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Testimony

Before the Subcommittees on Judiciary and
Education and on Fiscal Affairs and Health,
Committee on the District of Columbia,
House of Representatives

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DISTRICT OF COLUMBIA

The Federal Payment Formula

Statement of John W. Hill, Jr.
Director, Audit Support and Analysis
Accounting and Financial Management Division



Madam Chairwoman and Mr. Chairman and Members of the Subcommittees:

We are pleased to be here today to discuss the calculation of the authorized federal payment to the District of Columbia. We have also been asked to comment on a proposal to amend the District of Columbia Self-Government and Governmental Reorganization Act to require the amount authorized for any fiscal year to be equal to or greater than the amount appropriated for the previous fiscal year.

During last year's House appropriations hearing on the District's budget, there was much discussion about the proper application of a formula-authorized federal payment to the District. The discussions centered on what amounts should be included in the base; that is, whether the base should include all (1) local source revenues raised by the District (general, enterprise, and trust funds) or (2) only general fund revenues, which would result in a much lower authorized payment. Subsequently, letters to the Appropriations Committee from the Chairman and Ranking Republican Member of the House Authorizing Committee stated that the base amount should be the general fund revenues with certain adjustments and including certain lottery receipts. They suggested that the District be directed to submit a report of local revenue in a prescribed format. The directive was included in the House and Senate reports on the District's appropriation. We recently received a letter from the Mayor with a schedule detailing local revenues but the schedule is not consistent with the directives from the appropriating and authorizing committees.

My testimony this morning will provide background on the applicable laws, discuss our role in the process, and summarize the major events that have occurred regarding this issue since last year to assist the committees as they consider these issues in establishing a floor for the amount of the authorized federal payment to the District of Columbia.

BACKGROUND

The District of Columbia Budgetary Efficiency Act of 1991, Public Law 102-102, amended the District of Columbia Self-Government and Governmental Reorganization Act to establish a predictable and equitable method for determining the amount of the annual federal payment to the District of Columbia. The act's purpose is to compensate the District of Columbia for (1) unreimbursed services provided by the District to the federal government and (2) the significant deficiencies in the District's tax base resulting from federally imposed limitations on the District's ability to raise revenue. These limitations include:

- the exemption from taxation of property owned by the federal government or by any foreign government which uses such property for diplomatic purposes;

- the statutory prohibition on taxation of income earned in the District by an individual who is not a resident of the District; and
- limitations on the height of buildings located in the District.

The act also provides a formula for calculating the amount authorized for appropriation as the annual federal payment to the District. To calculate the authorized federal payment for fiscal years 1993, 1994, and 1995, 24 percent is applied to District of Columbia local revenues for fiscal years 1991, 1992, and 1993, respectively. The act defines local revenues as the independently audited revenues of the District that are derived from sources other than the federal government during the year, as reviewed by the Comptroller General under section 715(e) of title 31, United States Code.

Public Law 94-399 requires an audit by a certified public accountant of the District of Columbia Comprehensive Annual Financial Report. Under the act, this audit must include a schedule of the District's revenues for the fiscal year, broken down by revenues derived from the federal government and revenues derived from other sources during that fiscal year.

Public Law 102-102 requires us to submit to the House Committee on the District of Columbia and the Subcommittee on General Services, Federalism, and the District of Columbia of the Senate Committee on Governmental Affairs a report detailing the results of our review of the schedule not later than March 1 of each fiscal year.

GAO REVIEW OF FISCAL YEAR 1991 SCHEDULE

The District of Columbia government contracted with an independent certified public accounting firm to audit its fiscal year 1991 financial statements. Because the District's financial statements for the year ended September 30, 1991, did not include a breakdown of its revenues for 1991 as required, we requested that the District and its auditors provide an audited breakdown of revenues, which we subsequently received on February 28, 1992.

We conducted our review of the auditors' work in accordance with generally accepted government auditing standards. Based on our review, the District modified the revenue schedule to, among other things, eliminate certain revenues related to operations of the District of Columbia General Hospital fund. We received the updated final schedule and auditors' opinion related to that schedule on March 27, 1992.

