THE CASE FOR A MORE FAIR AND PREDICTABLE FEDERAL PAYMENT FOR THE DISTRICT

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The DC Appleseed Center for Law and Justice is pleased to publish *The Case for a More Fair and Predictable Federal Payment for the District*, a proposal for an annual formula-based federal payment for the District of Columbia that would replace the present ad hoc lump sum payment.

The formula that we propose would, we believe, produce a federal payment fair to the District and its citizens and predictable by those who must budget the District's expenditures. The present ad hoc lump sum payment is neither fair nor predictable.

The proposed formula is logical and practical. It is keyed to the tax revenues that the District could raise for itself, but for the revenue-raising limits imposed upon this unique federal enclave.

DC Appleseed is a new public interest organization of lawyers and other professionals. It is one of a number of local centers started by The Appleseed Foundation. DC Appleseed is concentrating upon the performance and restructuring of the District Government. Its projects seek to improve the operation and reduce the cost of various agencies of the District Government.

DC Appleseed is grateful to the task force that prepared this report, co-chaired by Lawrence R. Walders, of Graham & James, and Bert T. Edwards, of Arthur Andersen & Co. The other members of the task force were Richard S. Toikka, of Graham & James; Sandra Bernhardt, of Arthur Andersen & Co.; John W. Hechinger, Sr., of The Hechinger Company; Alan Morrison, of Public Citizen; Matthew R. Nicely, of Willkie Farr & Gallagher; Linda Ranema, of Willkie Farr & Gallagher; and Gary Ratner, of the National Veterans Legal Services Project. All members of the task force served in a personal capacity and not as representatives of any organizations.

Richard J. Wertheimer
President
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EXECUTIVE SUMMARY

As District of Columbia officials, the new Financial Responsibility and Management Assistance Authority ("Control Board"), and Congress search for solutions to the District’s vexing financial problems, it is essential to bear in mind that a solution to the District’s financial problems requires attention to the District’s revenues as well as its expenditures. In this regard, the District of Columbia Appleseed Center for Law and Justice ("Appleseed") proposes that the Control Board and Congress seriously consider revamping the system by which the District’s "Federal Payment" is determined to achieve greater predictability and fairness.

We recognize that Appleseed is not the first organization to make such a proposal. The Rivlin Commission, McKinsey & Company/The Urban Institute, the Fair Budget Coalition, and the District’s own Department of Finance and Revenue, among others, have all pointed out inadequacies in the Federal Payment. We add our voice to the chorus in the hope that our different perspective and approach might focus attention on the problem and produce a new and creative solution. In bringing to light the unfairness and unpredictability of the current Federal Payment mechanism, as well as the history behind that mechanism, we hope this report will help ultimately to alleviate the District’s financial difficulties.

The crux of our position is that the current system by which the Federal Payment is decided is both unfair and unpredictable. The reason for the Federal Payment is clear: to reimburse the District for the costs associated with its role as
the seat of the Federal government and revenue lost as a result of Federal restrictions on revenue collections. In addition to expenses incurred simply by nature of its unique role -- including, among others, additional police and fire department services -- the District’s losses also include the revenues foregone due to Congressional limitations on the District’s taxing authority. This reality is acknowledged not only by those who advocate for an increase to the Federal Payment; it was also recognized by Congress in the legislative history supporting the District of Columbia Self-Government and Governmental Reorganization Act (the “Home Rule Act”) and the District of Columbia Budgetary Efficiency Act of 1991.

The problem is that, since passage of the Home Rule Act, the Federal Payment has never fully reflected the District’s legitimate needs it was meant to cover and has often been an unpredictable part of the District’s budgeting process. Although Congress in 1991 adopted a formula-based approach for the Federal Payment, that formula related the Federal Payment only to District local revenues. Thus, it bore no direct relationship to the costs or revenue losses the payment was meant to cover, and its use may have had the perverse effect of driving up District tax rates. In 1994, due to disagreements over the tax base to which the formula applied, Congress dropped the formula-based system and resorted to a lump sum payment that is neither predictable nor related to the District’s unique burdens.

Calculating a fair and predictable Federal Payment need not be a complicated endeavor. An exact calculation of the costs incurred by the District is
unnecessary. The District needs a payment that approximates its costs, not one that tracks those costs exactly. Based on Appleseed’s review of available estimates of the District’s lost revenue due to Federally-imposed restrictions, two primary sources of revenue loss appear more significant than the others: (1) the exemption from real estate taxes of a substantial percentage of the real property located in the District; and (2) the District’s inability to tax nonresident D.C. source income.

The Federal government requires the District to provide tax exemptions on certain kinds of property. For the District, this represents a significant loss of revenue. In 1994, tax exempt real property in the District represented 57 percent of the District’s land area. Forty-two percent of the District’s land area was exempt by virtue of its being owned by the Federal or foreign governments. This percentage is higher than the total for all exempt properties in most states. This should be part of the Federal Payment calculation mechanism.

The District is prohibited under the Home Rule Act from taxing the income earned within its borders by nonresidents, even by those who work for the District itself. This ban on a "commuter tax" deprives the District of a substantial portion of its potential revenue. Studies show that the District leads the nation in the percentage of income earned in the city by nonresidents -- nearly two of every three dollars earned in the District are earned by nonresidents. In those cities where the majority of city workers live in the suburbs, the earnings of these workers are taxed by the state and recycled to the city. Where cities lie close to
the borders of neighboring states, many cities have imposed a nonresident income
tax to mitigate the loss of revenue. The District has neither the benefit of recycled
state funds nor the ability to tax nonresident income. This loss should also be part
of the Federal Payment calculation.

Although the District is Congressionally required to forego other forms of
revenue as well, in order to simplify our proposed Federal Payment calculation,
Appleseed proposes to limit the calculation to these two significant components of
lost revenue. Thus, our proposed formula is based on the sum of (1) the estimated
real property tax loss due to the District’s inability to tax Federal and foreign
government-owned real property located within the District and (2) the estimated
income tax loss due to the District’s inability to tax District source income of
nonresidents. In short, we propose substituting "equity" for "charity."

For tax year 1995, Appleseed’s proposed formula, when applied to the best
available data, would produce a Federal Payment of $1.165 billion, $693.8 million
of which is based on lost property tax revenue and $471.4 million of which is
based on lost income tax revenue. While this would not fully cover the District’s
lost revenue, it would at least fairly relate to a portion of those losses and provide
predictability to the budget process -- neither of which is achieved under the
current system.

Appleseed does not contend that this proposal is the sole solution. It is,
however, a first step. Our proposal, and future refinements to it, should provide
the District with a reliable and predictable Federal Payment that at least partially
compensates for federally imposed restrictions on the District's revenue sources.

Such a payment should enable the District to better approximate its revenue needs, and hopefully, by improving the District's financial situation, encourage citizens to remain in or move to the District, and promote economic growth.
I. INTRODUCTION

The current fiscal crisis in the District of Columbia -- culminating in May 1995 with the Federal appointment of a Control Board\(^1\) -- should lead to a thorough examination of both the District's spending and its revenues. It would be unfair to the citizens of the District and ultimately unproductive for all concerned, to consider only the District's spending problems. Its revenue problems are serious, particularly in light of the District's unique position as the seat of the Federal government. Although the District's population may be above average in wealth and education\(^2\), these favorable attributes do not offset the burden placed on the District by Congressionally-mandated restrictions on its revenue sources and by its multiple roles of city, county and state without the revenue sources typically available to pay for services provided.

