COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM

Hearing on the Mayor's Fiscal Year 2012 Proposed Budget and Financial Plan

Testimony of Mayor Vincent C. Gray

GOOD MORNING CHAIRMAN GOWDY, AND MEMBERS OF THE COMMITTEE, I AM VINCENT C. GRAY, MAYOR OF THE DISTRICT OF COLUMBIA. I AM HERE TODAY TO DISCUSS THE PROPOSED FY12 BUDGET FOR THE DISTRICT OF COLUMBIA.

I'VE HAD TO MAKE TOUGH CHOICES IN SUBMITTING THIS BUDGET. CHOICES THAT I WISH I DID NOT HAVE TO MAKE. THE REALITY IS THAT THE FINANCIAL HEALTH AND BACKBONE OF OUR CITY COULD BE IMPERILED UNLESS THOUGHTFUL, BALANCED AND MEASURED CHOICES ARE MADE AND HONORED. THIS BUDGET WAS THE PRODUCT OF THREE VERY INTENSE MONTHS OF SCRUBBING AGENCY BUDGETS AND EXPLORING EVERY REASONABLE OPTION FOR ADDITIONAL REVENUE. I PARTICIPATED IN OVER ONE HUNDRED HOURS OF INTENSIVE MEETINGS FOCUSED EXCLUSIVELY ON THE BUDGET WITH THE CITY ADMINISTRATOR, OUR DEPUTY MAYORS, AGENCY DIRECTORS, AND OUR OFFICE OF BUDGET AND FINANCE. THIS BUDGET MEETS AND ADDRESSES THE REALITY WE FACE: A REALITY THAT I HAVE DISCUSSED IN TOWN HALL MEETINGS WITH DISTRICT RESIDENTS IN ALL EIGHT WARDS DURING THE PAST SEVERAL WEEKS.

IN ORDER TO CLOSE A $322.1 MILLION STRUCTURAL BUDGET GAP, I EMPLOYED A BALANCED APPROACH OF EXPENDITURE REDUCTIONS AND REVENUE INCREASES. MY BUDGET FOCUSES ON THE FOUR KEY PRIORITIES OF MY ADMINISTRATION:

(1) FISCAL STABILITY;

(2) HIGH QUALITY PUBLIC EDUCATION;

(3) JOBS AND ECONOMIC OPPORTUNITIES; AND

(4) SAFE COMMUNITIES.

OUR GOAL IS TO ENSURE A STRUCTURALLY BALANCED BUDGET.

FISCAL YEAR 2012 BUDGET OVERVIEW

THE FISCAL YEAR 2012 GROSS FUNDS BUDGET FOR THE DISTRICT OF COLUMBIA IS $8.986 BILLION, REPRESENTING AN INCREASE OF $164.69 MILLION OR A 1.9% INCREASE ABOVE THE FISCAL YEAR 2011 APPROVED BUDGET.

THE MAJORITY OF THE 1.9% GROWTH OCCURRED IN TWO AREAS. $96.38 MILLION OCCURRED IN THE PUBLIC EDUCATION CLUSTER, LARGELY DUE TO ENROLLMENT INCREASES IN BOTH OUR DC PUBLIC SCHOOLS AND DC PUBLIC CHARTER SCHOOLS AND $67.76 MILLION OCCURRED IN OUR FINANCING AND OTHER APPROPRIATION TITLES DUE LARGELY TO MANDATORY INCREASES IN DEBT SERVICE FOR CAPITAL BORROWING UNDER THE PRIOR ADMINISTRATION. THIS BUDGET HAS BEEN CERTIFIED AS BALANCED BY THE INDEPENDENT CHIEF FINANCIAL OFFICER.

