Brookings Greater Washington Research Program
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Envisioning a Future Washington

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"The city we see in 2010 reflects a successful residential strategy—a substantial increase in the District population, including families with children."

This paper sets out a bold overall vision for economic development and fiscal viability in the District of Columbia over the next ten years. We hope this vision will stimulate vigorous debate and discussion about the District's future and its role in the Greater Washington region. We also hope that broad-based community dialogue about the future of the city will lead to the emergence of a shared vision—not necessarily the one sketched out here—and to serious public and private actions that will turn this shared vision into reality over the next decade.

I. A Vision of Washington in Ten Years

We believe that if we were able to question a diverse group of people about their hopes for the future of Washington, a few themes would emerge clearly. People would tell us that they wanted a city with safe, attractive neighborhoods, effective schools preparing their children for productive lives, and decent housing they could afford. They would say they wanted accessible shopping areas with a variety of stores, restaurants, and entertainment they could get to easily. People would tell us they wanted plenty of job opportunities for themselves and their children, with chances to get more training and opportunities for promotion. They would talk about high quality public services, responsive police, fire, and emergency services, well-maintained streets, and convenient public transportation.

We believe they would also speak of the importance of community, of being proud to live and work in Washington. They would talk about the importance of diverse racial and ethnic groups working together to improve the city and of their hopes that no one would feel left out.

We tried to describe what such a Washington might look like in ten years and how it might differ from the city of today. The city we see in 2010 reflects a successful residential strategy—a substantial increase in the District population, including families with children. It reflects the revitalization of Washington's neighborhoods with a central focus on effective schools and neighborhood services. Our vision is an ambitious one that entails physical changes, such as the restoration of the Anacostia River and development along its banks, as well as substantial population and economic growth.

More specifically, we imagine a city that, in 2010, is more densely settled, with a population of about 672,000—an increase of 100,000 or 15 percent since 2000. About half of the new residents are in households with children, while the other half are singles, couples without children, and empty-nesters. The overall racial and ethnic mix of the city's population has not shifted radically: African Americans retain a slight majority and immigrants from Central America, Asia, and Africa are a significant presence in the city as well as in the rest of the region. But the city is visibly less segregated than it was a decade earlier, with diverse neighborhoods on both sides of the Anacostia.

To accommodate the larger population, there is more housing—about 55,000 added units. Most are new single- and multi-family units, but others are renovations of abandoned and under-utilized buildings. About a quarter of the added units have been subsidized to keep them affordable. Because more of the D.C. residents of 2010 are children, schools have been renovated, replaced, or expanded, and new schools have been built to accommodate about 25,000 more students than in 2000, a 32 percent increase over the decade. Schools are also more intensively used and many have become community centers, with day care facilities, after-school programs, senior centers and clinics in the same or adjoining buildings. These schools and homes are located in cleaner, safer, more prosperous, and livelier neighborhoods where houses are better tended and neighborhood businesses are busier and more profitable.

There are 20,000 new private sector jobs, three-quarters of them held by District residents. Some of these are in new technology-related business; more are in the city's traditionally strong industries (hospitality, higher education, health care, business services); and in neighborhood services (retail, restaurants, and personal services). Government, however, remains the biggest employer and the focus of the city's economy.

The number of low-income people in the city has dropped, largely because more effective schools and training, combined with more available jobs, have raised incomes. The poverty rate has fallen from 22 percent to 14 percent in ten years. The proportion of middle-income families has increased substantially, as a result of new local opportunities for earning good wages and because middle-income families with children are less likely to move to the suburbs in search of greater safety and better schools. In turn, the increased income, sales, and property tax base brings in enough revenue to support improved services, especially schools, subsidize affordable housing, pay debt service on bonds used to modernize the District's infrastructure, and retain adequate reserves for emergencies.

Despite continued population growth in the region and its core city, traffic congestion has not worsened on the main commuter routes into the city and even shows signs of easing. Public transportation capacity is greater and a higher proportion of those who work in the city now live there.

Is this the right vision of the future of Washington? Is it attainable? The rest of this paper attempts to open a dialogue on these questions by giving the rationale for this vision of neighborhood development and residential growth, and suggesting some of the policies that might bring it about.

II. The Right Time to Talk about the Future of the District

This is an opportune time to focus attention on the future of Washington for at least four reasons. **First, the District has recovered from its severe fiscal crisis.** Six years ago the District government was facing bankruptcy—unable to pay its bills, deliver normal services to its citizens, or borrow in financial markets. Restoring financial stability had to take priority over planning for the future. Now revenues are up, the budget is balanced, and the District, with an investment-grade credit rating, again has access to capital markets at reasonable interest rates. The remarkable turnaround has improved the city's general fund balance by a billion dollars—from negative half billion dollars at the end of FY 1996 to a positive half billion dollars at the end of FY 2000. New political leadership in both the executive and legislative branches is strengthening the District's ability to deliver services and also is slowly restoring faith in local government. The federally imposed Financial Authority, created to deal with the fiscal crisis, will wind up its work at the end of September 2001. The District is again able to manage its own affairs, plan seriously for the future, and be a full partner in dialogue about the future of the region.