\(^1\) District of Columbia Financial Responsibility and Management Assistance Act of 1995, P.L. 104-8 (1995) establishes a Presidentially-appointed five-person Financial Responsibility and Management Assistance Authority, commonly referred to as the "Control Board," with broad powers to assist the District of Columbia in addressing its pressing fiscal problems. Earlier, during 1976-80, the District had a similar mechanism of more narrow scope, the Temporary Commission on Financial Oversight of the District of Columbia, whose responsibility under P.L. 94-399 (1976), was to install accounting and financial management systems to permit the District to prepare timely and accurate internal financial and management data, and to permit an independent audit of external financial statements prepared under generally accepted accounting principles.

We recognize that the issues of fiscal management and the appropriate level of spending by the District government are important, but they are beyond the scope of this report. Our premise is that the District deserves a Federal Payment that compensates for the revenue lost as a result of its unique status and tax limitations, without which even the best managed and prudent government would labor under a severe burden.

II. HISTORICAL SUPPORT FOR A FAIR, PREDICTABLE FEDERAL PAYMENT

The Federal government has made contributions to the District of Columbia's operating budget since before Washington was established as the Nation's Capital in 1800. Until 1878 the Federal contribution to support local government operations, when made, was negotiated on an ad hoc basis. Apparently, Federal Payments were made in 12 of the years between 1790 and 1822, and in every year between 1823 and 1876. The Federal Payment averaged almost 40 percent of local government costs during the period 1790 to 1878.

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During the 1870s, there was active debate over the appropriate fiscal relationship between the Federal government and the District. In June 1874, the House Committee on the Judiciary recommended (in the "Poland Report") that a regular and predictable Federal contribution should be at least 50 percent of local expenditures. In December 1874, the Joint Select Committee on the Affairs of the District of Columbia concluded (in the "Morrell Report") that the proportion of local expenditures that ought to be borne by the Federal government was "not deemed susceptible to exact determination." Instead, the Committee proposed that an annual Federal Payment be made to balance the approved budget after the inclusion of locally raised revenues collected in taxes and fees set at rates comparable with those prevailing in other communities.

In the Organic Act of 1878, Congress established a commission form of government for the District of Columbia. As part of this arrangement, Congress agreed to pay each year 50 percent of the expenditures of the local government. This arrangement lasted until 1921, when the payment percentage was reduced to 40 percent. Since Congress fully controlled the District’s budget, with no semblance of local control, the percentage figure had been in fact more symbolic than real since the payment was subject to being cut if Congress approved lower spending. Beginning in 1925, all semblance of a predictable formula-based payment was abandoned, and the Federal Payment came to be negotiated in a lump sum.
During Home Rule deliberations in 1972-73, there was renewed debate as to whether the amount of the Federal Payment to the District should be determined by negotiations or by some predictable formula. The 1972 Report of the Commission of the Government of the District of Columbia (the "Nelsen Commission") concluded that there is no objective mathematically precise formula for computing an appropriate level of the Federal Payment. However, the Nelsen Report observed that "the Federal Payment . . . will continue to represent a kind of equilibrium, balancing extraordinary net benefits of the Federal presence with extraordinary net costs . . . ."

In 1973, the Senate passed a bill that would have provided for a Federal Payment equal to 37.5 percent of the District's own revenue for fiscal year 1974, with the percentage rising to 40 percent for subsequent years. The House rejected the notion of a payment formula, however, and opted instead for specific dollar authorizations for fiscal year 1975 and every year thereafter.

Congress nonetheless required Home Rule Act that, as part of the budget preparation process, the Mayor must identify the elements of costs and benefits to the District "which result from the unusual role of the District as the Nation's Capital." In particular, to the extent feasible, the Mayor is required to consider the following:

1. Revenues unobtainable because of the relative lack of taxable commercial and industrial property;

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2. Revenues unobtainable because of the relative lack of taxable business income;

3. Potential revenues that would be realized if exemptions from District taxes were eliminated;

4. Net cost, if any, after considering other compensation for tax base deficiencies and direct and indirect taxes paid, of providing services to tax-exempt non-profit organizations and corporate offices doing business only with the Federal government;

5. Recurring and non-recurring costs of unreimbursed services to the Federal government;

6. Other expenditure requirements placed on the District by the Federal government which are unique to the District;

7. Benefits of Federal grants-in-aid relative to aid given to other States and local governments;

8. Recurring and non-recurring costs of unreimbursed services rendered the District by the Federal government; and

9. Relative tax burden on District residents compared to that of residents in other jurisdictions in the Washington, D.C., metropolitan area and in other cities of comparable size.\(^5\)

In 1991, a formula-based Federal Payment was established by the District of Columbia Budgetary Efficiency Act of 1991.\(^6\) A conceptual basis for the Federal Payment was set forth in the House Committee Report. The Committee noted that, due to four extraordinary factors, the costs placed on the District by the Federal presence are not completely offset by special benefits, such as a strong

\(^5\) *Id.*

\(^6\) *P.L. 102-102 (1991).*
tourism industry and the attraction of companies and individuals doing business with the Federal government. These extraordinary factors were identified as: (1) Congress' unwillingness to allow the District to impose a reciprocal non-resident income tax with neighboring jurisdictions, (2) Congress' limitation on the height of buildings in the District to a level far below that in adjacent jurisdictions, which has reduced the value of commercial and high density residential property, (3) the presence of parks, monuments, Federal buildings, foreign embassies, and other tax-exempt property in the District, which has reduced its tax base, and (4) numerous recurring and non-recurring extraordinary expenses caused by the presence of the Federal government such as parades, demonstrations, and other planned and unplanned events.

The House Committee considered it desirable to establish a formula-based Federal Payment to eliminate the uncertainty it believed was impeding the District's budgetary process and causing a lower bond rating. The Committee also noted that, since Home Rule had been instituted in 1975, the Federal Payment had constituted a decreasing share of the District's budget. Apparently concerned that increasing local revenues might be used as a justification for a reduction in the Federal Payment, and wanting to provide an incentive for the District to continue to raise local revenues, Congress established a payment formula authorizing the Federal Payment for fiscal years 1993, 1994 and 1995 at a level equal to 24 percent of audited District non-Federal revenues for the fiscal year two years prior. The Committee was apparently influenced by the Rivlin Commission Report which
recommended a Federal Payment formula of 30 percent of similarly computed local revenues.

However, in the Federal Payment Reauthorization Act of 1994, Congress declined to continue using the 24 percent formula. Appleseed's conversations with District officials indicate that, while the 24 percent factor was clear, the definition of "District revenues" was a very disputed base. The District believed the base was General Fund revenues, together with certain other revenues such as the Water and Sewer Fund, based on the second preceding year's audited financial data. However, the U.S. General Accounting Office, which was asked to review P.L. 102-102, concluded that "District revenues" excluded any Federal-source revenues arising in the ordinary course of business, e.g., Federal facilities' use of water and sewer service, Federal tuition paid to the D.C. Schools for the Capital Page School, etc. As a result, Congress "simplified" the Federal Payment during the three "test years" to a negotiated basis, settling at the 1995 appropriation level of $660 million.\(^7\) Congress postponed to another day consideration of a revised formula, citing the need to better understand the actual state of the District's financial conditions.\(^8\) Meanwhile, the nexus between the Federal Payment and the purpose for which it was devised has disappeared.


