Federal Compensation Act of 2002*, and I encourage you in the strongest terms to support passage of this act.

Budget Autonomy

The District government's rapid and effective response to the current revenue shortfall also demonstrates that it merits a greater measure of autonomy in managing its finances. Unlike any city or state in the nation, the District cannot budget and spend its local property taxes, sales taxes, or other local revenues *without approval from the President and Congress*. This practice creates major hindrances to good government in several important ways:

- **Budgets must be defined ten months in advance.** To allow time for the Congressional approval process, District agencies must plan their budgets almost a year in advance. Local governments require the flexibility to develop plans closer to the start of the fiscal year.
- **Congressional delays in approval disrupt local service delivery.** Over recent years, Congress has averaged a two-and-a-half month delay in approving the District's budget. We are once again operating in this new fiscal year under a continuing resolution. These continuing resolutions prevent us from using local dollars to fund important local programs.
- **Delays create uncertainty for Wall Street.** Congress' regular delays in approving the District's budget create uncertainty for Wall Street investors who purchase District bonds. This uncertainty about whether the District will have a budget at the start of the fiscal year must be disclosed to potential bond holders. The bonds issued may be subject to less favorable interest rates due to this uncertainty.
- **Major mid-year reallocations require an Act of Congress.** Once it finally approves the budget, Congress places unreasonable limitations on the District's ability to reallocate dollars to account for changing needs. Cities and states across the country exercise substantial discretion in reallocating funds as needed when emergencies arise or new priorities emerge. For the District to reallocate sizable amounts of funding from one major area to another, an act of Congress is required.

Even after these disruptions, recent history shows that neither Congress nor the White House have made any changes to the actual allocation of expenditures in the District budget. Instead, they limit their changes to legislative provisions and direct federal appropriations – two things they can still affect under the District's proposal.

The *Fiscal Integrity Act of 2002* would allow the District to establish and spend its budget locally as would any other city or state. Congress and the White House would still provide oversight as required through the Constitution, but the mechanism for this oversight would be structured in a manner much less disruptive to District operations.

Specifically, Congress and the White House would continue to provide oversight by:

- Monitoring an “early warning system” of financial reports to identify emerging problems;
- Passing an appropriations for federal dollars, including funding for the Courts, corrections programs; Tuition Assistance Grants, and other federal priorities; and
- Passing laws related to federal concerns in the nation’s capital.

To further ensure fiscal integrity at the local level, the proposed legislation also strengthens the independence of the Chief Financial Officer (CFO) through greater independence and personnel authority.

At present, this bill has been approved by the House Subcommittee on the District of Columbia, and has been introduced in the Senate. Its passage into law would represent a major step forward for effective government in the District, and for the partnership formed between my administration and your office. Therefore, I ask that you support this legislation and ask key Republicans on the District’s authorizing and appropriations committees in the Congress to do the same. These members include Representatives Bob Young and Joe Knollenberg from Appropriations and Dan Burton from Government Reform, as well as Senators Mike DeWine from Appropriations and George Voinovich, from Governmental Affairs. Connie Morella, chair of our authorizing subcommittee, has already passed the bill. Therefore, I strongly urge you to support passage of the *Fiscal Integrity Act* in recognition of the strong financial leadership shown by the District government.

I thank you for your support of the District of Columbia, and look forward to our continued work together.

Sincerely,



Anthony A. Williams