Testimony of Anthony A. Williams
CEO and Executive Director
Federal City Council

Committee of the Whole
Chairman Phil Mendelson

"Fiscal Year 2021 Local Budget Act of 2020",
"Fiscal Year 2021 Federal Portion Budget Request Act of 2020"
"Fiscal Year 2021 Budget Support Act of 2020"

June 17, 2020

Good morning Chairman Mendelson and Members of the Council, my name is Tony Williams, and on behalf of the trustees of the Federal City Council ("FC2") I am delighted to testify on the District's Fiscal Year 2021 ("FY21") budget. My testimony today is informed by my own service to the District, both as a former Mayor and Chief Financial Officer at a time when the District was subject to a federally-appointed Financial Control Board. I am particularly proud of the manner in which District residents and public officials have worked together since the financial challenges of the 1990s to build the prosperous city of today.

Yet more should be done to extend that prosperity. The current COVID-19 pandemic is once again exposing the inequities in our community. Poorer individuals and individuals of color are bearing a disproportionate health and financial burden as a result of the coronavirus. At the same time, the murder of George Floyd, at the hands of Minneapolis law enforcement officers, further reminds us all of the sickening inequality in our nation. Our failure to recognize and develop the intrinsic worth of every person robs us – and more importantly them – of their promise.

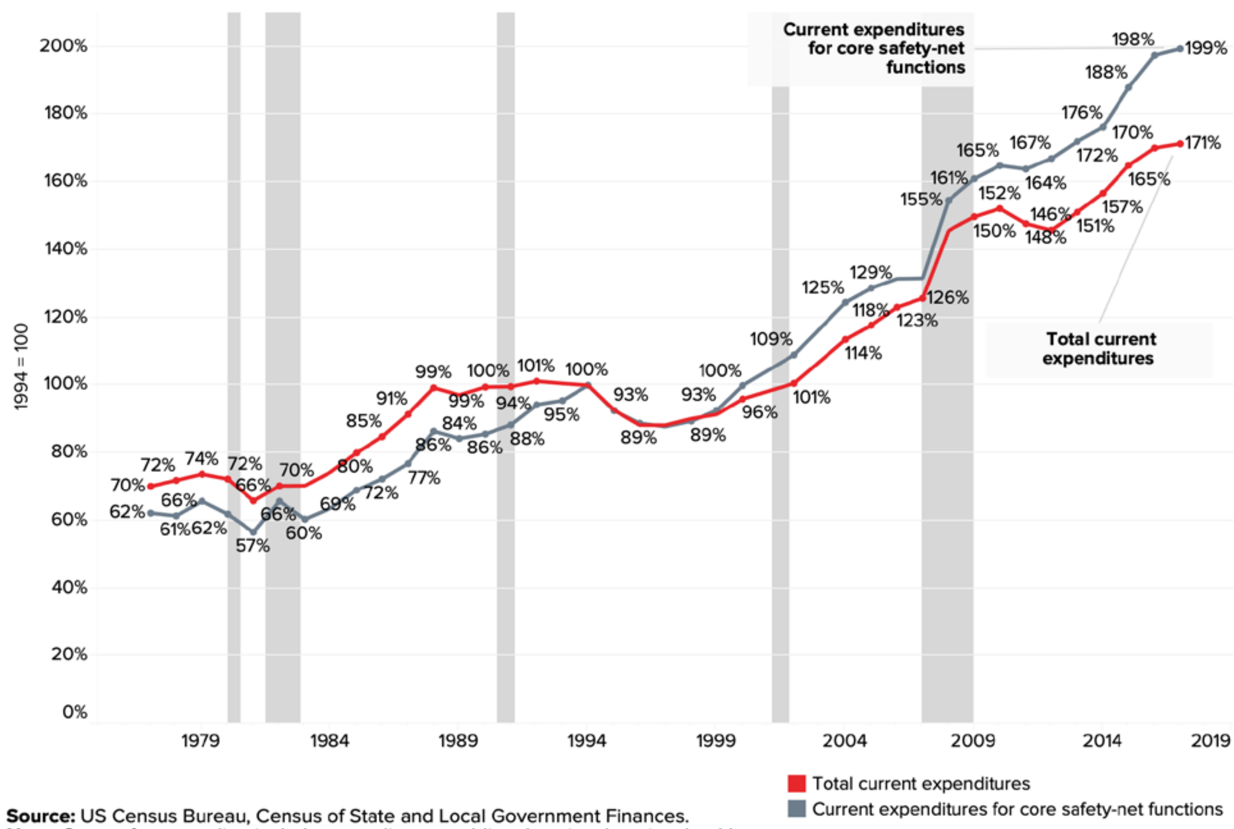
Correcting inequities means investing more in housing, healthcare, and education. Paying for those investments requires a strong economy and tax base. Indeed over the last ten years, responsible fiscal management and a historic economic expansion have enabled unparalleled government spending – even in the middle of current revenue declines.