Second, the District's economy is improving and development is underway. The District lost about a quarter of its population between 1970 and 2000, while the suburban population doubled (see Table 1). The losses were especially heavy among middle-class families with children, both white and African-American. With fewer children, households were smaller, so the number of households declined far less steeply than the population—only about 6 percent between 1970 and 2000.

In this period, the city became increasingly divided by income. Affluent neighborhoods remained, but the exodus of the middle class from many areas left behind concentrations of poverty and distress. The eroding tax base and rising costs of serving distressed neighborhoods, exacerbated by poor management, led to deteriorating public services and infrastructure, which, in turn, accelerated the decline of economic activity, and further eroded the tax base.

Now, however, the downward spiral has ended and the upturn has begun. The population has begun to increase. Vigorous development is transforming downtown, and both commercial and residential investment are starting to occur in other parts of the District. Housing demand is up, and real estate prices are rising. So far, however, growth and development are uneven. Some parts of the city are reviving; others are wondering whether the city's new prosperity will ever benefit them.

Third, tensions and uncertainty about development are rising. Low- and middle-income residents, facing rising rents and property values, worry about being driven out by gentrification. Many African-American residents feel threatened by the influx of an increasingly white and affluent population, which they fear will seize political power and neglect their interests. An inclusive dialogue about the future of the city could help form a more widely shared vision, give more people a sense of participation and reduce some of the tensions born of uncertainty and ill-understood change.

Table 1: Washington D.C. compared to Metro Area Population, Households, and School Enrollment from 1970–2000

	Washington D.C.			Remainder of Metropolitan Area	
	Population[1]	Households[2]	School enrollment[3]	Population[4]	School enrollment[5]
1970	756,668	263,000	146,000	2,153,332	422,067
1980	638,432	253,143	100,049	3,251,000	374,336
1990	606,900	249,634	80,694	3,616,585	365,684
2000	572,059	248,338	79,037	4,351,094	454,480
2010 Vision	672,059	303,894	104,037		

Sources:

1 Population estimates are from the census, US Census Bureau

2 Household estimates are from the census, US Census Bureau

3 School Enrollment Estimates are from information provided by the District of Columbia Public and Charter Schools

4 In 1970 and 1980, the Washington PMSA includes DC-MD-VA. In 1990, Washington PMSA is DC-MD-VA-WV. We have subtracted the DC population from the PMSA total.

5 Metro school enrollment includes total publicly funded school enrollment for Montgomery County, Prince George's County, Arlington, Alexandria, and Fairfax County

Fourth, sprawl and congestion are causing the region as a whole to focus on "smarter" growth. The Washington region, propelled by the burgeoning information technology industry, has experienced a high growth rate recently. Along with rapidly increasing numbers of people and jobs and rising incomes have come some of the worst traffic congestion in the country, deteriorating air and water quality, pressure on suburban schools and other services, disappearance of green spaces in outlying parts of the region, and decline in some older suburban areas. Concern about these problems underlines the importance of considering how revitalization and greater density of development in the inner core could benefit the whole region.

III. Why the District Needs More Residents

Washington's special status as the nation's capital gives the city major advantages. However, there are significant downsides, which undercut the District's ability to raise the revenue it needs to support quality services and finance modern infrastructure. Being the capital narrows the District's tax base. Almost half of the value of the District's property is exempt from taxation because it belongs to the federal government, embassies, international organizations, or other entities exempted from taxation by Congress. A large fraction of potential sales are similarly untaxed. Most serious of all, Congress prohibits the city from taxing the two-thirds of income generated in the District that is earned by nonresidents, mostly by commuters from the Maryland and Virginia suburbs. Raising tax rates for residents and businesses already here, to compensate for all of the untaxable people and property, is not a viable option, because the District's tax rates are already higher than most of the surrounding jurisdictions' and are a potential deterrent for new residents and businesses.

Furthermore, the District incurs large, uncompensated costs. It provides police, fire, and other services to government and other tax-exempt agencies, and to non-resident workers who do not contribute to its revenues. It also bears the cost of policing and cleaning up after national celebrations, parades, and demonstrations, for which it is does not receive full or prompt compensation.

Finally, because of its special status as the nation's capital, the District has no State government to share the cost of urban education and other expensive services. In other cities, some of these costs are spread over the State's broader tax base, including its major industries and wealthier suburban areas.

The District's narrow tax base leaves it with only two options for improving its fiscal prospects. The first is to induce the federal government to make a direct or indirect contribution to District revenues. A direct contribution might take the form of a federal payment in lieu of taxes or a revival of the now defunct annual federal payment to the District. Or, it might involve further federal responsibility for a range of state-type public services that the District provides. An indirect contribution could take the form of a tax on the wages of nonresident D.C. workers creditable against the federal income tax—a proposal recently made by the District's Congressional Delegate, Eleanor Holmes Norton. (These options are discussed by the authors in a separate paper and not elaborated further here.)