\(^8\) See id. at 11; see also id. at 7 (District Delegate Eleanor Holmes Norton indicated that, because the formula had not worked as expected, methods for recalculating the payment should be considered).
As can be seen from the data in Exhibit 2 to this report, since 1984 the Federal Payment has declined as a percentage of District expenditures. The current percentage remains substantially below prior historical levels (e.g., 50 percent in the 19th and early 20th centuries, 40 percent in the 1920’s). Despite the growth of legitimate revenue needs, the Federal Payment has become relatively smaller and smaller. Unless this trend is reversed, the District faces a very troubled and uncertain financial future.

Notwithstanding the documented historical purpose of the Federal Payment -- to reimburse the District for Federally-imposed revenue restrictions and the unusual costs associated with its role as the Nation’s Capital -- Congress continues to apply either an arbitrary formula based on a percentage of local revenues, or worse, determine the Federal Payment as an arbitrary lump sum. Neither approach is sufficient; neither is predictable; neither is fair. Congress should consider a new approach. Before addressing our proposal for a new approach, we provide in Section III a more complete discussion of the limitations on the District’s revenue stream.

III. THE LIMITATIONS ON DISTRICT REVENUES

The four major sources of revenue for the District are real estate taxes, income taxes, sales taxes, and the Federal Payment. Because the District has no state government to turn to for financial support typically provided by state or county governments, and because it provides many functions normally funded by state governments, the District’s tax rates are higher than most other cities its
size. Whereas most cities depend on local sources of revenue for only 15 percent of their total revenue -- receiving the rest from state and county support (either in the form of revenues or, more likely, services) -- well over half of the District's revenues are dependent upon local income, sales, and real estate taxes.\textsuperscript{9}

Another reason for the District's high taxes is that the Federal Payment does not adequately reimburse the District for the local tax limitations imposed by Congress. Indeed, through Federally-mandated restrictions and limitations, Congress itself has reduced the District's ability to raise revenue. The wide variety of exempted entities and individuals is a major reason for the District's financial problems. As of February 1995, the records of the District of Columbia Department of Finance and Revenue show that the District is host to 9,052 properties exempt from real estate tax, including 3,922 that are Federally-owned and 580 that are owned by foreign governments. The records also indicate that, within the District, there are 5,698 entities exempt from the personal property tax, 5,659 exempt from the franchise (corporate income) tax, and 5,945 entities exempt from the sales tax, including 294 Federal agencies and 173 foreign embassies.\textsuperscript{10} Furthermore, approximately 437,000 persons employed by District-based employers are non-residents and thus exempt from the District's individual income tax (including 54.3 percent of those persons employed by the District

\textsuperscript{9} McKinsey Report at 5 and Exhibit 7.

It is ironic that the District cannot even tax the wages and salaries it pays to many of its own employees.

These Federal tax limitations are in place because, as the Nation’s Capital, the District must be host to certain activities which serve and benefit the Nation. However, the resultant revenue losses borne by the District are not being sufficiently reimbursed. Most of these tax-exempt entities are receiving benefits at the expense of the District and its resident citizenry with little or no cost to these recipients.

The balance of this section discusses the major sources of income of which the District is effectively deprived, and provides justification for a more fair, predictable, and rational Federal Payment.

A. Real Property Tax

Most cities and states, the District included, have several categories of tax-exempt real properties. These include churches, schools, charities, educational institutions, and government-owned land, together with improvements thereon. The District, however, is unusual in the remarkably high concentration of tax-exempt land and buildings it contains. For example, in 1994, tax-exempt real property represented 57 percent (by land area) and 41 percent (by the District’s estimate of value) of all real property in the District.12 The major component of

11 Department of Finance Report at 14-15 and Appendix C thereto.

exempt real property in the District is property owned by the Federal and foreign
governments, representing 42 percent (by land area) and 27 percent (by value) of
all the property in the District.\textsuperscript{13} This percentage is higher than the total for all
exempt properties, not just Federally-owned properties, in many states.\textsuperscript{14}

Real property exemptions are provided either directly or indirectly. Direct
property exemptions are the largest category of property tax exemptions in the
District. Property which is government-owned (Federal or foreign), religious,
educational, charitable, hospitals and cemeteries fall within this category. Indirect
property exemptions are provided to for-profit entities which lease space in a tax-
exempt property. Specific examples of this latter category in the District are Union
Station, the Post Office Pavilion, and the proposed Sports Arena.\textsuperscript{15}

The direct property exemptions awarded to the Federal and foreign
governments are unusually high. Consequently, there is a very large amount of
property which the District is prohibited from assessing and taxing. The ensuing

\begin{flushright}
\textsuperscript{13} See id.
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\textsuperscript{14} The Federal government makes payments to local governments under the
Payments in Lieu of Taxes Act of 1976. See BLM News (Sept. 27, 1994). However,
these are limited to payments for tax-exempt Federal land administered
by the United States Departments of the Interior and Agriculture, Forest Service,
National Park Service, Fish and Wildlife Service, Federal water projects and some
military installations. Id. The District’s needs are not met by this program, as is
indicated by the fact that for fiscal year 1994, it received only $49,513 through
this program. See id.
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\textsuperscript{15} There are also personal property exemptions for personal property owned or
leased by the Federal government. However, estimates of revenue loss from these
exemptions are small compared to that from the real property exemptions. See
Department of Finance Report at 22.
\end{flushright}
revenue loss is substantial, amounting, by the District government's estimate, to $586.2 million for tax year 1995 for tax exemptions to Federal and foreign government-owned real property alone. As shown in Section IV, infra, this estimate may be conservative in part perhaps because of the District's admittedly poor appraisal calculations. And for the commercial property that is taxable, the Federally-imposed height restriction on all buildings makes the land less valuable and thus reduces the taxes that are generated.

B. Income Tax

As stated above, approximately 437,000 non-residents commute to work in the District from Maryland and Virginia. In those cities where the majority of the city workers live in the suburbs, the earnings of the workers are taxed by the state and recycled to the city. In some metropolitan cities, as much as 75 percent of the financing is in the form of state aid. Likewise, cities whose borders lie close to neighboring states have imposed nonresident or commuter taxes to mitigate the loss of this revenue. Alternatively, some states have reciprocity

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16 See Department of Finance Report at 10 (table).

17 See id. at 11.


19 The Department of Finance Report (at 16-17) indicates that 45 states require withholding of non-resident earnings and that local jurisdictions in at least 16 states have the opportunity to assess an income tax or payroll tax against nonresidents. Most foreign countries also impose taxes on non-resident, non-citizens given for their income that is earned within the foreign countries' borders. The average nonresident income tax in the U.S. is about 2 percent. See McKinsey Report at Exhibit 11.
agreements in which the states themselves determine revenue foregone to another state and then settle the net obligation between themselves.\textsuperscript{20} Under such circumstances, migration of the city-based employees to the suburbs or across state lines does not necessarily cripple other cities' fiscal capacity.

The District, however, is prohibited from taxing the income earned within its borders by nonresidents under section 602(a)(5) of the Home Rule Act. The Home Rule Act states that the Council may \textit{not} "impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District." This Congressional ban on taxing the income of nonresidents -- often referred to as a "commuter tax" -- deprives the District of a substantial portion of its potential income taxes. It is important to note that no other jurisdiction has such a tax limitation imposed on it and that most states with personal income taxes levy taxes on nonresidents working within the state.

