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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release **January 14, 1997**

THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN:

FACT SHEET

- The plan has two goals:
  - -- To revitalize Washington D.C. as the Nation's capital, and
  - -- To improve prospects for "home rule" to succeed.
- The plan will:
  - -- Relieve the District government of major financial and managerial responsibilities -- including certain pension plans and parts of the criminal justice system -- that are beyond its financial capacity, and resolve the city's cash shortfall that stems from its accumulated deficit;
  - -- Invest considerable resources to improve the city's criminal justice system and capital infrastructure;
  - -- Strengthen the District's economic base; and
  - -- Draw on the Federal government's technical expertise to help make the city government effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.
- <u>Over five years</u>, this plan will invest $3.9 billion of Federal budgetary resources in the Nation's capital. Among other things, the plan provides:
  - -- $885 million for new capital spending on prison renovation and construction;
  - -- $891 million to operate prison facilities;
  - -- $681 million to operate the court system;

-- $125 million in 1998 to begin rebuilding the city's transportation infrastructure;

-- $117 million to improve District tax collection;

-- $917 million to increase the Federal share of D.C.'s Medicaid payments; and

-- grant and tax incentives for economic development in the District.

- In exchange, the plan will end the yearly Federal appropriation and other payments to the District, saving $3.56 billion over five years.

- Thus, the **net Federal costs of the plan come to $339 million over five years**.

- The plan also proposes that the Federal government assume responsibility for the District's existing pension plans for law enforcement officers, firefighters, teachers, and judges.

  -- Upon their transfer to the Federal Government, the plans would close (that is, they would accrue no new liability).

    - The existing pension assets would pay the beneficiaries.

    - Starting in 2007, the Federal government would pay off, over an extended period of time, the $4.3 billion in unfunded liability associated with these plans -- much of which was transferred from the Federal government to the District in 1979.

  -- The District would establish new plans for current employees.

- **Over five years, the plan would save the District about $770 million**.

  -- Federal budget costs will be less than District budget savings in part because pension assets, rather than Federal budget resources, will be used to pay beneficiaries until 2007.

- **The proposed Federal spending is all dependent on the District government taking certain actions to improve its performance** -- as outlined in a Memorandum of Understanding that will be reached between the Federal government, the District government, and the Financial Authority.

- The plan will benefit the city, the region, and the Nation:

-- It benefits District residents by reducing their government's financial burdens, improving the delivery of city services, and investing in the criminal justice system, economic development, and transportation.

-- It benefits the region because of the city's economic recovery; the financial support given to the police, fire, teachers, and judges pension funds; the rebuilding of the District prison system; and the improvement of a key component of the regional transportation infrastructure.

-- It benefits the Nation because it begins to create a capital city that we can all be proud of, improves its transportation system, and helps ensure the safety of residents and visitors.

Addendum:

Details of the Plan

I. Functions assumed by the Federal government

- The Federal Government would assume financial and administrative responsibility for the District's pension plans for police and firefighters, teachers, and judges.

  -- Beginning in Fiscal Year 1998, the pension system would be closed (i.e., no new benefits would accrue) upon transfer to the Federal government. The District would transfer to the Federal government or its designee existing pension assets, estimated to be worth over $3.3 billion, leaving the Federal government to take on the remaining $4.3 billion in unfunded liability. A third-party Trustee would be appointed by the Federal government to administer the plan and invest pension assets.

  -- This action would be conditioned on the District signing a Memorandum of Understanding with the Federal government requiring that the existing pension plans be closed; the District would have to set up new plans for its current and future employees; the District would be responsible for current employees who are not yet vested under the existing system; the District would have to provide adequate employment records to the third-party trustee; and assets would need to be transferred to a Trustee.

- The Federal Government would take direct responsibility only for **funding** the District Court System. The Courts would remain self-managed.

