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OUTLINE OF TESTIMONY

I. Greetings, Introduction, Brief Summary of Testimony

II. Strength of the District's Finances and Overall Economy

a) How far we have come due to:

1) Strong Fiscal Management
Bond ratings, clean audits
2) Stable Economy
Continued growth and strength of city and metropolitan economy
3) Budgetary Flexibility
Reserves, Pensions and OPEB fully funded, long range infrastructure planning
4) Prudent Debt Management
Self-established borrowing limitations

III. Federal Government and the District's Budget

a) District is already a state in the way it functions
b) Funding received is like most states – but with city functions, too
Discussion of the federal government's impact on District's budget
c) Limitations of District's unique status
Large commuter population (mostly federal) doubles day-time population
High percentage of federal Land

IV. Statehood transition

a) Strong financial position and institutionalized practices

b) Managing Transition to Statehood – OCFO will support analysis on policy proposals – revenue proposals and budgetary allocations

V. Conclusion

TESTIMONY

I. Greetings, Introduction, Summary of Testimony

Good morning, Chairman Cummings, Ranking Member Jordan and members of the House Committee on Oversight and Reform. I am Jeffrey S. DeWitt, Chief Financial Officer of the Government of the District of Columbia. The Office of the Chief Financial Officer (OCFO) is an independent agency charged with ensuring the long-term financial health and viability of the District of Columbia. I am pleased to provide testimony today on the strength of the District's finances and economy, the current relationship between the District's budget and the federal government, and how the District of Columbia can transition to statehood.

II. Strength of the District's Finances

The District of Columbia has made a remarkable journey to its strongest financial position in its history with a positive general fund balance exceeding $2.8 billon. Today, the District sits at the highest possible credit rating of triple-A, an accomplishment achieved by only ten of the 25 largest cities and a rating higher than 35 other states. This turnaround is testimony to the financial practices put into place that continue to be enhanced by the District's elected leadership and key stakeholders.

The District's financial practices include a balanced budget and multi-year financial plan, a six-year capital improvement plan, quarterly revenue estimates to ensure spending stays on track, a self-imposed debt limit to restrict excessive borrowing, and best practices when it comes to cash reserves. District law sets a cash reserve policy of 60 days of operating revenues as compared to the federally mandated requirement of approximately 22 days.

The District has implemented a comprehensive capital asset inventory system and long-range financial and capital plan to bring <u>all</u> assets or infrastructure to a state of good repair within the next ten years. No other city or state in the United States has developed an implementable program to reach this goal. The District also has fully funded its public safety and teacher pension trust funds as well as its retiree health care benefits trust funds, a funding level no other state can claim. Finally, the District has achieved 23 consecutive years of clean audits as verified by outside independent auditors.

The District and the Washington metropolitan area have developed into a vibrant and dynamic region with a diversifying economic base and a fast-growing private sector. A common misperception is that the District is strictly a government town. In fact, only 25% of the workforce are federal government employees (see attachment). Continued solid economic performance, population growth, and a stable housing market mean that future revenue forecasts will remain strong to fund both necessary programs and to bring the District's infrastructure to a state of good repair.

III. Federal Government and the District Budget

In many respects, the District's economy already functions as a state. The District collects personal and business income taxes, administers worker's unemployment compensation programs and runs a Department of Motor Vehicles. In addition, the District provides local services to businesses and residents, including police, fire and public works services and operates a school district.

The District is similar to states in that we receive federal grants mostly for Medicaid, education, other human services and transportation. While the federal government's presence drives a large part of the District's economy, the District's budget is comparable to states in its reliance on federal dollars as a part of total revenue. A 2016 study[1] estimated that the 50 states average 32 percent of state revenue derived from federal grants-in-aid. In the District, only 23 percent of the fiscal year 2020 revenue will come from federal sources. Direct comparisons are difficult to make because the District performs both state and local functions. However, this illustrates that the District relies less on federal dollars to balance its budget than a considerable number of states.

The District's resident population is approximately 700,000, making it the 20th largest city according to the U.S. Census. However, a roughly equal number of workers, from Virginia and Maryland, many of them federal, come to the District to work every day, doubling the population served during business hours. Services, operations, and infrastructure must be sized to handle this large level of commuter population. In addition, approximately 30 percent of our total commercial property is owned by the federal government. Foreign mission buildings are another category of non-taxable property disproportionately located in the District. Between the diplomatic and federally-owned buildings, we estimate the District forgoes over $640 million annually in real property tax revenue.