The District, therefore, is a city without access to the tax base of its workers who reside in the surrounding suburbs. This is further exacerbated by the fact that the District's population -- particularly middle income and high income members of the population -- has been in significant and unusual decline for the last 25 years, with migration to the Maryland and Virginia suburbs.\textsuperscript{21} Despite the steady decline in the District's population, the District continues to be the chief

\textsuperscript{20} \textit{See Department of Finance Report} at 16.

\textsuperscript{21} \textit{See Department of Finance Report} at 2; \textit{see also McKinsey Report} at 5.
source of jobs in the entire Washington Metropolitan area. Studies show that the District leads the nation in the percentage of income earned in the city by nonresidents -- nearly two of every three dollars earned in the District (64%) are earned by nonresidents.

As a result of these trends in residence and employment, the District has an extraordinarily high imbalance between the number of people working within, and those living within, its boundaries. Yet, the District does not have the benefit of a central state government to transfer otherwise lost funds into the city’s revenues. The migration of the city’s middle class and the resultant diminished tax base is not offset by a flow of revenue from any state or county governmental entity.

The costs associated with the daily onslaught of the commuting workforce cannot be understated. The District and its citizenry bear the burden of increased congestion, traffic, pollution, damaged roads, inadequate parking caused by the commuters, and building and maintenance of all bridges between Virginia and the District. In fact, because there is no commuter tax to offset the cost of the services provided by the District to commuters or the burden imposed on District

22 Studies show that, compared to jurisdictions such as Fairfax, Montgomery, Prince George’s, and Arlington Counties and the City of Alexandria, the District of Columbia had the highest employment in 1993. See McKinsey Report at 6 and Exhibit 9.


24 McKinsey Report at 6 and Appendix E thereto.
residents, the District is increasingly disadvantaged in its ability to provide local services.

The Federal prohibition against a District commuter tax results in an estimated revenue loss, at current District income tax rates, of $1.18 and $1.21 billion for fiscal years 1994 and 1995, respectively. The typical commuter tax rate of 2 percent, the loss amounts to $457.7 and $471.4 million for fiscal years 1994 and 1995, respectively. The District is, in turn, compelled to raise revenue by taxing its own citizenry at a higher rate to enable it to provide basic city services. The higher tax rates suffered by the District residents contributes to an ever-increasing flight of the middle and upper income classes to the suburbs, which in turn forces the District to cut services or raise tax rates.

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25 This estimate is developed using data on earnings of nonresidents, on journey-to-work patterns in the Washington Metropolitan Area, and on the income distribution of income taxpayers in surrounding jurisdictions. See Department of Finance Report at 14-15 and Appendix C. The numbers reported in the text were derived from the projections on page 17 of Appendix C, by which the tax base was assumed to grow at 3 percent per year from 1992.

26 The United States Advisory Commission on Intergovernmental Relations has estimated based on a sample of cities whose borders lie close to neighboring states that the average commuter tax is about 2 percent. See McKinsey Report at Exhibit 11.

27 These figures are derived as two-thirds of the estimates presented in Appendix C to the Department of Finance Report which utilized a 3 percent tax rate.

28 See Exhibit 1 to this report (showing that the taxes imposed by the District are the third highest in the United States); see also McKinsey Report at Exhibit 16.
C. Sales Tax

Most states provide sales tax exemptions for certain types of products and/or to certain classes of buyers. In addition to the sales tax exemption for certain products, the District is obliged by Congress to provide sales tax exemptions for certain categories of sellers or buyers. Examples of exempt buyers are the U.S., foreign, international, and District governments, states which exempt the District from their own sales taxes, semi-public institutions which have received an exemption entitlement, and state or local tax administration associations. Frequently, such exemptions apply to other taxes such as alcoholic, beverages, gasoline and petroleum, and similar transaction taxes.

Thus, sales made to any foreign embassies or diplomats located within the District are exempted from sales tax payments. Sales made by Federal entities, such as the Smithsonian Institution, the National Gallery, the Kennedy Center, the National Air and Space Museum, and all purchases made by the Federal government and military personnel in the District, are also exempted. In 1993, Federal government purchases alone accounted for nearly $4 million in exempt sales taxes.\(^{29}\) Moreover, sales tax exemptions for military personnel are estimated to reduce District revenues by $10.9 million annually.\(^{30}\) Thus, because

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\(^{30}\) *Department of Finance Report* at 25.
of the high concentration of sales tax-exempt entities in the area, the District foregoes a substantial amount of revenue.

Finally, the District has experienced a steady decline in its sales tax base as a result of the expansion of retail developments in the city's suburbs which are able to provide the District and suburban residents with more spacious and attractive shopping centers with adequate and inexpensive parking. The District, in contrast, can only provide shoppers with increasing traffic congestion, high parking fees and limited parking space.31 The retail development in the suburbs is further advanced by the middle-class flight phenomenon. Because there is no state income tax to recycle lost sales tax income to the District, the steady loss in sales tax revenue due to changing demographics shows no signs of reversing.

D. Franchise (Corporate Income) Tax

The District, like other jurisdictions, is Congressionally prohibited from taxing the income of government-sponsored entities such as Fannie Mae, Sallie Mae, and Freddie Mac. However, because Fannie Mae and Sallie Mae are headquartered in the District, the inability to tax these very profitable corporations has a particularly strong impact on the District. It is estimated that Fannie Mae’s $3 billion net income would yield $300 million in revenue if taxed at state and local levels, a large portion of which would accrue to the District, where it is headquartered.

31 According to the McKinsey Report, in 1992 and 1993, the District added 29,000 square feet of new retail space, in contrast to Virginia suburbs which added 5.8 million square feet and the Maryland suburbs which added 2.6 million square feet. See McKinsey Report at Exhibit 15.
E. Federal Payment as a Restricted Source of Revenue

As discussed above, a major but restricted and declining component of District revenues has been the Federal Payment. In addition to reimbursing the District for foregone tax revenue, the purpose of the payment is also to cover the costs associated with the District's role as the seat of the Federal government. The Federal presence requires that the District bear certain unreimbursed costs not borne by other cities, such as extraordinary security and ceremonial functions. These costs should also be considered a factor in determining the significance of and necessity for an adequate Federal Payment. However, these costs and revenue losses are not fully reflected in the Federal Payment as it is currently determined.

F. Summary

The District is saddled with a real property base hamstrung by Federal ownership or Federally-imposed tax exemptions. As the middle-class increasingly migrates to the suburbs, the District is also faced with a concomitant loss of income tax and sales tax revenues because there are no state income tax revenues to be recycled to the District. Finally, because of the Federal presence, the District bears costs for which it receives no compensation.

Without an adequate Federal Payment to cover these externally imposed fiscal burdens, the only mechanism available to the District is to increase its citizens' taxes. However, given the adverse effect a tax increase would have on perpetuating the flight of the middle class, the District cannot be expected to
achieve and maintain a balanced budget simply by raising taxes. Doing so would increase middle class flight and perpetuate the downward spiral of the District’s financial crisis.

The Federal Payment has become a source of funding on which the District cannot rely and which, in reality, no longer serves the purpose for which it was originally intended. In order to achieve its purpose, the concept and calculation of the Federal Payment need to be reconsidered. It should not be viewed as a "contribution" or "gift" from the Federal government. It is funding to which the District is justifiably entitled. The Federal Payment should reflect the economic reality of the effect of the Federal presence on lost property taxes and sales taxes, increased local costs, the Congressional legislation prohibiting the District’s ability to collect income tax revenue from non-residents, and the fact that the District does not have the financial support of a state or county government. It must also take into account in some way the benefits that accrue to the District from being the Nation’s Capital, however difficult these may be to quantify. Lastly, the Federal Payment must provide a predictable source of revenue for the District, enabling it to manage its budget properly.