The experience of the District of Columbia proves beyond any doubt that the government's ability to invest in a more equitable city is a direct result of our ability to attract residents, businesses, and economic activity to our city and to responsibly manage our finances.

This is why we urge District leaders to recognize the unprecedented threat that COVID-19 poses to the sustainability of our economy, and frankly, to your ability to spend money on important social programs in the future. If not carefully managed, the District could emerge from the COVID-19 crisis significantly weakened, which will force us to defer future investments in progressive agenda items. **Simply put, without a robust economy, it will be impossible to fund our progressive agenda.**

To illustrate this point, the following graph shows what happens when spending is out-of-control and the government lacks restraint and sound fiscal management. Government spending on the core safety net areas of education, healthcare, public welfare, and housing plummeted in 1994, the year before I became the District's CFO and did not return to 1994-levels until 2002, the end of my first term as Mayor – a full 8 years later! Our experience shows that residents who depend on safety-net services are the most impacted when the reality that the government can't tax and spend its way out of a financial crisis, such as the one threatened by COVID-19, sets in.

District's total spending and core safety-net* spending relative to 1994 (adjusted for inflation)



Source: US Census Bureau, Census of State and Local Government Finances.
Note: Core safety spending includes spending on public education, housing, health (including hospitals), and human services (including transfers).

The Mayor's FY21 Proposed Budget

Notwithstanding the near collapse of large segments of our local economy due to the coronavirus pandemic, the Mayor's FY21 budget avoids any significant reductions in important services and projects. This improbable achievement is owed to years of responsible decisions by multiple Mayors and Councils who have resisted annual calls to spend down the District's rainy-day funds or to postpone building reliable reserves for times like this.

In fact, the District's FY21 operating budget will increase by 3.6 percent compared to FY20 and by 12.8 percent compared to FY19. It's worth pausing to reflect on this point: Despite the *extraordinary* challenges posed by the current economy, the District is poised to increase spending by nearly 13% over the spending levels from just last September!

Thus, any suggestion that the Mayor's proposed FY21 budget is disinvesting in critical services or failing to support vulnerable District residents is incredibly inaccurate. With a proposed per capita spending in excess of $19,600 per resident, the District government is most likely investing more in its people than any other large jurisdiction in the nation. According to recently release analysis by the Urban-Brookings Tax Policy Center, regarding State *and* Local General Expenditures from 2004 to 2017, the District expended approximately $19,053 per capita in FY2017. By comparison, the States of California and New York spent $11,635 and $14,434 per capita, respectively.[1]

The District's Operating Funds Budgets						
Fund Type	**FY2018 Actual Expenditures[2]**	**FY 2019 Actual Expenditures[3]**	**FY 2020 District's Approved (July 2019)**	**FY 2021 Mayor's Proposed**	**Change Between FY2020 & FY 2021**	**% Change Between FY2020 & FY 2021**
General Fund	8,678.3	9,090.9	9,905.1	9,824.8	-80.4	-0.8
Federal/ Private	3,085.1	3,204.3	3,482.3	4,038.0	560.1	16.1
Total Operating Funds	11,763.4	12,295.3	13,387.5	13,863.6	476.2	**3.6**

