The Revitalization of the Nation's Capital

By: Sebastián E. Negrón-Reichard

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"[T]the garbage went uncollected for three days in many parts of the city because too many trucks are broken down,"[1] a Baltimore Sun article of June 1995 stated referring to the precarious fiscal situation of Washington, DC. The city was not able to meet payments to vendors for basic services and the quality of services was so bad that people were fleeing the District for Maryland and Virginia. In 1995, the District faced a $722 million deficit.[2] As if the deficit was not enough, credit rating agencies downgraded Washington, DC debt to "junk" level to such extent that Moody's claimed the District was "risky and speculative."[3] The situation was unforeseen and had widespread consequences.

Both Congress and the Clinton Administration were committed to avoiding bankruptcy for the District. Congress moved to approve the District of Columbia Financial Responsibility and Management Assistance Act[4] in 1995, which created the District of Columbia Financial Responsibility and Management Assistance Authority ("Control Board") to oversee the finances of the city. The Control Board had substantial supervisory authority over the District, but its efforts alone were not enough to bring the District out of a potential bankruptcy.

One of the key tasks of the Control Board was to redefine the relationship between the District and the federal government by releasing – and imposing – a strategic plan that aimed to expose the structural challenges faced by the District in the light of its hybrid condition as a federal district without

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[1] Waldron, Thomas W. "U.S. Capital on the Verge of Running out of Money - Washington, D.C.'s Fiscal Crisis." The Baltimore Sun. June 16, 1995. http://articles.baltimoresun.com/1995-06-16/news/1995167107_1_city-of-washington-city-council-district.

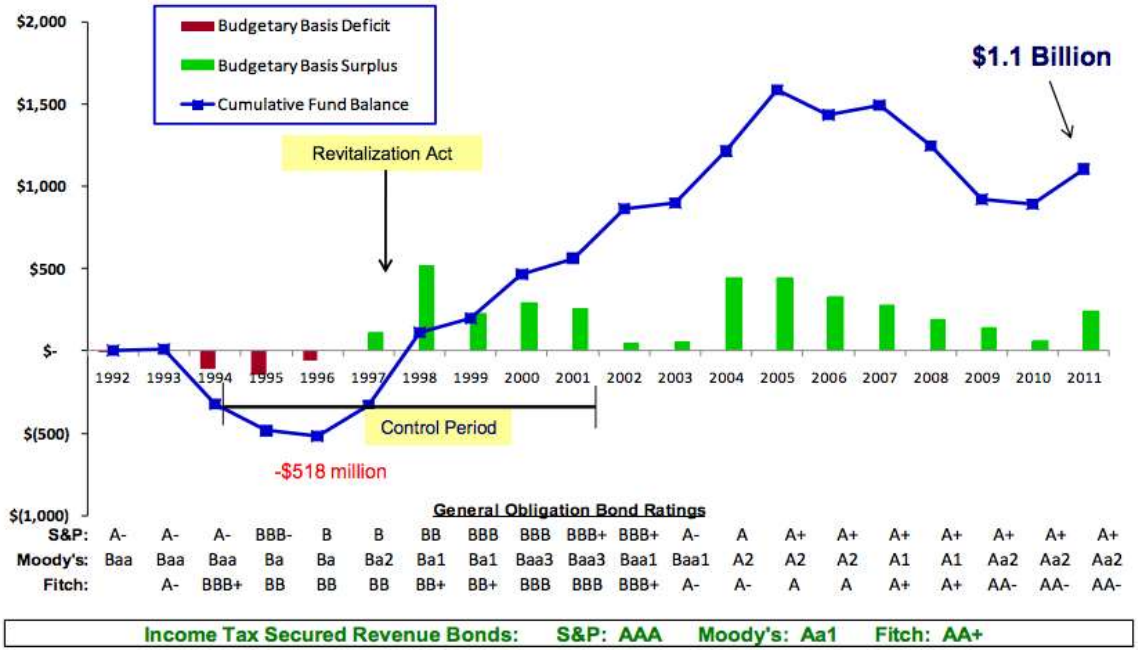
[2] Bouker, Jon. *Building the Best Capital City in the World: Appendix One: The D.C. Revitalization Act: History, Provisions, and Promises*. Publication. Washington, D.C.: DC Appleseed and Our Nation's Capital, 2008.

[3] "Roller Coaster Ride to Who Knows Where; It was a Year of Comings and Goings." The Washington Post. December 28, 1995.

[4] District of Columbia Financial Responsibility and Management Assistance Act of 1995, H.R. 1345, 104th Congress. (1995). http://thomas.loc.gov/cgi-bin/query/z?c104:h.r.1345.enr:.

state powers, but with state responsibilities (i.e. paying federal taxes).[5] As Control Board Vice Chairman Stephen Harlan put it then, it was a "relationship that has been from the start one-sided and sometimes arbitrary… Failure to reform this relationship is to condemn District citizens to perpetual second-class status." With bipartisan agreement, in 1997 Congress passed the National Capital Revitalization and Self-Government Improvement Act of 1997 to remove state-like functions from the District, such as pension liability and disproportionate share of Medicaid payments. Additionally, the Act provided for the federal government to take over the city's debts and responsibility for the city's courts and prisons. This Act did not address, however, limitations on revenue, such as the non-resident income tax ban, property tax exemptions or the federal height limitations on buildings.[6] The actions implemented lifted the District from a financial burden and paved the way for better spending, improvements in the credit rating, eventually achieving budget surpluses (see Figure 1).

Figure 1: District of Columbia Surplus and Bond Rating History, as of 2011



Source: District of Columbia Surplus and Bond Rating History Charts, February 1, 2012

[5] Preface – Control Board Report

[6] Bouker, Jon. *Building the Best Caputal City in the World: Appendix One: The D.C. Revitalization Act: History, Provisions, and Promises*. Publication. Washington, D.C.: DC Appleseed and Our Nation's Capital, 2008.

From 1990 and 1995, around 53,000 residents (representing 22,000 households) left the District.[7] The measures implemented by the Control Board successfully halted the massive exodus of residents and the population grew from around 567,000 in 1997 to 658,000 in 2014.[8] Long-term financial stability has been possible – in great part – by the appointment of an independent chief financial officer who cannot be fired easily and is required to oversee the city's finances. The District is also prohibited from borrowing to cover regular operating costs and very rigorous reserve requirements.[9]

Another key aspect of the revitalization of the District has been the influx of real-estate investment that has transformed the city landscape. The District's taxable property base totaled $43.2 billion in fiscal year 2001 (the final year of the Control Board). By fiscal year 2010, the city's taxable property base more than tripled to $150.1 billion. Moreover, the District was able to build a strong budget reserve of around $1.6 billion – more than a quarter of its yearly operating budget – by the end of fiscal year 2005.[10]

The Control Board's results were mostly positive for the nation's capital. In light of the recent developments in Puerto Rico regarding the imposition of a Fiscal Control Board for the island, it will be interesting to see how Puerto Rico's Board will relate to or differ from, DC's Control Board. There are similarities in terms of the limited political powers of both DC and Puerto Rico. However, Puerto Rico's size, status issue, and massive debt load are not comparable to that of the District of Columbia.

[7] Holmes, Steven A. & Michael Janofsky. "Trying to Fix Capital Where 'Everything is Broken." The New York Times. July 25, 1999.

[8] U.S. Census Bureau

[9] DeBonnis, Mike. "After 10 years, D.C. control board is gone but not forgotten." The Washington Post. January 20, 2011. http://www.washingtonpost.com/wp-dyn/content/article/2011/01/30/AR2011013003901.html

[10] Ibid