In the auditors' opinion, the District of Columbia's Schedule of Revenues and Nonoperating Revenues for the year ended September 30, 1991, is fairly presented in accordance with generally accepted accounting principles in relation to the District's financial statements for the year ended September 30, 1991, taken as a whole. Our work found nothing to indicate that the auditors' opinion was inappropriate or unreliable. We presented the results of our review in our report to the Committee and Subcommittee on May 8, 1992.

We reported that the District's schedule included local revenues of \$3.534 billion from nonfederal sources, including \$2.680 billion of general fund revenue, \$362 million of enterprise fund revenue, and \$492 million of trust fund revenue. When the formula in the law is applied to the total local revenues presented in the schedule, the resulting authorization to the District for 1993 was greater than historical trends would indicate. We reported that congressional hearings and committee reports associated with enactment of the law have generally compared the federal payment to general fund revenues.

CONGRESSIONAL DIRECTIVE
ON USE OF FEDERAL PAYMENT FORMULA

On Wednesday, June 17, 1992, the District of Columbia Appropriations Subcommittee of the House Appropriations Committee held a hearing to discuss, among other items, the formula payment to the District of Columbia. Issues discussed included the definition of the base, the possible inclusion of net lottery proceeds in the base, and the authorizing committee's intent with respect to the formula.

At this hearing, the District Controller requested that the appropriations and authorizing committees clarify and document their intent so that the calculation could be applied consistently in the future.

The record of the hearing shows that the appropriations subcommittee subsequently received two letters, both dated June 22, 1992, one signed by the Chairman, and the other by the Ranking Republican Member, House Committee on the District of Columbia. The purpose of these letters was to express their view of the authorizing committee's intent regarding Public Law 102-102. The letter from the Chairman included an enclosure that provided a detailed formula in an exhibit and states "the Committee directs that, hereafter, the District prepare and submit the Schedule of Local Revenue required by section 2[b] of Public Law 102-102, 105 Stat. 496 (1991) as specified in the exhibit. This exhibit is consistent with the basis which the D.C. Appropriation Subcommittee and the District have historically used to determine the federal payment."

The letter from the Ranking Republican Member stated further that "the authorized federal payments in FY 1993, 1994, and 1995 should be based only upon those sources of revenue which have been counted by the appropriations committee within its category, General Revenue Local Collections within its historical table, Federal Payment Compared to District of Columbia General Revenue Local Collections. If some source of general revenue local collections, including the net sum of lottery revenues, has been included in this category by the Appropriations Committee in the past, it should continue to be included in determining the federal payment as authorized by P.L. 102-102. If some source of general revenue local collections has not been included in the Appropriations general revenue local collections category in the past, counting it now would be inconsistent with our intent."

These views are reflected in reports of the House and Senate Appropriations Committee, which directed the District in the future to use a schedule of local revenues as displayed in the exhibit.

STATUS OF GAO REVIEW OF
THE FISCAL YEAR 1992 SCHEDULE

On February 23, 1993, we received an undated letter from the Mayor of the District of Columbia, which contained the Mayor's calculation of the authorized amount of the federal payment for fiscal year 1994. The Mayor's letter provided for an authorized federal payment determined under the formula of \$801,864,000, but stated that the District's appropriation request for the federal payment will be \$671,566,00. The Mayor stated that this amount represents 24 percent of the total of District sources of revenue in the General Fund (\$2,749,691,000) plus operating transfers from the Lottery and Games Enterprise Fund to the General Fund (\$48,500,000) for the year ended September 30, 1992.

The calculations contained in the Mayor's undated letter are inconsistent with the direction and exhibit provided by the committees. If applied as directed, the formula would have resulted in reporting total local revenues as \$2,636,187,000 instead of \$3,341,101,000. Applying the 24 percent to this lower local revenue figure calls for a federal payment authorization of \$632,685,000, or \$169,179,000 less than the amount the Mayor indicated should be authorized and \$38,881,000 less than the amount the Mayor indicated would be requested.

The major difference between the base for local revenues used by the Mayor and the one required by the committee is that the Mayor's base includes all revenues (general, enterprise, and trust funds) attributable to local sources and the required base includes only general fund and lottery transfers to the General Fund, adjusted for certain charges for services and miscellaneous revenue. Attachments I and II to my statement contain our

calculation of the 1993 and 1994 authorized federal payment using the committees' directive and a comparison of the amounts used in the Mayor's undated letter with the committees' directive. I wish to point out that since we have not yet completed our review of the auditors' report these calculations could change as a result of our future work. We expect to complete our review and report within the next few weeks.