In the section that follows, Appleseed proposes a fair, predictable, and practical approach to the District’s Federal Payment. While this new approach does not cover all of the sources of lost revenue discussed above, it covers the most significant sources. In our view, those omitted areas may be offset by what others see as benefits to the District, and the size of the revenue loss, even
without them, is so significant that we need go no further. Perhaps, most importantly, our approach can be applied *simply* and *predictably*.

IV. PROPOSAL

A Federal Payment based on an objective, simple and principled formula has a number of advantages. First, it would provide the District with a predictable amount of revenue, aiding in its budgeting and long term fiscal planning and bolstering its bond ratings. Second, it would free Congress, the District, and others from devoting time, energy and resources to an unnecessary annual process of negotiating a lump sum payment. Third, a formula reflecting only true relative costs imposed on the District by the presence of the Federal government and Federally-imposed restrictions on the District’s taxing ability should result in a rationally based and equitable sharing of the tax burden between residents of the District and of other jurisdictions. Fourth, by providing a permanent, albeit partial, remedy for the District’s fiscal ills, it should assist in restoring the District to its proper role as a viable city befitting its position as the Nation’s Capital.

Although Congress in 1991 briefly adopted a formula relating the Federal Payment proportionately to District local revenues, that formula is not the best approach for several reasons. First, making the Federal Payment directly proportional to the level of District-generated revenue has a perverse effect -- the lower the District’s revenues are (for reasons beyond its control) and therefore the

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more Federal Payment it needs, the less the District will get; conversely, the higher
the District’s revenues are, and therefore, the less total Federal Payment it will
need, the more it will get.\textsuperscript{33} Second, by rewarding the District with a higher
Federal Payment for the more local revenue, the current scheme creates an
incentive for the city to increase its taxes on its own residents. But, in fact, it
appears that District residents are already paying disproportionately high combined
"state and local taxes" compared to residents of other states. These excessive
District tax rates are one factor influencing District residents to flee from the city
to Maryland and Virginia, thereby further eroding the District’s tax base and
weakening its viability. Third, the level of Federal Payment generated by this
formula is arbitrary, i.e., it bears no rational relationship to either the value of the
services which the District provides to the Federal government or to replacing the
amount of income, property and sales tax revenue which Congress prohibits the
city from collecting.

\textsuperscript{33} It has been suggested that the Federal Payment should be directly related to
the level of local revenues to give the District an incentive to contribute to its own
budget. However, if this reflects a concern that the District government would
lower its taxes in response to a Federal Payment, this concern is misplaced and
unfair, because District residents are currently overtaxed, in part because of the
revenue restrictions Congress places on the District’s government. Indeed, to
courage current residents not to flee the city and to encourage others to move in, the District should be encouraged to reduce its tax rates to the levels in other
jurisdictions. Moreover, any concern about the District not contributing its fair
share of revenues would be better addressed by putting a floor under the District’s
tax rates rather than by including local revenues in the formula for the Federal
Payment.
Instead of setting the Federal Payment at an arbitrary percentage of local District revenues, Appleseed proposes instead to relate the payment to measurable components of the revenue sources the District forgoes as a result of Federal restrictions. The two components in this formula, as described below, would be based upon measures of (1) the extent of real property located within the District which is exempt from taxes because it is owned by Federal or foreign governments and (2) the District source income of non-residents who work in the District.

A. Revenue Loss From Tax-Exempt Federal and International Real Property

The first element in our proposed Federal Payment formula is based on two readily measurable components. First, using data on the District’s actual tax assessments for its taxable real property and the total acreage of such property, we compute a measure of property tax per acre. Then, this rate is multiplied by the total acreage of Federal and foreign government-owned real property exempt from District tax. Based on 1994 data from the D.C. Department of Revenue and Finance, there were approximately 12,940 acres of D.C. property subject to tax, while there were approximately 12,341 acres of Federally-owned property and approximately 286 acres of foreign government-owned property which were exempt. The taxes assessed in 1994 on D.C. taxable property totalled $742,562,316, or approximately $57,385 per acre. The District’s current estimates of assessed real property taxes for 1995 is lower at approximately $711
million\textsuperscript{34}, or approximately $54,946 per acre, due to reduced assessed value of
the real property. If the property owned by Federal and foreign governments
yielded tax on the same basis, the amount of revenue foregone by the District by
not having these sources available would be $724,600,395 for 1994 and
$693,803,142 for 1995.

This computation is simple and based on readily verifiable data available on
an annual basis. It also avoids recognized problems in estimating the value of
property which is exempt from D.C. taxes. For example, the D.C. government
currently lacks the resources to assess the value of exempt property reliably.\textsuperscript{35}
There is also inherent difficulty in valuing certain unique government property, e.g.,
the Capitol, the Mall, the Lincoln Memorial, etc. Moreover, because the land area
ratio employed is not likely to change much from year to year, we submit that this
component is fairly predictable.

This methodology is not offered as the last word on the subject, but merely
as a long overdue badly needed first step. We believe that, over time and with
appropriate study, refinements may improve the methodology.\textsuperscript{36} For example,
we note that the District’s Department of Finance and Revenue has estimated the

\textsuperscript{34} This figure was provided to Appleseed by Dr. Julia Friedman of the District’s
Department of Revenue and Finance.

\textsuperscript{35} See Department of Finance Report at 11.

\textsuperscript{36} For example, it may be possible to sharpen the estimate by applying our
methodology separately by category of property and then aggregating the resulting
estimates. Also, additional measures such as square feet of occupancy or an index
of utilization might be added to the calculation.
real property tax revenue loss from Federal and foreign government-owned property exemptions to be about $470 million for 1994 and about $586 million for 1995, basing its determination on specified valuations for properties not paying taxes.\textsuperscript{37} Appleseed has not had access to the District's data and methodology, and so we cannot determine how the District arrived at a value for unique Federal properties such as the Capitol or Mall. In the absence of any reliable basis to make that determination, we have decided to use a more objective and predictable method, \textit{i.e.}, measurement of the area of the Federal and international land rather than the valuation of the land and the structures.

Notwithstanding the possibility of improvement later, we propose that the aggregate land area ratio approach is a reasonable first step to be adopted pending future refinements in this formula component.

\textbf{B. Revenue Loss From Restrictions On Taxing Income Of Non-Residents}

The second component in our proposed formula is based on revenue foregone by the District because of Federally-imposed restrictions on its ability to tax the income of non-residents. Unlike our proposed measurement of property tax loss, for which it was possible to devise a simple objective calculation based on a relatively unchanging ratio of land areas, the measurement of income tax loss is somewhat more elusive, but certainly no less important.