The other option—completely compatible with the first—is growing the tax base. For many cities, this means creating more jobs. But the District already has more jobs than people, and job growth does not do much for the District's tax base unless the holders of the new jobs live in the city. Hence, the District's special situation drives it to a residential growth strategy designed to attract and retain a larger employed population.

A greater number of employed residents would contribute to the District's capacity to improve its public services. The government's revenue would go up because of increased income, rising property values, and more sales, as well as the increased number and profitability of retail establishments, entertainment, and neighborhood service businesses. However, while the central objective has to be more people, we point out below that the residential strategy will be most successful if it is accompanied by efforts to create more jobs and raise the incomes of low-income residents.

Increasing the rate of population growth in the District relative to the suburbs does not mean that the suburbs would stop growing or even that large numbers of individuals or families currently living in the suburbs would suddenly decide to live in the city (although some might). The population of the Washington area is a mobile one. A snapshot of where people live at any particular moment reflects the net result of people moving in and out of the area from other parts of the country or abroad and of movement within the metropolitan area. In particular, people who have worked and lived in the District for some years often move to the suburbs about the time they become parents. Growing the District's population means retaining more of these families in the city and influencing more new arrivals to the area to live in the District rather than the suburbs.

IV. Different Residents, Different Outcomes

How our vision of the District in 2010 translates into reality will depend in large part on who the District's new residents are. Their income, family groupings, and race and ethnic mix all will have an impact on the type of housing and neighborhood development that occurs, the kinds of revenues generated, public costs incurred, the overall feel and character of the city, and the political tensions that arise within it. Below, we describe two different types of residential strategies and note how the city would change if each were successful. The point is not to choose one or the other, but to understand more clearly where policy choices might lead.

The Adult Strategy: More Middle- and Upper-Income Singles and Couples

Suppose the city tried to increase its population of adults with moderately good incomes and without school-age children by making it more attractive for those with jobs in the city to live in the District, rather than in the suburbs. This strategy would focus on young professionals in their 20s and 30s, as well as some older adults, including empty-nesters and retirees. These are people enthusiastic about city life, attracted by the city's cultural amenities, restaurants, nightlife, and racial, ethnic, and income diversity, but they also want safety, attractive surroundings and a well-managed government.

What policies would be needed? This strategy would require accelerating the development of middle-income and upscale housing that is already occurring in parts of Washington or that could occur in new or converted commercial buildings downtown, around Metro stations, and in reviving neighborhoods, eventually including the newly reclaimed Anacostia waterfront, the St Elizabeth's campus, and other parts of the city. Policies conducive to this would include: facilitating faster development of market-rate housing by streamlining the permitting and zoning processes; using the powers of the city or the National Capital Revitalization Corporation (NCRC) to assist developers in assembling packages of land for the development of multi-unit housing; aggressive efforts to clean up the Anacostia River and to implement development plans that include significant apartment or condominium development along portions of the waterfront; requiring the inclusion of housing as well as commercial development in plans for downtown and areas around Metro stations; and the implementation of a plan for the St. Elizabeth's campus that includes market rate housing.

What would be the impact on the District's budget? If this strategy were successful it would have an extremely positive impact on the city's tax base and revenue. It would increase the number of employed residents with above-average incomes, bring new residential property onto the tax rolls, and increase the value of existing real estate. Retail sales in the District would rise, and the profitability of new and existing neighborhood businesses would be enhanced. New jobs would be created in the retail, entertainment, and personal services sectors, unemployment rates would edge down. All of these would increase District tax revenues.

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Carrying out this strategy would also require increased expenditures, but these would not put much strain on the District's budget, provided that the development costs were largely borne by the private sector and federal agencies underwrote much of the cost for reclaiming the Anacostia River. The additional residents would increase demand for some services (law enforcement, motor vehicle licenses, trash collection, street improvement, etc.), but schools and child welfare services would be largely unaffected, because the new residents are assumed to be childless.

Our rough calculations indicate that adding an average single, non-poor adult resident would increase the District's revenue, net of the cost of additional services for that added resident, by about $4,300. An additional two-earner couple would bring in almost $13,000 net of added costs. If the city's population of middle- and upper-income singles and childless couples increased by 50,000, the net annual increase in the District's revenues over operating expenditures would be in the neighborhood of $300 million. It would be possible both to improve public services and reduce tax rates.[2]

What would be the implications for the city? This strategy would further increase the ratio of adults to children in Washington's population, raise the proportion of people in upper-middle income brackets, and probably increase the ratio of whites to African-Americans in the population. This strategy could make the city more livable and attractive for both current and new residents by increasing the potential clientele for restaurants, shops, and entertainment venues. It would improve Washington's long-run fiscal strength and generate tax revenues that could be used to improve the city's services and infrastructure.