IV. Transition to Statehood

With the transition to statehood, we expect that certain functions currently managed by the federal government will fall to the new state. The true financial impact of District of Columbia statehood

[1] Fiscal Year 2016 figures from the Tax Foundation.

will depend on policy decisions yet to be made by Congress and the newly-elected state government. It is also expected that a negotiated compact between the federal government and the District will clarify many of the necessary details. My office stands ready to advise on the policies being considered, the revenues that could be generated and the effects of budget allocations to accommodate new state functions.

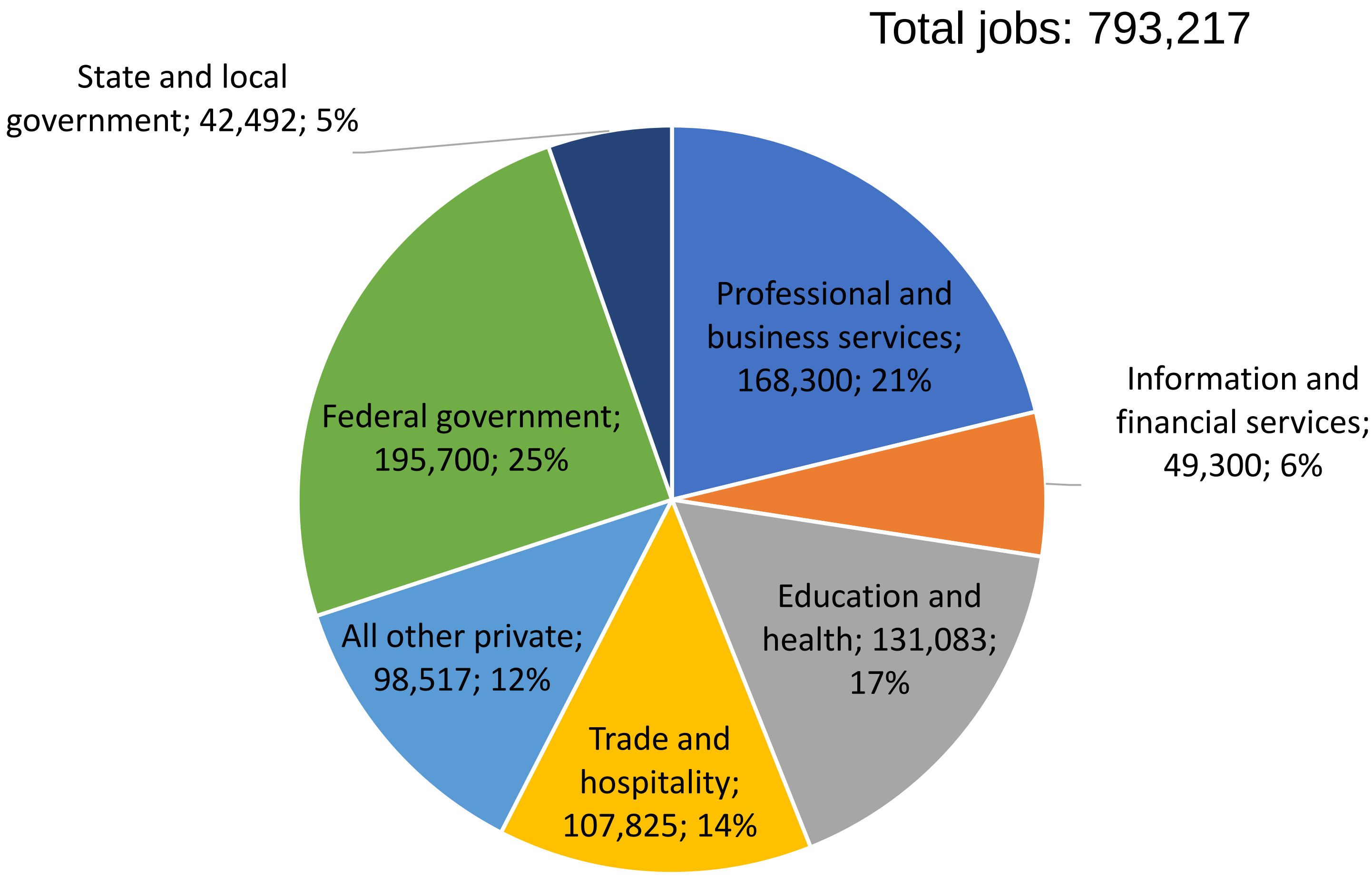
V. Conclusion

In conclusion, the fiscal foundation of the District is extremely strong. With the expanded powers of statehood, and by working with the federal government on a smooth transition, the District is capable of transitioning to statehood and overcoming any potential fiscal challenges that may lie ahead due to its strong financial condition and institutionalized best financial practices.

I thank you for allowing me the opportunity to provide testimony at this important hearing and am happy to answer any questions you may have.

District of Columbia

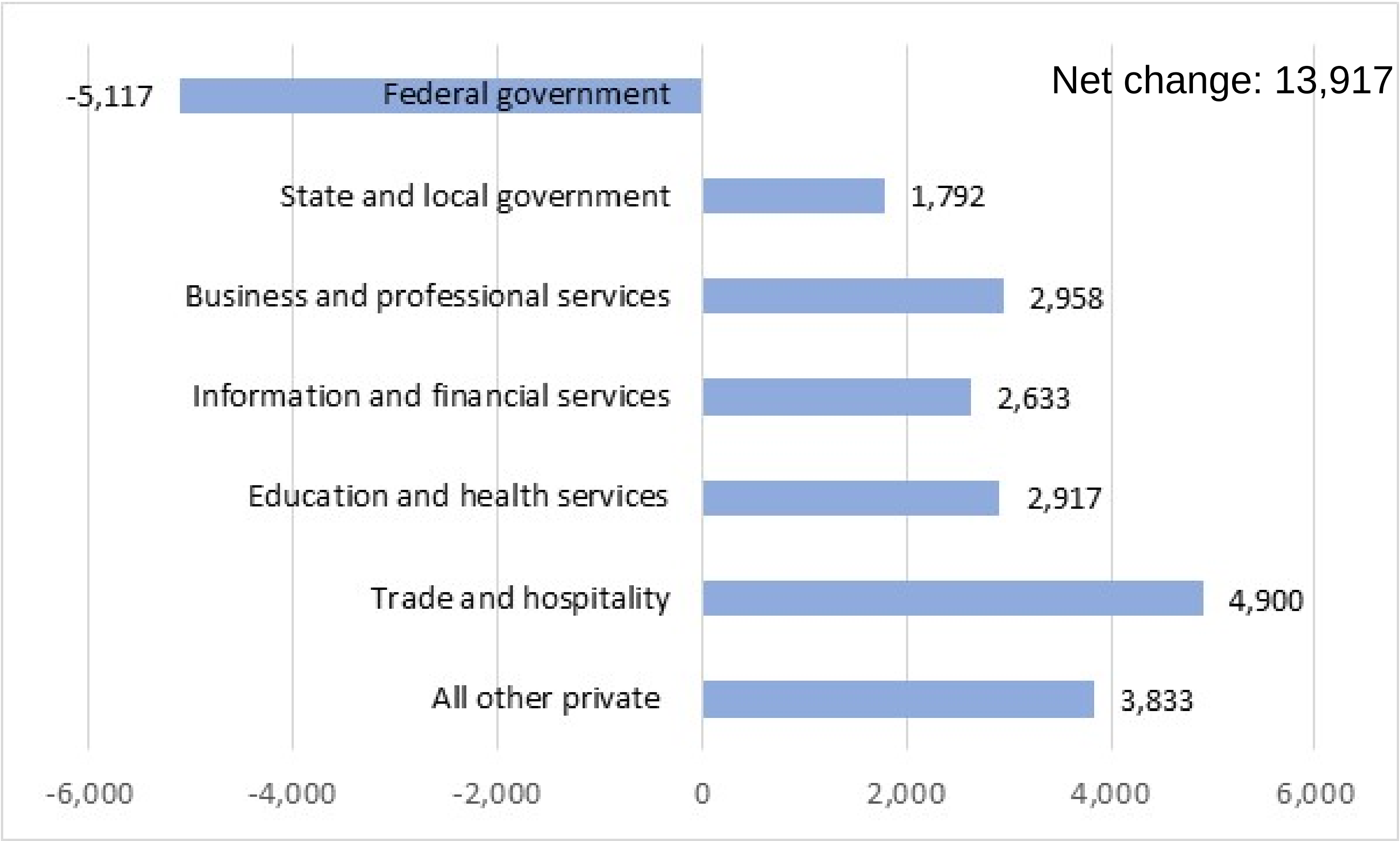
Wage and salary jobs in DC by sector: March 2019