FISCAL STABILITY

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO DETAIL EACH OF MY FOUR KEY PRIORITIES IN THIS BUDGET. THE FIRST IS TO INTRODUCE A BUDGET THAT RE-

ESTABLISHES FISCAL STABILITY IN THE DISTRICT OF COLUMBIA. WHEN WE MET WITH THE BOND RATING AGENCIES IN FEBRUARY, ALL THREE AGENCIES HIGHLIGHTED THREE GENERAL RECOMMENDATIONS FOR ENSURING THE DISTRICT'S REPUTATION ON WALL STREET AFTER THE LAST FOUR YEARS, IN WHICH OUR FUND BALANCE WAS SPENT DOWN BY 41% FROM $1.5 BILLION TO $890 MILLION. THEY UNDERSCORED THE NEED TO:

(1) HAVE A STRUCTURALLY BALANCED BUDGET, MEANING THE DISTRICT SHOULD NOT SPEND MORE THAN IT BRINGS IN FROM REVENUE;

(2) TO LIVE WITHIN THE DISTRICT'S 12% DEBT CAP AND GRADUALLY REDUCE LONG-TERM BORROWING THROUGH THE USE OF PAY-AS-YOU-GO CAPITAL; AND

(3) REBUILD THE FUND BALANCE.

MY FISCAL YEAR 2012 BUDGET ACHIEVES THESE GOALS AND ITS ADOPTION WILL PUT THE DISTRICT ON THE CORRECT COURSE TO LONG-TERM SUCCESS.

HIGH QUALITY EDUCATION

HIGH QUALITY EDUCATION IS THE SECOND OF MY FOUR KEY PRIORITIES. PROVIDING HIGH QUALITY EDUCATION FOR ALL DISTRICT RESIDENTS IS CRITICAL TO OUR LONG-TERM PROSPERITY. THIS BUDGET PROVIDES THE RESOURCES NECESSARY TO CONTINUE THE PACE OF SCHOOL REFORM AND TO PROVIDE AN EDUCATIONAL CONTINUUM FROM AGES 3-24. MY ULTIMATE GOAL WILL BE TO EXTEND THIS CONTINUUM TO AGES 1-2 AS THE ECONOMY REBOUNDS AND MORE FUNDING BECOMES AVAILABLE.

THE INCREASES IN THE BUDGET FOR DC PUBLIC SCHOOLS AND DC PUBLIC CHARTER SCHOOLS ARE DUE PRIMARILY TO INCREASED ENROLLMENT. WE ARE NOW BEGINNING TO WITNESS THE SUCCESS OF THE UNIVERSAL PRE-KINDERGARTEN PROGRAM. WE ARE RETAINING STUDENTS WHO ENTERED THE PRE-K PROGRAM AT ITS INCEPTION THROUGH A GROWTH OF ENROLLMENT IN GRADES K TO 2.

MY PROPOSED BUDGET ALSO FOCUSES ON CONTINUING TO EDUCATE ADULTS BY MAINTAINING FUNDING FOR ADULT LITERACY AND PROVIDING AN ADDITIONAL $4.5 MILLION FOR THE UNIVERSITY OF THE DISTRICT OF COLUMBIA, OF WHICH A MINIMUM OF $4 MILLION IS DIRECTED TO THE COMMUNITY COLLEGE OF THE DISTRICT OF COLUMBIA.

AND THIS BUDGET INCLUDES FUNDING TO BEGIN TO SOLVE THE LONGSTANDING PROBLEM OF THE DISTRICT PAYING TENS OF MILLIONS OF DOLLARS ANNUALLY TO EDUCATE CHILDREN WITH DISABILITIES IN NON-PUBLIC SCHOOLS.

JOBS AND ECONOMIC OPPORTUNITIES

JOB CREATION AND PROVIDING ECONOMIC OPPORTUNITIES FOR ALL DC RESIDENTS IS THE THIRD OF MY FOUR KEY PRIORITIES. DESPITE REDUCTIONS TO FEDERAL AND SPECIAL PURPOSE REVENUE FUNDING, I AM CONTINUING FUNDING FOR ADULT JOB TRAINING BY ADDING $2.6 MILLION TO THE FY 2012 BUDGET.