However, by itself, the adult strategy poses a serious risk of exacerbating racial and class tensions and widening the gulf between rich and poor in the city. Some lower-income residents would benefit from additional employment and more profitable neighborhood businesses, and find themselves owners of more valuable houses. But higher property taxes on those more valuable houses and rising rents might drive low-income people, particularly those without subsidized housing, out of the city unless strenuous efforts were made to enable them to stay. While some ethnically diverse neighborhoods would prosper, gentrification of lower-income neighborhoods could increase tension and resentment. Long-time residents might fear that newcomers lacked lasting commitment to Washington and would not be likely to fight for better schools or help for low-income families. Development of upscale housing east of the Anacostia would reduce the isolation of that sector of the city and its sense of neglect, but could heighten race and class resentment at the same time.

An enormous effort would be needed to build a sense of community among new and old residents and to help low-income residents stay in their homes (probably through tax deferrals and rent subsidies). Tensions could be mitigated if the existing community played an important role in the planning process. In short, it would take strong, visionary leadership at the community and city levels to ensure that all segments of the population benefited from the city's increasing prosperity and reduce resentment and anxiety in the face of change.

The Family Strategy: More Middle-Income Families with Children

Now suppose the city set out to grow its population by attracting and retaining middle-income parents and their children. This group would include both one- and two-parent families, typically with at least one earner who works in the District. They might be teachers, law-enforcement officers, nurses and other medical service providers, university faculty and staff, and professional, technical, and clerical workers in both government and the private sector. They would live more modestly than the new city dwellers targeted in the adult strategy.

Accommodating these new families in the District would require fewer additional housing units, because these households are larger, but the units would have to be more affordable and a portion of them would require subsidies. The school population, including that of charter schools, would rise rapidly, reversing the steep decline of recent years, while increasing the need for improved school facilities and performance.

What policies would be required? The family strategy is far more challenging for the District's policy makers than increasing the population of adults. It requires a higher level of community-wide commitment and effort than the adult strategy. It would not succeed without significantly improved public services and a greatly enhanced ability of city departments to work with each other and with the school system.

Attracting and retaining middle-income parents in the city is not just a question of improving the schools, or making streets safer, or increasing Washington's dwindling supply of decent, affordable housing, but of accomplishing all of these objectives in a visible and coordinated way. The family strategy requires revitalization of substantial areas of the District with central emphasis on upgrading the schools, both physically and educationally, in order to provide opportunities for young people to grow up in a safe environment and get strong preparation for jobs and higher education. We believe the best approach to implementing the family strategy is for the city to target neighborhoods in different parts of the city for revitalization, including:

- *Building strong public-private partnerships in each of the targeted neighborhoods, with the leadership of an anchor institution, such as a university, hospital or government agency that is a major employer in the neighborhood.* The anchor institution should work with the city, financial institutions, and community groups to implement a neighborhood plan that would increase the attractiveness of the area to middle-income families and provide more housing for people who work in the city (including employees of the anchor institution).
- *Improving the neighborhood's school or schools.* School revitalization should be central to every neighborhood plan. In some areas the partners may chose to center their efforts around a "community school," where day care, social services, and possibly a primary care clinic or senior center would be located in the same building or an adjacent one. The community school's facilities would be used in the evening and on weekends.
- *Assuring an increased supply of housing for a mix of income levels.* The partners should take advantage of programs, including rental and home-ownership subsidies, to make sure that new and renovated housing is available to families of diverse income levels, and that households already living in the area are not pushed out by rising rents and real estate taxes.
- *Engaging the District's employees both in improving services and in revitalizing communities in which they can live.* The District's own work force represents the most obvious single group of commuters likely to contribute to a restitution of its tax base. A majority of the District's own police and fire force, as well as teachers, now reside outside its borders. Such workers could form the core population of the active and safe neighborhoods explicit in this strategy. One approach to achieving this goal might be for the District government to give outstanding employees, who genuinely improve service delivery, special assistance in relocating to the District. Chances of success would also increase if the District's administration engaged its employees and their unions on economic development strategies.

Several substantial neighborhood revitalization efforts are already well underway in Washington, some of them involving partnerships built around anchor institutions, such as Howard University and the Navy Yard. But, so far, the schools have not been integrated into the revitalization effort, much less become central to it. It seems to us that it is crucial to this strategy's success that the school system be engaged in planning and implementing neighborhood revitalization.

What would be the impact on the city's budget? The family strategy puts more stress on the city's budget than the adult strategy. These families may not have earnings as high as the families without children, and they require more public services. The District would have to put substantially more resources into improving the schools, subsidizing housing, and providing recreation and other services important to families with children. Indeed, these costs would add up to considerably more than the additional revenue brought in by increased income, sales, and property taxes attributable to middle-income families.

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Our calculations indicate that a new family with two moderate-income earners and two children would have net cost to the city's budget of just over $6,200, because the added expenditures (mostly for schools) would exceed added revenues. A single-parent household with one child would entail roughly the same net cost, while a single parent with two children would generate a net cost in the neighborhood of $16,500. This budgetary strain would require increased revenues from other sources, such as households without children.

