

Fitzroy Lee
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Government of the District of Columbia

TESTIMONY

I. Greetings, Introduction, Summary of Testimony

Good morning, Chairwoman Maloney, Ranking Member Comer and members of the House Committee on Oversight and Reform. I am Dr. Fitzroy Lee, Interim Chief Financial Officer of the District of Columbia. The Office of the Chief Financial Officer (OCFO) is an independent agency charged with ensuring the District's long-term financial health and viability. 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

Like many jurisdictions, the District of Columbia's economy faces challenges as a result of the COVID-19 public health emergency. The pandemic caused an estimated \$2.6 billion in lost revenues through 2025, hitting the District's budget as hard as any state. Through careful recession planning, prudent use of reserves to maintain operations, and responsible decision making by its elected leadership, the District has weathered this unprecedented financial challenge while still funding its budget priorities. The District of Columbia concluded the fiscal year that ended September 30, 2020 with a positive general fund balance exceeding \$3.2 billion and maintained its triple-A credit rating. This triple-A credit rating is an accomplishment achieved by only ten of the 25 largest cities and a rating higher than 32 other states. The bond rating is an important

indicator of the District's overall financial health and is testament to the sound financial management practices that have been established in law and continue to be enhanced by the OCFO, the District's elected leadership and key stakeholders.

The District's financial management 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 borrowing, and the best practice level of cash reserves. The District maintains 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 capital financial plan to bring all assets or infrastructure to a state of good repair by 2031. No other city or state in the United States has developed an implementable program to reach this goal. The District has also 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 24 consecutive years of clean audits as verified by independent auditors.

A common misperception is that the District is strictly a government town. In fact, only 25% of the workforce are federal government employees, down from 30% in 2010. From 2010 to 2019, while federal government employment declined by 15,000, private sector jobs grew by 95,000. The District and the Washington metropolitan area have developed into a vibrant and dynamic region with a diversifying economic base. Some of the fastest growing private sector industries over the last several years include professional and technical services as well as hospitality, sports, and entertainment. We are a destination where people choose to live, work and play, with five

major sports teams, world class restaurants, and thriving neighborhoods. The District's resident population has grown 25% over the last two decades and now stands at approximately 714,000, making it the 20th largest city according to the U.S. Census. This economic diversity increases our resilience and financial dexterity. As the District recovers from COVID-19, we expect that robust private sector growth will continue to anchor the District's solid economic performance.

III. Federal Government and the District Budget

In many respects, the District already functions as a state. The District collects personal and business income taxes, administers worker's compensation and unemployment insurance programs, and runs a Department of Motor Vehicles. In addition, the District funds and provides services to residents, businesses, commuters, and visitors, including police, fire and public works services, and it operates a K-12 school district, public university and a two-year community college. Prior to COVID-19, the daytime population would increase by over half a million people, including Virginia and Maryland commuters and domestic and foreign visitors.

Contrary to a widespread misconception, the District does not receive an annual payment to cover its operations. Over 75% of District revenue is generated from our local taxes and fees. The District's budget is comparable to other states in its reliance on federal dollars for Medicaid, education, other human services and transportation.

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 District's finances have proven resilient, even in the face of the global pandemic. The true financial impact of statehood will depend on policy decisions yet to be made by Congress and the newly-elected state government, as District

policymakers adopt future budgets to take over responsibilities that are currently under the federal government. 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. Due to prudent financial management, judicious use of our reserves, and precautionary recession planning, the District has been able to weather the COVID-19 storm and maintain vital services. Given its strong financial condition and established best practices, the District is more than capable of transitioning to statehood and will work with the federal government to ensure a smooth transition.

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.