AS EVERYONE KNOWS, I HAVE BEEN A MAJOR PROPONENT OF THE CONCEPT OF "ONE CITY". HOWEVER, THE CURRENT DISPARITY BETWEEN AREAS IN OUR CITY IS PARTICULARLY PRONOUNCED IN THE AREA OF JOBS, WITH A NUMBER OF

COMMUNITIES EXPERIENCING CHRONIC UNEMPLOYMENT. IN WARD 7, THE UNEMPLOYMENT RATE IS OVER 17% AND, IN WARD 8, IT IS OVER 25%.

THIS IS NOT DUE COMPLETELY TO A SHORTAGE OF JOBS. THE WASHINGTON-METROPOLITAN AREA HAS LED THE NATION IN NEW JOB GROWTH. HOWEVER, THE SKILL SETS OF OUR RESIDENTS SEEKING JOBS OFTEN DO NOT MATCH THE JOBS THAT ARE BEING CREATED. WE MUST MOVE FORWARD WITH A TWOFOLD STRATEGY OF INCREASING THE TRAINING OF RESIDENTS, WHILE AT THE SAME TIME ENSURING DISTRICT RESIDENTS RECEIVE MORE OF THE JOBS IN NEW CONSTRUCTION OR RETAIL PROJECTS THAT UTILIZE DISTRICT FUNDING. TO FACILITATE THAT, WE HAVE INCREASED ENFORCEMENT OF FIRST SOURCE LAWS WHILE ALSO ESTABLISHING A PILOT PROJECT THAT PROVIDES INCENTIVES TO HIRE DISTRICT RESIDENTS.

SAFE COMMUNITIES

MY FOURTH PRIORITY IS SUSTAINING SAFE COMMUNITIES SO THAT RESIDENTS FEEL SAFE IN THEIR NEIGHBORHOODS. MOST OF THE AGENCY BUDGETS IN THE PUBLIC SAFETY AND JUSTICE CLUSTER WERE HELD CONSTANT AT THEIR FISCAL YEAR 2011 LEVEL. WE ARE PROVIDING FUNDING TO HIRE 140 POLICE OFFICERS TO REOPEN THE POLICE ACADEMY WHICH ESSENTIALLY HAD BEEN SHUTOFF.

BUDGET AUTONOMY

MR. CHAIRMAN, THE DISTRICT OF COLUMBIA RAISES OVER $5.5 BILLION PER YEAR IN LOCAL FUNDS FROM OUR RESIDENTS IN PROPERTY TAXES, SALES TAXES, AND INCOME TAXES. A MAJORITY OF THE FUNCTIONS OF THE DISTRICT GOVERNMENT, INCLUDING ALL THE SERVICES PROVIDED BY ANY OTHER STATE, ARE FUNDED THROUGH THESE LOCALLY RAISED DOLLARS. NEVERTHELESS, IT IS THE LENGTHY

AND COMPLICATED FEDERAL APPROPRIATIONS PROCESS THAT HAS SEVERE EFFECTS ON THE DISTRICT GOVERNMENT.