What would be the implications for the city? A successful family strategy would boost the demand for neighborhood services and the payrolls and profitability of the businesses (such as grocery stores and family restaurants) providing them. Rebuilding the population of middle-income families and improving the effectiveness of education holds the promise of creating neighborhoods with a strong sense of community, whose residents are committed to remaining in the District, participating in its political processes, and working to improve the city and its institutions.

A family strategy might not widen the gulf between affluent and lower-income groups in the city as much as the adult strategy, because it would fill in the middle. The new residents would have moderate incomes and probably a higher ratio of African-Americans, especially if the strategy were successful in retaining young African- American families who might otherwise have left the city in search of better schools. Nevertheless, even if the new and renovated housing that would accommodate these new residents were a mix of subsidized and market rate units, rents and property values would tend to rise in the neighborhoods targeted for revitalization. Care would have to be taken to assuage the concerns of longtime residents and protect their ability to retain their homes.

Targeting particular neighborhoods and their schools for improvement is crucial because it creates a critical mass of new resources and the psychological momentum needed to bring back a deteriorating area. However, targeting also creates political tensions between these neighborhoods and other parts of the city that inevitably feel unfairly left out. It would require strong city-wide leadership to buck the political forces arrayed against targeting and convince those who have to wait that they stand to benefit in the longer run.

V. Pulling it All Together: Residents, Jobs, Income and the Region

These extremes—either an "adult only" or a "families with kids only" policy—are worth discussing merely to make the point that Washington needs to pursue both strategies at once. The primary objective should be making the city an attractive place for a diverse population to live and work. That requires policies designed to attract and retain a mix of residents, including adults and families with children. Family-oriented policies and neighborhood revitalization hold out the enormous promise of a strong community and vibrant city in the long run, but they are difficult and expensive to carry out successfully. The mix of policies is necessary in part because the city can afford to undertake family-oriented neighborhood revitalization on a large scale only if it also facilitates some increase in the upper-income adult population to increase net revenues and to promote and sustain budget balance.

As may be seen from the estimates in Table 2, the fiscal impact of population growth depends on the mix of additional households with and without children. The more that families with children dominate the net increase in population, the greater the strain on the budget. The vision described at the beginning of this paper—100,000 additional residents, half in childless households and half in families with children—seems to us a balanced mix to aim for.

Such a large population increase in one decade is an extremely ambitious goal. Maybe it would be more realistic to allow fifteen years or more for such growth. Several cities roughly the size of Washington, however, gained substantial numbers of residents between 1990 and 2000 without any change in their boundaries. Denver's population grew by 87,000 (19 percent), and Portland's by 92,000 (21 percent), while San Jose, Charlotte, and Jacksonville each added over 100,000 residents in the decade. The vision described at the beginning of the paper calls for an increase in school enrollment over the decade of about 25,000 students (32 percent), which might seem like a stretch. Montgomery County, Maryland, however, increased its school enrollment between 1990 and 2000 by 30 percent, and Arlington, Virginia, by 27 percent, and neither had the stock of underused school buildings available for renovation that the District has.

Less ambitious residential strategies could easily be illustrated. In Table 2 we show three variations of the 100,000 increase strategy and three for the less ambitious goal of adding 80,000 net new residents over the coming decade.

More Jobs for D.C. Residents

While this paper emphasizes the central importance of a residential strategy and neighborhood revitalization to the economic future of the District, efforts to create new jobs for District residents and to raise the incomes of the city's low-income population must accompany these approaches. For example, polices to encourage small business development must be an integral part of a neighborhood revitalization strategy, because thriving neighborhoods need local service businesses.

Since Washington's major economic activity is government, it never had an industrial base to lose. It has not suffered the loss of manufacturing jobs that devastated Cleveland and Detroit; nor is it burdened with the abandoned docks and empty warehouses found in Baltimore and Philadelphia. In comparison with Baltimore, as may be seen in Table 3, the District lost about the same proportion of its population over the last three decades, but a smaller proportion of its jobs. In the last decade, however, the downsizing and relocation of some federal government agencies have contributed to reduced employment in the District.

As the District community thinks about its future employment base, it should focus attention on its major assets. Among those are its strong universities and hospitals. Indeed, eight out of the ten largest private sector employers in the District are either universities or hospitals (of which several are university hospitals). The District should encourage these institutions to strengthen their presence in the city, to develop relationships with the District schools that create career ladders for local residents, and to serve as anchor institutions in neighborhood development. The District should also make a sustained effort to attract new employers in industries that take advantage of its traditional strengths in hospitality, tourism, entertainment, and business services, and to encourage existing employers in these industries to expand jobs, especially for District residents.

The District's government is currently making a special effort to attract companies in knowledge-based and technology related industries. The knowledge-based firms could be a mix of home-grown start-ups and existing companies (or parts of them) that would otherwise have located in the Washington suburbs or other parts of the country. These companies could be accommodated in the new technology area North of Massachusetts Avenue (NOMA)—near the new New York Avenue metro station—and in other parts of the city. These firms' reasons for expanding in Washington would include the proximity of the federal government and the high-tech community already located in the metropolitan area, and the preference of many of their employees for city rather than suburban living. They might also be attracted by tax abatement or other inducements the District might be able to offer, and ultimately, if the effort had initial success, the opportunities of locating near each other.