The District's Operating Funds Budgets – Comparison FY19 & FY21				
Fund Type	**FY 2019 Actual Expenditures[4]**	**FY 2021 Mayor's Proposed**	**Change Between FY2019 & FY 2021**	**% Change Between FY2019 & FY 2021**
General Fund	9,090.9	9,824.8	733.9	8.1
Federal/ Private	3,204.3	4,038.0	833.7	26
Total Operating Funds	12,295.3	13,863.6	1,568.3	**12.8**

[1] https://www.taxpolicycenter.org/statistics/state-and-local-general-expenditures-capita.
[2] District of Columbia, FY2018 CAFR, p. 51.
[3] District of Columbia, FY2019 CAFR, p. 55.
[4] Id.

The FC2 would like to specifically support the following provisions of the Mayor's FY21 Budget Support Act, as illustrations of targeted investments with important implications for growth and equity:

- **Uniform Per Student Funding Formula Increase**: This subtitle increases spending to the base amount of the Uniform Per Student Funding Formula by 3.0 percent.
- **Creative and Open Space Modernization Tax Rebate**: This subtitle provides the Deputy Mayor for Planning and Economic Development ("DMPED") with up to $3 million in local grant-making authority to issue tax rebates for Qualified High Technology Companies that make qualified improvements in their workspaces.
- **More Efficient Use of Education Facilities**: The Budget Support Act paves the way to move the DC Infrastructure Academy to Spingarn and makes Wilkinson Elementary School available to a charter school or incubator. Also, when DCPS leases underutilized space in DCPS facilities to public charter schools, funds generated from these activities are required to be invested in the DCPS school where the co-location occurs, supporting additional school programming, supplemental staff, special initiatives, and other activities and programs.

While the FC2 applauds Mayor Bowser for her FY21 Proposed Budget, we want to point out that it is only possible with enhanced federal CARES Act assistance and the use of $532.3 million of the District's accumulated Fund Balance. In this regard, our accumulated Fund Balance is functioning precisely as planned; it serves as a *critical* and *temporary* stabilizing force for a year or two. Gratuitous spending, against these reserves, is both unwise and unsustainable.

Going forward, as federal assistance returns to pre-COVID-19 levels and our accumulated reserves are depleted, the Mayor and the Council will once again have to rely on our local tax revenues to support operations and to meet the needs of our residents. In anticipation of leaner financial times, the District government would be well-served to turn its attention to improved efficiencies and renewed efforts to measure the success of our various Departments and Agencies.

Before I continue, I want to underscore the role the FC2 has played in demanding that the White House and Congress treat the District like every other state for purposes of federal assistance. FC2 Trustees have been relentless on this matter and will continue to be.

The FY21 Budget Masks the Underlying Fragility of the District's Economy

FC2 Trustees are concerned that, as proposed, the District's healthy FY21 budget masks the fragility of the District's underlying economic condition. COVID-19 has brought with it an unprecedented economic contraction, which, if not addressed, can threaten the city's well-being for years to come. Many businesses, particularly small businesses, are burning through their cash reserves. Federal Paycheck Protection Program benefits will soon be exhausted. Small businesses are in immediate need of resources to pay rent, payroll, insurance premiums, and other basic expenses. To be candid, there is little recovery in sight for key sectors of the District's economy, including retail, food services, hospitality, arts and entertainment, and personal services. Many employers, which are barely hanging on, may be forced to permanently close or, at the very least, shed employees over the coming months.

When this occurs, it could threaten the assumptions that the District's robust FY21 budget are based on. For example, the Council postponed the payment of property taxes for hotels from March until the end of June, as well as the payment of most retail sales taxes until September. If businesses are using all their cash to keep the doors open, they may be unable to pay these taxes as anticipated. This represents tens of millions of dollars in lost revenue.