AS YOU KNOW, IN ORDER TO COMPLY WITH THE FEDERAL PROCESS, THE DISTRICT MUST DEVELOP ITS BUDGET MONTHS IN ADVANCE OF THE TIMEFRAME NEEDED BY THE CITY. IN FACT, THE DISTRICT HAS HAD TO ADOPT THE FEDERAL FISCAL YEAR OF OCTOBER 1-SEPTEMBER 30, WHEN ANOTHER FISCAL YEAR MAY BE MORE APPROPRIATE FOR THE CITY. THE CONGRESSIONAL APPROPRIATIONS SCHEDULE PREVENTS THE DISTRICT FROM USING MORE CURRENT REVENUE ESTIMATES AND EXPENDITURE NEEDS THAT WOULD LEAD TO A BUDGET BASED ON BETTER AND MORE COMPLETE DATA. FURTHER, THE DUAL NATURE OF THE FEDERAL APPROPRIATIONS PROCESS REQUIRES TWO AFFIRMATIVE ACTIONS BY CONGRESS, THE DISTRICT'S APPROPRIATION IS OFTEN CAUGHT UP IN NATIONAL POLICY DISPUTES THAT TYPICALLY DELAY OUR LOCAL BUDGET ENACTMENT AND THAT DO NOT HAVE ANYTHING TO DO WITH THE DISTRICT. THIS FLAW WAS MADE ABUNDANTLY CLEAR BARELY A MONTH AGO, WHEN THE DISTRICT WAS FORCED TO SPEND ITS VERY LIMITED FUNDS PREPARING FOR A POTENTIAL SHUTDOWN. IN LOST TAX REVENUE ALONE, THE DISTRICT COULD HAVE LOST BETWEEN $1 AND $6 MILLION EVERY WEEK DURING A FEDERAL SHUTDOWN. THE RANGES DEMONSTRATE AGAIN THE VAST UNCERTAINTY PLACED ON THE DISTRICT DURING PERIODS OF POTENTIAL SHUTDOWN BECAUSE WE DID NOT, NOR DO WE KNOW EVEN NOW, IF WORKERS FURLOUGHED WOULD HAVE BEEN REIMBURSED AFTER A SHUTDOWN. THE DISPUTES IN CONGRESS ARE, IN FACT, OFTEN COSTLY TO THE CITY AND THEY DELAY KEY NEW INITIATIVES, PREVENT ORGANIZATIONAL REFORMS AND CREATE UNCERTAINTY ABOUT THE IMPLEMENTATION OF IMPORTANT AND NECESSARY PROGRAMS.

REQUIRING THE DISTRICT'S LOCAL FUNDS BUDGET TO BE APPROVED AS PART OF THE FEDERAL APPROPRIATIONS PROCESS DISRUPTS SERVICE DELIVERY IN SEVERAL TROUBLESOME WAYS:

1. IT LENGTHENS THE TIME PERIOD BETWEEN IDENTIFYING A SERVICE NEED AND IMPLEMENTING A SOLUTION.
2. SERVICE IMPROVEMENTS ARE FURTHER HINDERED BY FEDERAL DELAYS IN THE BUDGET APPROVAL PROCESS. THE AVERAGE CONGRESSIONAL DELAY SINCE 1996 HAS BEEN OVER THREE MONTHS.
3. MID-YEAR BUDGET REALLOCATIONS REQUIRE AN ACT OF CONGRESS, AND DISRUPT SERVICE DELIVERY.
4. PROGRAM MANAGERS MUST "USE OR LOSE" FUNDING AT THE END OF EACH FISCAL YEAR.

MR. CHAIRMAN, THE DISTRICT OF COLUMBIA'S OVERALL FISCAL HEALTH IS STRONG. FOR MORE THAN A DECADE, WE HAVE PRESENTED A BALANCED BUDGET AND WE HAVE RECEIVED CLEAN AUDITS IN EACH OF THOSE YEARS. AS HAS BEEN NOTED BY MEMBERS OF CONGRESS, WE HAVE CLEARLY DEMONSTRATED OUR FISCAL RESPONSIBILITY. I BELIEVE STRONGLY, MR. CHAIRMAN, THAT THE FINANCIAL RIGOR THE DISTRICT EXHIBITS PROVES THAT WE ARE MORE THAN CAPABLE OF MANAGING OUR OWN RESOURCES. IT IS TIME FOR CONGRESS TO ADOPT LEGISLATION THAT WOULD REMOVE THE APPROVAL OF THE DISTRICT'S LOCAL BUDGET FROM THE FEDERAL APPROPRIATIONS PROCESS. THIS REQUEST DOES NOT REMOVE THE OVERSIGHT AUTHORITY OF CONGRESS AS PROVIDED BY THE CONSTITUTION; IT WOULD SIMPLY ALLOW THE DISTRICT TO SPEND ITS LOCAL FUNDS IN THE SAME WAY OTHER STATE AND LOCAL JURISDICTIONS DO.