Source: U.S. Department of Labor, Bureau of Labor Statistics (12 month average)

District of Columbia

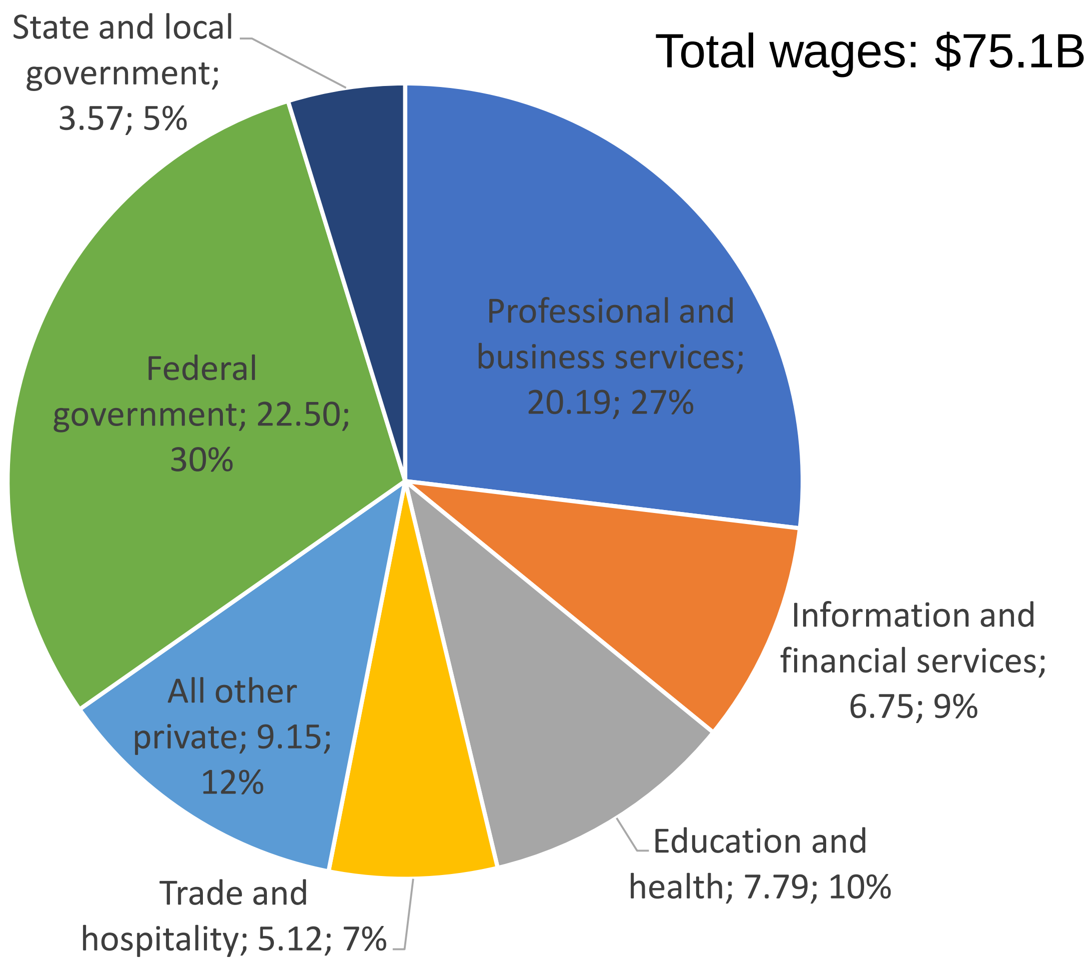
Change in wage and salary jobs in DC by sector: March 2017 vs March 2019



Source: U.S. Department of Labor, Bureau of Labor Statistics (12 month average)