In the past, when new firms located in the city, even law, accounting, and public relations firms with high-income employees, the city's tax revenue benefited minimally because most of the new workers lived in the suburbs and paid no income or property tax to the District, and not much sales tax. The knowledge-based firms, however, could have a more positive impact, if these workers are younger and have a stronger preference for city living.

The fiscal impact of attracting new firms depends on how successful they are in the long run. In the near-term, tax abatement, infrastructure spending, and other inducements offered by the city to attract new companies might more than offset any positive impact on the budget. However, a growing number of local employers in information industries

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Table 2: Vision 2010: Projections for Households, School Enrollment, and Net Budget Impact

	Households		School Enrollment		Net Budget Impact
	Total	Percent Increase	Total	Percent Increase	$ Millions
Increase Population by 100,000					
More families with children[1]	300,005	20.8	109,038	38.0	$12
Equal number of households with and without children[2]	303,894	22.4	104,037	31.6	$100
Fewer families with children[3]	307,782	23.9	99,036	25.3	$188
Increase Population by 80,000					
More families with children[4]	288,894	16.3	104,037	31.6	-$8
Equal number of households with and without children[5]	292,782	17.9	99,036	25.3	$80
Fewer families with children[6]	296,638	19.4	93,977	18.9	$169

1: 60% in households with children, 40% in childless households
2: 50% in households with children, 50% in childless households
3: 40% in households with children, 60% in childless households
4: 62% in households with children, 38% in childless households
5: 50% in households with children, 50% in childless households
6: 38% in households with children, 62% in childless households

could also be a catalyst for major improvement in the District's schools. The new companies would have a stake in improving local capacity for training young people in computer and other technology skills. Plans for the District's proposed new technical high school envision companies partnering with the city to create first-class technical education at the secondary level and also joining with local universities to create post-secondary programs designed to give students both technical skills and work experience.

Raising the Incomes of Current Residents

It would be a great mistake for the core city to concentrate on the benefits of attracting new residents and jobs while neglecting efforts to raise the incomes of people who already live in the city. The District has the greatest concentration of poverty in the region. A major goal of revitalization should be to reduce the poverty rate and expand the opportunities for residents to increase their skills and get jobs with higher wages and better prospects. Currently 22 percent of the District's population lives below the poverty line, but vigorous efforts to reduce poverty in the context of a growing city population could reduce the poverty rate to 14 percent or less in a decade.

For the poorest part of the District population, low levels of literacy, substance abuse, inadequate childcare facilities, and the difficulty of getting to where the jobs are often block access to jobs and better earnings. None of these problems are easy to solve, but the chances of success are greatly enhanced in an improving economy, where jobs become increasingly available, especially in the immediate neighborhood. Improving the access of District residents to jobs in the suburbs should also be part of any strategy for city revitalization. Consortia of suburban companies in need of workers might form partnerships with

Table 3: Location of Jobs[1] and Population Estimates for Washington D.C. and Baltimore from 1970 to 2000

	Population		Jobs located in the City	
	Washington D.C.	Baltimore	Washington D.C.	Baltimore
1970	756,510	905,759	643,523	499,088
1980	638,333	786,775	666,065	468,682
1990	606,900	736,014	742,994	478,060
2000[2]	572,059	651,154	689,156	416,893
Percent Change				
1970–2000	-24.38%	-28.11%	7.09%	-16.47%
1980–2000	-10.38%	-17.24%	3.47%	-11.05%
1990–2000	-5.74%	-11.53%	-7.25%	-12.79%

1 BEA Data, employment by place of work, wage and salary employment

2 The most recent BEA Jobs data available is 1999 data

District community organizations to support training and vanpools or other transportation to suburban employment centers.

In the longer run, improving the District's schools and revitalizing its neighborhoods offer the best hope for the reduction of poverty among the next generation of District residents. Critics of the District's efforts to grow its economy and attract more residents sometimes depict these efforts as being against the interests of the low-income population. In fact, the opposite is true. Major improvements in the well-being of the low-income population of the District will require significant additional resources to support daycare and health insurance coverage for these workers and to improve their neighborhoods and their children's schools. It is difficult to see where these additional resources would come from if the District's economy were not expanding and the resident population and tax base were not increasing.

Implications for the Region

The region would reap considerable benefits from successful efforts to increase the District's population of both adults and families with children. Assuming that most of the new city residents would otherwise have been employed in the city and living in the suburbs, the increased density of the District would get thousands of commuters off the roads and Metro. It would relieve some of the pressure to expand services, especially schools, for new suburban residents and help, at least marginally, to mitigate sprawl. Upgrading the District's schools would increase the supply of well-trained workers for suburban as well as District jobs. Moreover, revitalization of the city would make it a more attractive place to come for an evening or the weekend.