PROPOSAL TO AMEND THE DISTRICT OF COLUMBIA
SELF-GOVERNMENT AND GOVERNMENTAL
REORGANIZATION ACT

The current proposal would require that the amount authorized to be appropriated as the annual federal payment to the District for a fiscal year may not be less than the amount authorized to be appropriated as the annual federal payment to the District for the previous fiscal year. In effect, the amount authorized for appropriation as the annual federal payment to the District would never be reduced, even when local revenues are decreasing.

In a letter dated June 22, 1992, to the Subcommittee on the District of Columbia of the House Committee on Appropriations, the Ranking Republican Member, House Committee on the District of Columbia stated that "throughout the legislative process, city officials were warned that setting the payment on a percentage of revenue included the risk of a reduction in the federal payment if revenues declined." This statement indicates that the authorizing committee had considered and accepted the possibility that the federal payment would and could be reduced. If enacted, the current proposal would result in an authorized amount that would be greater than 24 percent of local revenues whenever local revenues decline.

If the intent of the proposal is to minimize the impact of the reduction in the federal payment in times when local revenues are decreasing, the subcommittees may want to consider the alternative of using an average of local revenues over some period of time, for example, 3 to 5 years as the base for the calculation of the formula. Over time, the average authorized payment would still be 24 percent of local revenues, but there would be some cushioning of large upward or downward swings that could occur in any given year and cause large fluctuations in the size of the authorized federal payment.

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Madam Chairwoman and Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or Members of the Subcommittees may have at this time.

DISTRICT OF COLUMBIASCHEDULE OF LOCAL REVENUES

(Fiscal year ending September 30, 1991, 1992, and
authorization federal payment for fiscal year 1993 and 1994)

	<u>(Dollars in thousands)</u>	
	<u>1991</u>	<u>1992</u>
Total District sources ^a	\$2,731,88	\$2,749,691
Plus Lottery Board transfer-in ^b	45,700	48,500
Less:		
Charges for services--nonappropriated ^c	(97,139)	(91,303)
Miscellaneous--nonappropriated ^d	<u>(76,889)</u>	<u>(70,701)</u>
Total local revenue	<u>2,603,560</u>	<u>2,636,187</u>
Twenty-four percent of total local revenues (authorized federal payment fiscal year 1993 and 1994, respectively)	<u>\$ 624,854</u>	<u>\$ 632,685</u>

Sources:

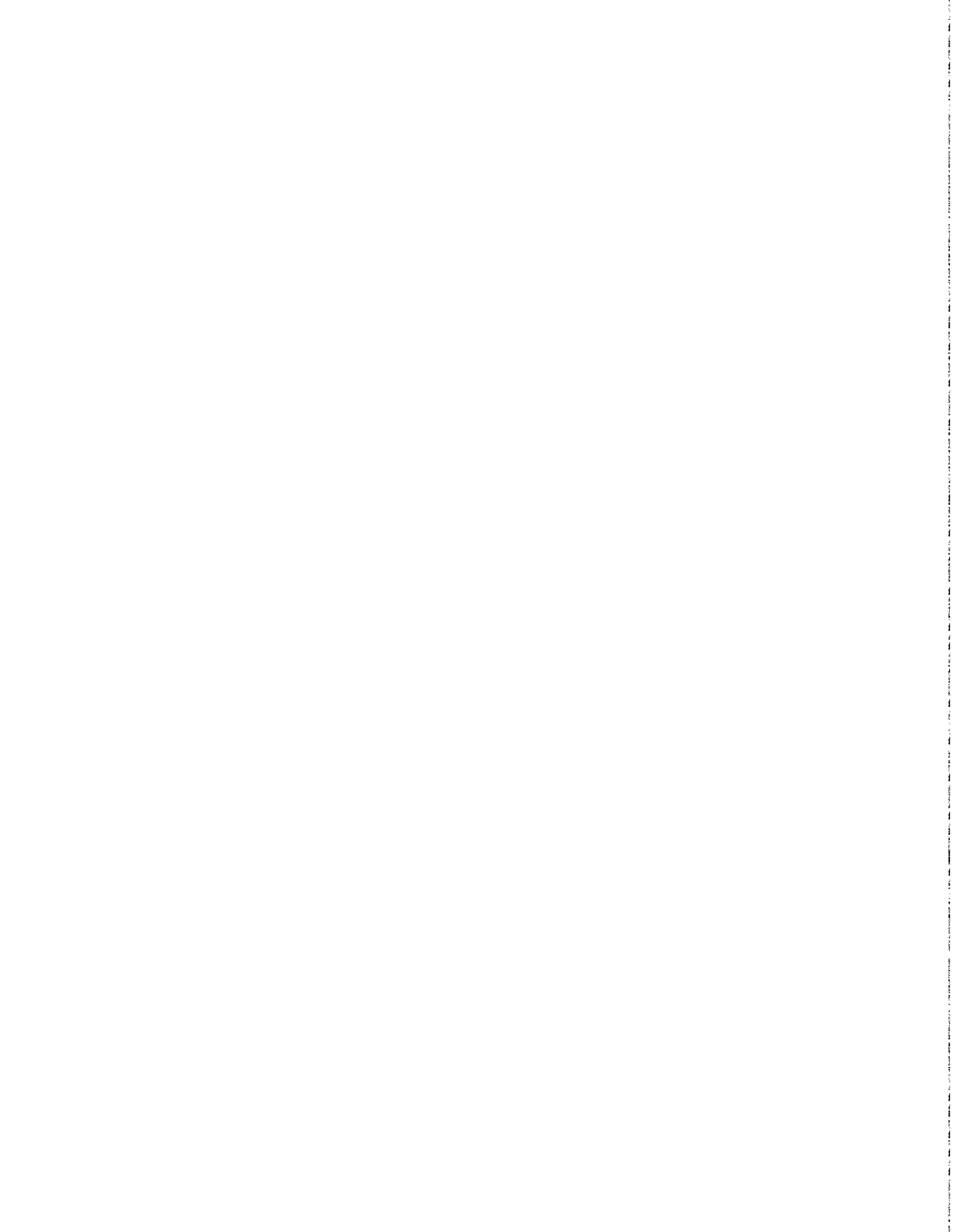
- ^a Exhibit S-1 of the District's Comprehensive Annual Financial Report (CAFR) from the column headed "Total District Sources"
- ^b Exhibit C-2 of the District's CAFR from the column headed "Lottery and Games," and the line captioned "Operating Transfers in (Out): General Fund"
- ^{c,d} Exhibit 3 of the District's CAFR from the column headed "Nonappropriated Actual" and the group captioned "Revenue" lines captioned "Charges for Services" and "Miscellaneous"

CALCULATION OF AUTHORIZED FEDERAL PAYMENT
FOR FISCAL YEAR 1994

<u>Local Revenue Source</u>	<u>(Dollars in thousands)</u>	
	<u>Mayor's</u> <u>Letter</u>	<u>Committees'</u> <u>Directive</u>
General Fund		
Taxes	\$2,384,300	\$2,384,300
Licenses and permits	41,856	41,856
Fines and forfeits	51,860	51,860
	<u>2,478,016</u>	<u>2,478,016</u>
Charges for services		
Public	100,251	100,251
Intergovernmental		3,905
Intragovernmental		44,567
Nonappropriated charges		(91,303)
	<u>100,251</u>	<u>57,420</u>
Miscellaneous		
Public	122,502	122,502
Intergovernmental		450
Nonappropriated		(70,701)
	<u>122,502</u>	<u>52,251</u>
	<u>2,700,769^a</u>	<u>2,588,687</u>
Enterprise Funds		
Operating revenues		
Lottery and games	67,630	48,500
Other	203,112	
	<u>270,742^a</u>	<u>48,500</u>
Nonoperating revenue		
Miscellaneous	4,928	
(Unidentified)	2,066	
	<u>6,994^a</u>	
Trust Funds	<u>139,815^a</u>	
Pension Funds	<u>222,781^a</u>	
Total Local Revenue	<u>\$3,341,101^a</u>	<u>\$2,636,187</u>
Twenty-four Percent of Local Revenue	<u>\$ 801,864^a</u>	<u>\$ 632,685</u>

^a Agrees with amounts shown under local revenue in Mayor's undated letter to the Comptroller General.

Source: 1992 D.C. CAFR



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