  -- The court system works well, and courts would continue to be self-managed. The funding would be requested for the Federal Judiciary and would cost $129 million in the first year and $685 million over a five year period. The D.C. court system would be funded through the Judiciary's Administrative Office of the U.S. Courts. There are no conditions for implementation because the District court system is deemed to work well.

- The Federal Government would assume financial and administrative responsibility for the District's prison system, including substantial capital investment in modernizing the facilities.

  -- The Federal government would take responsibility for the District's sentenced prisoners (but not presentenced prisoners), a responsibility that is elsewhere borne by the States. During the transition, funding for the incarceration of the District's felons would be provided by the Federal government to a receiver responsible to the Control Board. Funding would include capital for both construction of new facilities and renovations of the existing facilities; Lorton would continue to be used as a prison facility.

-- A receiver would be appointed to oversee the D.C. Department of Corrections operations related to incarcerated D.C. felons for a period of three to five years, after which the Bureau of Prisons would assume responsibility; prison facilities at Lorton would be repaired and expanded.

-- The Federal government would accept all current prisoners. The Federal government would accept new prisoners only if they are sentenced in accordance with Federal standards. The Bureau of Prisons (BOP) would have flexibility in transferring D.C. inmates elsewhere in the Federal Prison System if needed to manage the inmate population. Current D.C. prisons staff would be required to meet Federal standards and reapply for their positions. Finally, the Federal government would assume responsibility after the transition period for the District's parole system and community corrections program.

- <u>The Federal Government will increase its share of the District's Medicaid payments to 70%:</u>

-- The Administration proposes to pay both the Federal and "State" share of the District's Medicaid costs, thereby reducing the District's share to 30 percent (the maximum amount that can be paid by localities in States that benefit from a 50 percent Federal match). The District will receive an estimated $156 million in FY 1998 for this. The Department of Health and Human Services will provide more intensive technical assistance to help the District improve the management of its Medicaid program and assure that Federal funds are not mismanaged. The increased Medicaid funding will be conditioned on the District following various HHS suggestions for programmatic improvements.

- <u>Intermediate term financing of the accumulated deficit.</u>

-- The Administration will propose legislation to have the Federal Government provide intermediate term (ten to fifteen year) financing for all or part of the District's accumulated deficit, which is estimated to be between $400 - $500 million. The terms and conditions for such loans will be determined later, but it is envisioned that:

  - Treasury interest rates would be charged.

  - The District could refinance the Treasury loan at some later time after the District's credit picture improves.

II New investments in infrastructure

- The Federal Government will establish a National Capital Infrastructure Fund:

  -- In FY98, the Administration proposes providing $125 million in seed money from the Federal Highway Trust Fund to establish the NCIF. The NCIF will fund transportation infrastructure projects in the District which benefit residents and commuters alike. This includes the construction of local roads and bridges, the local match for federal-aid road and bridge projects, and capital expenditures for the Washington Metropolitan Area Transit Authority (WMATA). These funds will be available only for capital projects; routine maintenance projects would not be eligible.

  -- The NCIF will be authorized to accept contributions from other sources, e.g., payments in lieu of taxes from tax-exempt organizations such as universities and hospitals.

III. Economic Development

- The Administration proposes to establish an economic development corporation (EDC) as a non-Federal public authority. The EDC would be funded, in part, with Federal funds, with an increasing local and private sector match.

IV. Technical assistance to District government

- Tax Collection: IRS would assume responsibility from the District of Columbia for collecting D.C. individual income taxes and payroll taxes, funded by an addition to the IRS appropriation for that purpose. Expected costs are $15 million in 1998 for startup and phase in, and $25 million in FY 1999 and after for operations.

  -- As a condition: specific authorizing legislation setting out the functions and timing will be required; IRS will be responsible for enforcement and will use its current enforcement powers; IRS will be responsible for management, tax return and refund processing, customer service, compliance, and computer operations.

- Other Executive Branch Agencies will work with the District to identify areas in which the Federal government might provide technical assistance to help the District government improve the efficiency with which it delivers services.