District of Columbia

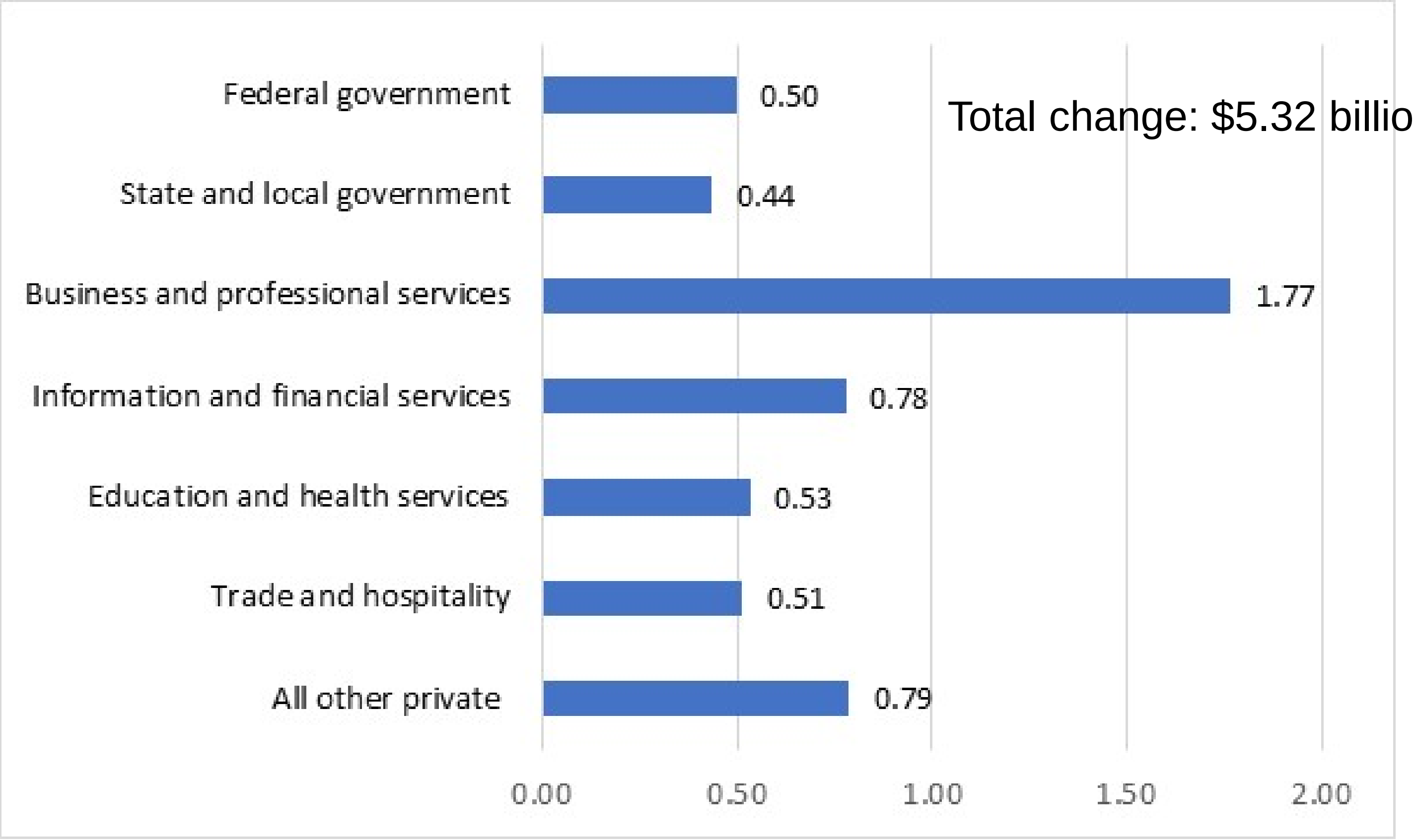
Wages and salaries earned in DC by sector: March 2019 ($billions)



Source: U.S. Department of Commerce, Bureau of Economic Analysis (12 month average)

District of Columbia

Change in wages and salaries earned in DC by sector: March 2017 vs March 2019 ($billions)



Source: U.S. Department of Commerce, Bureau of Economic Analysis (12 month average)