The suburbs have a strong stake in the District's success in increasing its supply of affordable housing and taking effective measures to mitigate the downsides of gentrification on current residents of the city. If the city becomes an increasingly expensive place to live, more low- and moderate-income individuals and families will be pushed toward the periphery of the area. Increasing the supply of affordable housing should be a high priority for both the core and the surrounding areas of the region. In particular, the areas of the region that border the District directly have much to gain from working with the city to revitalize their common neighborhoods.

VI. Moving Ahead

The vision offered in this paper will not appeal to everyone and will strike some as overly ambitious. We have sketched out a bold vision to provoke reaction and to get a dialogue going about the economic future of the District. Several points, however, should be borne in mind:

First, a mix of strategies will maximize the chances of success. The District needs to attract both adults and families, and to create more job opportunities at the same time. Success in attracting more knowledge-based companies would complement the residential strategy, especially if effectively linked to improving the city's capacity for technical education. The city must also use some of the increasing resources of an expanding economy to improve the life-chances of low-income families by enhancing their skills and access to urban and suburban jobs. Participants in a community debate would put different emphases on these elements and advocate different priorities, but leaving out any of the elements would reduce the chances of success and threaten the goal of ongoing balanced budgets.

Second, an inclusive planning process is essential. Even changes that appear positive to most people will be perceived as threatening to some. In any neighborhood experiencing an inflow of population and an upgrading of the housing stock there is a potential for tension between new and long-time residents. Residents whose incomes have not risen will suffer from higher property taxes and higher rents. Even those who stand to benefit in the short run may resist change in familiar surroundings. Community dialogue, consultation, and appropriate public policy are essential to building support for any change.

Third, a shared vision may reduce conflict over targeting resources. Revitalization requires concentrated, visible effort in particular neighborhoods and schools. Spreading resources too thinly, without the critical mass to make a visible difference in any one place, is a recipe for failure. But strategies that involve targeting particular neighborhoods or schools entail a special risk of provoking controversy and resentment on the part of those who feel left out. That risk must be recognized and managed. Not all conflicts can be avoided, but bringing those most affected into the planning and policy process can reduce tension and misunderstanding. A community-wide dialogue about the economic future of the city could increase understanding of the possibilities, enhance the sense of participation in decisions and commitment to the choices that must be made, and generate hope that the whole city will benefit from development and revitalization, even if everything cannot happen at once. Such a process has to start with someone articulating some options for others to react to. This paper is an attempt to do just that.

Fourth, cross-jurisdictional cooperation is crucial to healthy regional growth. The economic recovery of the District comes at the right moment for it to participate actively in a dialogue with the rest of the Greater Washington Region over cooperative strategies to benefit the region as a whole. It is urgent that the regional jurisdictions work together to reduce the traffic congestion that is choking the area—perhaps through the establishment of a Metropolitan Transportation Authority with a dedicated revenue source and real power. Coordinated action to increase the area's supply of affordable housing should also have a high priority. Improvements in air and water quality cannot be successful without effective cross-jurisdictional cooperation.

Finally, the federal government needs to play a new kind of role, both in the District and in the region. The whole country has a stake in Washington being a city they are eager to visit and proud to have as their national capital and the focus of world attention. The federal government should work with the District to ensure its long-run fiscal viability by compensating the District for the narrowing of its tax base attributable to the presence of the federal government. (The authors' next paper will discuss this in detail.) It should also work with the whole region to encourage cross-jurisdictional solutions to traffic congestion and other impediments to healthy regional development.

Appendix: The Impact of Growth Scenarios on the District's Budget

The "singles" and "family" strategies originally were drawn as polar cases in order to help us understand the implications of different types of growth for the District's long-term viability and stability. The District's recent past has illustrated how important it is for policy makers to focus not only on the size of the resident population, but also its family composition and its income levels.

Net out-migration, led by families with school-aged children, has resulted in resident households where, according to 2000 Census data, three-quarters are childless. Further, women head up about one-fourth of all households, and just over half have children. It is assumed that a viable and healthy city now and in the future would be one where there are diverse residents—singles, couples and families with children. Indeed, it would be hoped that we could build a city where residents would marry, raise a family, and mature to live a long and prosperous life.

The importance of examining critically the differential impact of potential resident population growth on the budget and long-term fiscal stability is perhaps even more important for the District than other cities. This city is uniquely on its own—without a State for help, without aid from its surrounding suburbs, and reliant solely on its residents for its tax base. This analysis is our best effort at deriving accurate information to place in front of the District's policy makers to aid them in their decision-making.

Methodology:

I. Revenues

Revenue estimates are based on the District's data and assumptions and should be treated as approximations. We estimated additional revenue the District would receive per household for five different types of households. The household tax burdens were determined through a methodology which combined sources: the District of Columbia's *Tax Rates and Tax Burdens* for real estate tax, automobile tax, and sales taxes; and Michael Ettlinger's[3] personal income tax burdens for two-earner families, with interpolation from that income distribution to two and three person families.[4] We applied tax rates and rules based on the full implementation of the District's Tax Parity Act in 2003.