\textsuperscript{37} See Table 5, 1994 Assessments (Exhibit 2 hereto) and Department of Finance Report at 10 (table). The 1994 figure is based on all exempt property being assessed at the Class 4 commercial property rate. The 1995 figure in the Department of Finance Report is based on the actual assessments conducted by D.C. Department of Finance and Revenue assessors.
The U.S. Commerce Department "Journey To Work" data are apparently the best available on the number of persons who commute to work in the District from Maryland and Virginia. The reported sample data include the number (but not income) of people who work in the District and reside in nearby areas in Virginia and Maryland. Although the reported data do not include the income of these commuters, estimates of their taxable income can be obtained by assuming the distribution of taxable income for the commuters is the same as for other residents of those areas as reflected in state tax returns. On this basis, the District of Columbia Department of Finance and Revenue has estimated that the net income tax revenue loss for 1995 (at current full D.C. tax rates) would be approximately $1.2 billion. Although Appleseed respects this methodology, we believe that an estimate based on a lower 2 percent tax rate is more appropriate as a basis for the Federal Payment than an estimate based on actual District income tax rates because commuter income taxes, where they exist, are typically imposed at a rate lower than the jurisdiction’s resident income tax rate, and average around 2 percent. Accordingly, while we base our estimate of income tax revenue loss on the same projected commuter income data used by the D.C. Department of Finance and Revenue, we would apply the typical commuter tax rate of 2 percent rather than current District income tax rates. Under this revised methodology, the

38 See Department of Finance Report at 14-15 and Appendix C thereto.

39 See supra note 26.
income tax revenue loss is estimated to be $457.7 million for 1994 and $471.4 million for 1995.

This second component in our proposed formula is not as simple to calculate as the first, involving as it does projections forward in time from Census data on commuting patterns. However, our proposed approach is based on the best available data and reasonable assumptions. Unless and until a better methodology and/or better data become available, we believe our approach should be used in the formula for the Federal Payment as a good proxy for foregone income tax revenue. 40

C. Combining The Two Components

As set forth above, our proposed formula would estimate the Federal Payment based on an objective and readily-computable estimate of revenue lost because of (1) the presence in the District of property owned by the Federal government or foreign governments and (2) restrictions on the District government’s ability to tax the District source income of non-residents. Under our proposal the Federal Payment would be computed by summing the estimated real property tax loss (e.g., $693.8 million projected for 1995) and the estimated income tax loss (e.g., $471.4 million projected for 1995). On this basis, the formula-based Federal Payment would be approximately $1.165 billion for 1995. This compares with the $660 million actually authorized to be appropriated.

40 Appleseed would support further study of this issue, possibly by an independent commission, which could recommend refinements or improvements in the methodology and/or data.
We do not contend that our proposed formula is inherently superior to all others, or free from difficulties and/or objections. But we do contend that, unlike the current approach to setting the Federal Payment, it is reasonable, fair, and objective. Because it relates the Federal Payment amount to two major components of the revenue losses caused by Federal restrictions on the District’s ability to raise revenue, it is rationally related to the principal purpose of the Federal Payment.

This proposed Federal Payment formula and any future refinements to the formula might enable the District to reduce the disproportionately high taxes it currently imposes on its residents, or at least not increase them further, and thereby encourage current residents to remain and others to move in. It would also remove the perverse effect of the most recently used formula based only on local District tax revenue by guaranteeing the city the level of Federal Payment it actually needs.

D. Integration With The District’s Budgeting Process

The Federal Payment based on our formula would greatly exceed the current Federal Payment and also exceed the amount necessary to close the current District budget deficit. In the absence of lowered tax rates on District residents or property, it may also produce a budget surplus.41 The Congress, anticipating the prospect of a District budget surplus, may be inclined not to appropriate the full

41 If the District were to respond to this by increasing expenditures beyond what is appropriate, Appleseed believes that the Control Board and Congress are capable of preventing any unwarranted increase in expenditures by the District.
amount of the formula-based payment. This would be unfair and inequitable and would at least in part defeat the purpose of a formula-based payment. Even then, the formula would still not be useless or irrelevant. Instead, it would be like an authorization for a Federal agency -- a target around which planning would occur. But it should be more than that since the Federal Payment is not a "gift," but a replacement of revenue that the Federal government has, in effect, taken away from the District.

To deter Congress from reducing the Federal Payment in anticipation of a budget surplus, we advocate a mechanism that would more equitably reduce the Federal Payment in the event of an actual budget surplus. We propose that in the event of an actual surplus, the Federal government should be given a credit to be offset against the subsequent year's Federal Payment amount. To be fair, the credit should bear the same proportionate relationship to the actual surplus that the Federal Payment bears to total District revenues. This would leave part of the surplus to fund either future District expenditures or tax relief, as the local authorities see fit, and yet also rebate to the Federal government its equitable share of the surplus.

An illustration may be helpful. Suppose that the District government passes a budget with total expenses of $3 billion and that Congress agrees with that spending figure. Suppose that, on the revenue side, District income and property taxes would total $1.4 billion, other receipts/taxes another $800 million, and the Federal Payment under our formula would be $1.1 billion, for a total of $3.3 billion.
Thus, revenue exceeds expenses by $300 million. Since the Federal Payment contributed one-third of total revenue, the Federal government's credit would be one-third of the surplus, or $100 million. This credit would be used to reduce the subsequent year's Federal Payment.

This credit proposal is fair to the Federal government and also consistent with the principles of Home Rule. The Federal government through the credit would receive its fair share of any budget surplus and the local authorities would decide how to deal with the remaining surplus.
REFERENCES


6. KPMG Peat Marwick, "Federal Payment" (June 1990).


EXHIBIT 1
<table>
<thead>
<tr>
<th>J.S.</th>
<th>Total</th>
<th>Federal</th>
<th>State/Local</th>
<th>Per Capita Income (NNP)</th>
<th>Total as a Percent of Income</th>
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Source: Tax Foundation. Note: Totals may not add up to rounding.
EXHIBIT 2
## EXHIBIT 2

### FEDERAL PAYMENT ($000s)

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<th>Fiscal Year</th>
<th>Total Federal Payment</th>
<th>District Total Expenditures</th>
<th>As Percentage Of District Total Expenditures</th>
<th>Total District Sovereign Revenues</th>
<th>As Percentage Of District Sovereign Revenues</th>
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<tr>
<td>1991</td>
<td>$625,231</td>
<td>$3,652,330</td>
<td>17%</td>
<td>$2,457,755</td>
<td>25%</td>
</tr>
<tr>
<td>1992</td>
<td>$643,772</td>
<td>$4,087,093</td>
<td>16%</td>
<td>$2,478,016</td>
<td>26%</td>
</tr>
<tr>
<td>1993</td>
<td>$635,930</td>
<td>$4,292,438</td>
<td>15%</td>
<td>$2,654,261</td>
<td>24%</td>
</tr>
<tr>
<td>1994</td>
<td>$647,930</td>
<td>$4,776,313</td>
<td>14%</td>
<td>$2,567,258</td>
<td>25%</td>
</tr>
</tbody>
</table>

Data are from "General Fund Operating Results," District of Columbia Comprehensive Annual Report, Year Ended September 30, 1994. Federal Payment includes both general purpose and special purpose payments.
EXHIBIT 3
### TABLE 6