GIVING THE DISTRICT BUDGET AUTONOMY WOULD PROVIDE NUMEROUS BENEFITS INCLUDING:

1. ALLOWING FOR BETTER BUDGETING BY NOT HAVING TO START THE PROCESS FOUR MONTHS EARLIER THAN WOULD BE REQUIRED IF THE DISTRICT MANAGED ITS OWN BUDGET.
2. PROVIDING INCREASED FINANCIAL FLEXIBILITY THAT WOULD ALLOW THE CITY TO REACT QUICKLY TO CHANGES IN PROGRAM AND FINANCIAL CONDITIONS.
3. REMOVING THE UNCERTAINTIES OF THE CURRENT BUDGET PROCESS THAT THE BOND RATING AGENCIES TAKE INTO ACCOUNT WHEN ASSESSING THE DISTRICT'S FINANCES, THUS PROVIDING THE CITY WITH AN OPPORTUNITY TO SAVE MONEY.

MR. CHAIRMAN, NO LOCAL GOVERNMENT CAN OPERATE EFFECTIVELY WITHOUT THE ABILITY TO RESPOND QUICKLY TO CHANGING PUBLIC NEEDS. AS THE PRIMARY DELIVERER OF SERVICES, LOCAL GOVERNMENTS MUST BE ABLE TO RESPOND QUICKLY TO VARYING CIRCUMSTANCES BY CHANGING PROGRAMS AND SERVICES IN A TIMELY AND RESPONSIVE MANNER. ALL OTHER STATE GOVERNMENTS IN OUR NATION HAVE THIS FLEXIBILITY. THEY CONTROL THEIR OWN PROGRAMS AND BUDGET ALLOCATIONS WITHOUT APPROVAL BY CONGRESS. WHY SHOULD THE DISTRICT BE TREATED DIFFERENTLY? AS YOU HAVE PUBLICLY STATED, MR. CHAIRMAN, LOCAL GOVERNMENTS ARE MUCH BETTER AT ASSESSING THE NEEDS OF THEIR JURISDICTIONS AND HOW TO ALLOCATE THE COSTS TO THE PROVISION OF PROGRAMS AND SERVICES.

SUMMARY

THANK YOU FOR THE TIME TO DISCUSS MY FISCAL YEAR 2012 BUDGET FOR THE DISTRICT OF COLUMBIA. THROUGHOUT THE RECENT ECONOMIC DOWNTURN, STATES AND CITIES ACROSS THE COUNTRY HAVE HAD DIFFICULTY MAINTAINING A BALANCED BUDGET. THE CENTER ON BUDGET AND POLICY PRIORITIES ESTIMATES THAT ALMOST ALL OF THE STATES ARE FACING BUDGET SHORTFALLS. MY BUDGET CONTINUES A STRONG TRADITION OF ENSURING A BALANCED BUDGET FOR THE DISTRICT.

I BELIEVE IT IS TIME FOR CONGRESS TO RELEASE THE DISTRICT'S LOCAL BUDGET FROM THE FEDERAL APPROPRIATIONS PROCESS AND FOLLOW THE RECOMMENDATION MADE BY THE PRESIDENT IN HIS BUDGET REQUEST TO THE CONGRESS. ON BEHALF OF THE 600,000 RESIDENTS OF THE DISTRICT OF COLUMBIA, I ASK THAT A BILL PROVIDING THE DISTRICT CONTROL OVER ITS LOCAL BUDGET BE MOVED THROUGH THE HOUSE AS SOON AS POSSIBLE.

IN CLOSING, MR. CHAIRMAN, I WOULD FURTHER REQUEST THAT THE HOUSE PASS THE FISCAL YEAR 2012 DISTRICT OF COLUMBIA BUDGET IN TIME FOR THE START OF THE NEW FISCAL YEAR AND THAT NO UNRELATED RIDERS BE PLACED ON THE BILL.

THANK YOU.