II. Spending

To estimate the impact on District costs of increased population, we used FY2001 appropriated local funds spending trended 4 percent annually to FY2003. We estimated per capita spending, with the exception of schools.

The costs of certain services vary directly with population, including public and preventive health, HIV/AIDS, solid waste collection, library (part), Metro, settlements and judgments, and general litigation. At the same time, remaining Department of Public Works' costs are allocated to District residents according to the ratio of District residents to the sum of District residents and nonresident day-time population. The costs of other services vary according to the number of young adults (employment services); adults over 15 (motor vehicle regulation); and adults over 18 (mental health).

We assume that population increases of 10,000 to 20,000 will not entail higher costs for corrections, that transfer of inmates to Bureau of Prisons will determine cost trends in near future, and that overhead remains constant. Costs of services funded by maintenance of effort funds will not vary and are not included. For some services that benefit all District residents, additional weights were given to certain groups that tend to use the services more than others, such as children and the elderly using the library.

Finally, we assume that children in all new resident families will attend public schools (DCPS). Education costs reflect the weighted student formula used for FY 2001 budget, adjusted for an estimated 10 percent probability that the children will require special education within DCPS (average ad-on = $8,098), giving us an average cost per pupil.[5]

Estimated Impact on the District's FY2003 Own Funds Operating Budget for a New Resident Household, by Household Type

	Expected Cost	Expected Revenue	Revenue Minus Cost
Single person	$1,502	$5,847	**$4,345**
Couple, no children (2 earners)	$3,004	$15,954	**$12,950**
Four Person Family (2 earners)	$21,993	$15,740	**-$6,253**
Three Person Family (1 earner)	$20,491	$3,908	**-$16,583**
Two Person Family (1 earner)	$10,260	$3,968	**-$6,292**

III. Policy Guidance from the Analysis

The estimates produced in this exercise may be helpful to policy makers by serving as one way to link private development and growth to fiscal and budgetary health and stability. They can be used to derive some crude rules-of-thumb regarding the combinations of population growth that generate fiscal surpluses, the ones that generate fiscal deficits, and the ones that result in rough fiscal balance.

For example, for a growing population to be roughly neutral, or balanced, to the District's budget, given present tax and spending burdens, our estimates imply:

- An average four-person household roughly balances a two-earner couple or two single residents.
- A three-person family (one income earner and two children) roughly balances two childless couples, four singles, or one couple and two singles.
- A two-person family (and adult plus child) roughly balances two singles.
- Two two-person families (adult plus child) roughly balance a childless couple.

The table, the Appendix and our sensitivity analyses indicate that budget stability depends on the share of the population in families with children and the number of children per family. It would appear that **a good rule-of-thumb is that net budget balance requires that no more than 60 percent of new households have children** (see Table 2) **and that three-person families be less than half of all the households with children.** As the proportion of the population made up of single-earner households with more than one child rises, so does the probability of a negative net budget impact. The alternative goal of a net increase of 80,000 in population, for example, generates a net positive budget balance when the population is split into 40,000 singles and 40,000 in households with children, even if the bulk of the families have two children. However, the budget impact turns negative if 50,000 of the additional population are households with children, half of whom are single earners with two children.

Finally, a caveat. The point of this exercise has been to examine some idealized or stylized cases in order to insure that the composition of the population is not lost in the aggregate numbers. However, it is a simplified analysis. We have made no distinctions, for example, as to age of households or ages of children. We have worked on averages, rather than costs or tax contributions at the margin or individual differences from the average. And, of necessity, the numbers are rough and should be treated as "ball park" neighborhoods, rather than point estimates. Yet, this is a logically consistent effort and the best estimates that we could make. We believe that while investing more time and energy in the exercise might polish the numbers a bit, it would not bring enough certainty to the magnitude to justify the effort.

Endnotes

1 Carol O'Cleireacain is a Non-Resident Senior Fellow at the Brookings Institution. Alice Rivlin is a Senior Fellow at the Brookings Institution and co-director of the Brookings Greater Washington Research Program.

2 See Appendix for discussion of how these estimates were calculated.

3 Ettlinger, Michael. 1998. "A Distributional Analysis of the District of Columbia Tax System." *Taxing Simply, Taxing Fairly.* The District of Columbia Tax Revision Commission.

4 The District's real estate tax burdens do not include renters and assume a link between income and housing value, thus generating property tax burdens which are more likely to hold in the aggregate rather than for any particular individual or household.

5 Some of the data availability and simplifying assumptions argue for an over-estimation of costs and some for an under-estimation. It is our hope that these balance out in a crude way. Lack of access to the most recent Census data may mean that per capita costs are over-estimated. And, we have assumed all new students will attend public schools. On the other hand, we have omitted a number of budget expenditures for which information or further guidance would be needed, such as debt service for new construction for each development scenario, housing assistance, costs for improving schools, and other variable economic development costs.

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