**D.C. REAL ESTATE ASSESSMENTS-TAXABLE, EXEMPT AND TOTALS**

TAX YEAR 1984

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Total Acres</th>
<th>Total Land Value</th>
<th>Total Improvements</th>
<th>Total Value</th>
<th>Tax Acres</th>
<th>Tax Land Value</th>
<th>Tax Total Value</th>
<th>% of all Properties of Taxable</th>
<th>Number of Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Taxable</strong></td>
<td>12,840,380</td>
<td>$20,880,035,189</td>
<td>$38,403,826,976</td>
<td>$47,283,861,750</td>
<td>$74,582,518</td>
<td>43.5</td>
<td>$12,412,574</td>
<td>59.4</td>
<td>157,023</td>
</tr>
<tr>
<td>Class One (Gross)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential/Single Family</td>
<td>6,648,782</td>
<td>$5,874,671,033</td>
<td>$11,424,805,018</td>
<td>$17,099,475,623</td>
<td>$28,102,720</td>
<td>22.3</td>
<td>$14,096,124</td>
<td>21.6</td>
<td>92,502</td>
</tr>
<tr>
<td>Residential/Multi Family</td>
<td>4,248,226</td>
<td>3,690,528,026</td>
<td>6,902,690,317</td>
<td>10,533,218,343</td>
<td>87,071,300</td>
<td>14.3</td>
<td>9.0</td>
<td>13.3</td>
<td>48,778</td>
</tr>
<tr>
<td>Flats/Conversions</td>
<td>200,819</td>
<td>328,878,336</td>
<td>1,284,143,932</td>
<td>1,610,021,868</td>
<td>11,766,512</td>
<td>.7</td>
<td>.8</td>
<td>2.0</td>
<td>12,815</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>144,223</td>
<td>213,136,049</td>
<td>420,288,172</td>
<td>633,426,821</td>
<td>6,232,723</td>
<td>.5</td>
<td>.5</td>
<td>.8</td>
<td>2,845</td>
</tr>
<tr>
<td>Garage/Unimproved Land</td>
<td>98,224</td>
<td>123,698,460</td>
<td>331,749,004</td>
<td>455,348,254</td>
<td>4,328,425</td>
<td>.3</td>
<td>.3</td>
<td>.6</td>
<td>150</td>
</tr>
<tr>
<td>Mixed Use</td>
<td>118,178</td>
<td>862,819,932</td>
<td>17,123,184</td>
<td>83,406,026</td>
<td>79,915</td>
<td>.4</td>
<td>.2</td>
<td>1</td>
<td>3,868</td>
</tr>
<tr>
<td>Seniors</td>
<td>71,558</td>
<td>72,988,085</td>
<td>137,426,743</td>
<td>210,233,783</td>
<td>2,428,329</td>
<td>.2</td>
<td>.2</td>
<td>.3</td>
<td>300</td>
</tr>
<tr>
<td>Commercial</td>
<td>1,764,858</td>
<td>1,242,154,082</td>
<td>2,330,837,728</td>
<td>3,573,089,807</td>
<td>27,462,325</td>
<td>8.9</td>
<td>3.1</td>
<td>4.5</td>
<td>23,834</td>
</tr>
<tr>
<td><strong>Class Two (Gross)</strong></td>
<td>3,372,700</td>
<td>$2,508,178,559</td>
<td>$5,015,116,382</td>
<td>$7,524,294,978</td>
<td>$117,313,496</td>
<td>11.3</td>
<td>8.2</td>
<td>9.5</td>
<td>49,759</td>
</tr>
<tr>
<td>Residential/Single Family</td>
<td>1,318,085</td>
<td>1,118,454,352</td>
<td>1,928,407,868</td>
<td>3,047,862,220</td>
<td>48,830,854</td>
<td>4.4</td>
<td>2.8</td>
<td>3.8</td>
<td>20,567</td>
</tr>
<tr>
<td>Residential/Multi Family</td>
<td>1,206,618</td>
<td>878,007,897</td>
<td>1,886,380,853</td>
<td>2,764,458,240</td>
<td>41,174,273</td>
<td>4.1</td>
<td>1.7</td>
<td>3.4</td>
<td>15,857</td>
</tr>
<tr>
<td>Flats/Conversions</td>
<td>401,535</td>
<td>326,814,348</td>
<td>840,691,074</td>
<td>927,505,422</td>
<td>13,355,160</td>
<td>1.3</td>
<td>.8</td>
<td>1.1</td>
<td>6,437</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>54,762</td>
<td>25,281,507</td>
<td>41,821,152</td>
<td>66,002,659</td>
<td>1,028,927</td>
<td>.2</td>
<td>.1</td>
<td>.1</td>
<td>103</td>
</tr>
<tr>
<td>Garage/Unimproved Land</td>
<td>104,341</td>
<td>58,718,880</td>
<td>38,340,157</td>
<td>55,057,047</td>
<td>1,463,397</td>
<td>.4</td>
<td>.1</td>
<td>.1</td>
<td>5,892</td>
</tr>
<tr>
<td>Mixed Use</td>
<td>288,498</td>
<td>298,880,352</td>
<td>488,928,637</td>
<td>767,719,988</td>
<td>13,242,037</td>
<td>1.0</td>
<td>.7</td>
<td>1.0</td>
<td>1,050</td>
</tr>
<tr>
<td>Seniors</td>
<td>0.136</td>
<td>231,841</td>
<td>625,378</td>
<td>757,320</td>
<td>10,787</td>
<td>.0</td>
<td>.0</td>
<td>.0</td>
<td>3</td>
</tr>
<tr>
<td>Hotels/Motels</td>
<td>0.713</td>
<td>3,409,382</td>
<td>1,187,368</td>
<td>4,596,750</td>
<td>70,791</td>
<td>.0</td>
<td>.0</td>
<td>.0</td>
<td>9</td>
</tr>
<tr>
<td>Commercial</td>
<td>0.071</td>
<td>521,920</td>
<td>1,817,380</td>
<td>2,439,300</td>
<td>37,570</td>
<td>.0</td>
<td>.0</td>
<td>.0</td>
<td>31</td>
</tr>
</tbody>
</table>
### TABLE 5—Continued

**D.C. REAL ESTATE ASSESSMENTS: TAXABLE, EXEMPT AND TOTALS**

**TAX YEAR 1994**

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Total Acres</th>
<th>Land Value</th>
<th>Improvements</th>
<th>Total Value</th>
<th>Tax Value</th>
<th>% of all Properties</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Class Three</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garages/Unimproved Land</td>
<td>13.064</td>
<td>$914,302,614</td>
<td>$950,721,620</td>
<td>$1,865,024,234</td>
<td>$38,214,915</td>
<td>.4</td>
<td>205</td>
</tr>
<tr>
<td>Mixed Use</td>
<td>2.834</td>
<td>8,631,213</td>
<td>0</td>
<td>8,631,213</td>
<td>155,678</td>
<td>.0</td>
<td>43</td>
</tr>
<tr>
<td>Hotels/Motels</td>
<td>38.781</td>
<td>267,007,482</td>
<td>333,839,100</td>
<td>591,846,582</td>
<td>11,515,553</td>
<td>.1</td>
<td>22</td>
</tr>
<tr>
<td>Commercial</td>
<td>82.480</td>
<td>636,082,857</td>
<td>887,068,278</td>
<td>1,523,151,135</td>
<td>24,102,284</td>
<td>.3</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>0.539</td>
<td>1,681,121</td>
<td>16,241</td>
<td>1,697,362</td>
<td>31,400</td>
<td>.0</td>
<td>11</td>
</tr>
<tr>
<td><strong>Class Four</strong></td>
<td>2,338.081</td>
<td>$111,302,363,718</td>
<td>$8,971,859,525</td>
<td>$120,274,323,282</td>
<td>$4,365,855,893</td>
<td>7.8</td>
<td>11,455</td>
</tr>
<tr>
<td>Residential/Single Family</td>
<td>0.046</td>
<td>135,115</td>
<td>613,880</td>
<td>648,995</td>
<td>13,854</td>
<td>.0</td>
<td>2</td>
</tr>
<tr>
<td>Residential/Multi Family</td>
<td>0.021</td>
<td>4.670</td>
<td>35,430</td>
<td>35,860</td>
<td>860</td>
<td>.0</td>
<td>1</td>
</tr>
<tr>
<td>Flat/Conversion</td>
<td>8.380</td>
<td>4,812,451</td>
<td>10,585,287</td>
<td>15,397,738</td>
<td>331,265</td>
<td>.0</td>
<td>38</td>
</tr>
<tr>
<td>Garages/Unimproved Land</td>
<td>255.281</td>
<td>579,316,913</td>
<td>2,806,128</td>
<td>682,123,121</td>
<td>12,515,676</td>
<td>.8</td>
<td>3,315</td>
</tr>
<tr>
<td>Mixed Use</td>
<td>9.317</td>
<td>8,014,303</td>
<td>6,550,002</td>
<td>15,564,304</td>
<td>334,634</td>
<td>.0</td>
<td>25</td>
</tr>
<tr>
<td>Hotels/Motels</td>
<td>8.315</td>
<td>18,491,776</td>
<td>18,285,586</td>
<td>36,777,362</td>
<td>790,715</td>
<td>.0</td>
<td>7</td>
</tr>
<tr>
<td>Commercial</td>
<td>1,898.818</td>
<td>10,626,554,308</td>
<td>8,833,172,242</td>
<td>18,459,727,551</td>
<td>420,535,061</td>
<td>6.4</td>
<td>178</td>
</tr>
<tr>
<td>Unimproved</td>
<td>159.802</td>
<td>84,034,244</td>
<td>0</td>
<td>84,034,244</td>
<td>1,378,728</td>
<td>.5</td>
<td>178</td>
</tr>
<tr>
<td><strong>Class Five</strong></td>
<td>448.833</td>
<td>$278,515,525</td>
<td>$1,225,126</td>
<td>$280,740,650</td>
<td>$14,037,182</td>
<td>1.5</td>
<td>3,102</td>
</tr>
<tr>
<td>Residential/Single Family</td>
<td>0.118</td>
<td>43,300</td>
<td>121,700</td>
<td>165,000</td>
<td>8,250</td>
<td>.0</td>
<td>1</td>
</tr>
<tr>
<td>Garages/Unimproved Land</td>
<td>448.860</td>
<td>278,235,882</td>
<td>9,061</td>
<td>278,245,433</td>
<td>13,515,678</td>
<td>1.5</td>
<td>3,085</td>
</tr>
<tr>
<td>Hotels/Motels</td>
<td>0.310</td>
<td>554,238</td>
<td>359,300</td>
<td>913,538</td>
<td>45,677</td>
<td>.0</td>
<td>1</td>
</tr>
<tr>
<td>Commercial</td>
<td>0.548</td>
<td>685,005</td>
<td>735,064</td>
<td>1,420,069</td>
<td>71,003</td>
<td>.0</td>
<td>5</td>
</tr>
</tbody>
</table>
### TABLE 5—Continued

**D.C. REAL ESTATE ASSESSMENTS-TAXABLE, EXEMPT AND TOTALS**

**TAX YEAR 1984**

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Total Acres</th>
<th>Land Value</th>
<th>Improvements</th>
<th>Total Value</th>
<th>Tax</th>
<th>Land %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Exempt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total US/DC Government</td>
<td>13,852.878</td>
<td>18,788,848,413</td>
<td>4,335,983,719</td>
<td>23,124,832,132</td>
<td>650,329,339</td>
<td>67.2</td>
<td>45.3</td>
</tr>
<tr>
<td>United States</td>
<td>12,340.887</td>
<td>14,160,030,440</td>
<td>4,718,818,887</td>
<td>18,878,848,327</td>
<td>448,819,760</td>
<td>41.5</td>
<td>35.0</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>1,611.819</td>
<td>1,806,308,503</td>
<td>1,673,212,562</td>
<td>3,479,521,065</td>
<td>70,314,408</td>
<td>6.4</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total Non-US/DC Exempt</strong></td>
<td>3,054.402</td>
<td>4,393,344,270</td>
<td>1,006,817,190</td>
<td>5,399,161,460</td>
<td>1,711,979,717</td>
<td>10.3</td>
<td>7.6</td>
</tr>
<tr>
<td>Texas Abated</td>
<td>0.045</td>
<td>1,044,508</td>
<td>4,827,797</td>
<td>5,872,406</td>
<td>128,251</td>
<td>.0</td>
<td>.0</td>
</tr>
<tr>
<td>W.M.A.T.A.</td>
<td>151.018</td>
<td>149,985,771</td>
<td>42,288,025</td>
<td>192,225,000</td>
<td>4,134,102</td>
<td>.5</td>
<td>.4</td>
</tr>
<tr>
<td>D.C. RLA</td>
<td>54.402</td>
<td>142,661,702</td>
<td>14,803,434</td>
<td>156,465,136</td>
<td>3,773,030</td>
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<td>.4</td>
</tr>
<tr>
<td>Homestead Preservation</td>
<td>2.263</td>
<td>426,875</td>
<td>1,103,708</td>
<td>1,530,581</td>
<td>32,889</td>
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<td>.0</td>
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<tr>
<td>Low income Abated</td>
<td>124.915</td>
<td>56,807,378</td>
<td>153,234,720</td>
<td>209,042,093</td>
<td>5,155,805</td>
<td>.4</td>
<td>.1</td>
</tr>
<tr>
<td>Religious</td>
<td>587.103</td>
<td>571,264,853</td>
<td>669,064,328</td>
<td>1,237,329,178</td>
<td>26,802,577</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Educational</td>
<td>646.855</td>
<td>882,373,886</td>
<td>811,902,039</td>
<td>1,694,275,925</td>
<td>36,428,828</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Foreign Government</td>
<td>286.931</td>
<td>410,088,191</td>
<td>604,400,521</td>
<td>1,014,488,712</td>
<td>21,811,507</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Charitable</td>
<td>148.850</td>
<td>115,833,933</td>
<td>161,213,405</td>
<td>267,047,338</td>
<td>5,742,780</td>
<td>.5</td>
<td>.3</td>
</tr>
<tr>
<td>Cemetary</td>
<td>332.245</td>
<td>137,426,512</td>
<td>2,089,910</td>
<td>129,516,422</td>
<td>2,784,152</td>
<td>1.1</td>
<td>.3</td>
</tr>
<tr>
<td>Hospital</td>
<td>211.672</td>
<td>254,484,453</td>
<td>434,528,911</td>
<td>689,013,364</td>
<td>14,813,379</td>
<td>.7</td>
<td>.8</td>
</tr>
<tr>
<td>Library</td>
<td>1.220</td>
<td>3,301,135</td>
<td>6,173,865</td>
<td>9,474,000</td>
<td>203,691</td>
<td>.0</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Total Taxable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Taxable</td>
<td>28,908.638</td>
<td>940,418,719,772</td>
<td>638,801,480,395</td>
<td>679,220,210,062</td>
<td>1,433,491,855</td>
<td>100.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1/ Total may not add to total due to rounding.

Note: Tax amount for exempt properties is potential tax based on Class 4 commercial rate of $2.16 per $100 value.