The same goes for personal income tax filings, which were postponed from April 15 to July 15, and real property taxes due in September. The District collects approximately $500 million in personal income taxes each April. As with business taxes, what happens if residents are unable to pay their mortgages? For many homeowners, their mortgage payments include their escrowed real property taxes. Accordingly, the system, which supports the orderly payment of real property taxes, may begin to breakdown. It bears noting that during the Great Recession of 2009, real property tax collections fell to 94.1% of the then-current levy. By contrast, in the 10 years since, the District averaged a real property tax collection rate of 97.95%. For every 1% decline in anticipated property tax collections, the District losses approximately $29 million.

Given the totality of the economic challenges facing the District, a comprehensive strategy is needed to address the situation. This strategy should focus simultaneously on the immediate needs of our employment community, as well as the District's long-term competitiveness. In the absence of a solid recovery, our vulnerable residents will pay the highest price through diminished economic opportunities and a weakened social safety net. As discussed, when the District's financial situation falters, those who are most in-need suffer disproportionately.

Charting a Strong Recovery

The Mayor and Council must take immediate steps to stabilize our economy and take a hard look at the District's overall economic competitiveness. Structural barriers to competitiveness that may result from COVID-19, include, but are not limited to:

- **Decline in the importance of business location** – The expansion in telework is eroding the importance of a worker's location, a trend that may be exacerbated by the recent quarantine. As a result, businesses may decide to move from high-cost jurisdictions to lower-cost jurisdictions. Two-thirds of District workers are commuters and 66 percent of regional workers can work from home.

- **Impaired demand for office space in DC** – An increase in telework could lead to a dramatic increase in office vacancy. According to analysis by CoStar, if one in four workers who is currently working from home due to COVID-19 were to permanently work from home, the District's office vacancy rate would climb substantially. Current vacancy rates in the Central Business District are around 15 percent – the highest in nearly 30 years! Any additional declines in demand could push vacancy rates into unsustainable levels, jeopardizing building valuations and reducing tax revenue for the District.

- **<u>A desire to move away from urban places</u>** – For two years in a row, more people have moved out of the District than have moved in. Our current population growth is attributed to the number of District births. At the same time, as proximity to work becomes less important, due to telework, individuals and families might choose to live in areas with lower costs of living. The pandemic will hasten this trend. It is worth noting that the District's tax base remains overly dependent on a relatively small number of taxpayers. In 2019, over 80% of all District income taxes are paid by approximately 25% of personal income tax filers.[5]

- **<u>Less revenue due to lost commuter activity</u>** – Like it or not, fewer drivers in the District will hit revenue collections hard. A 43% decline in cars on the streets of the District could reduce auto-related revenue by over $350 million. There would be lower parking taxes, meter revenue, and traffic enforcement revenue, to say nothing of the reduced economic activity of people visiting the District's commercial establishments, such as restaurants.

- **<u>Barriers to supply of housing</u>**– Restrictions on housing supply contribute to rising housing prices that make it more difficult for working residents to afford to live in DC. Without structural changes, which make it easier and less expensive to build more housing, it will become even more difficult for people who work in DC to live in DC, particularly in high opportunity neighborhoods.

- **<u>The District's levels of taxation & regulation, and overall competitiveness</u> –** A comprehensive review of the District's tax and regulatory policies and their impact on the competitiveness of the District's economy, as well as the cost of living and doing business in the District is long overdue.

After this competitiveness accounting, the Mayor and Council should look at whether (and how) the District could invest its own resources in the city's recovery and future economic prosperity. Specifically, we urge that these resources be expressly directed to communities that have suffered from historic underinvestment. These resources could include:

- The placement of certain District fund balance reserves in District banks, which provides capital for lending in underserved communities;
- Select investment of DC Pension Funds into areas in need of investment;
- Dedicating additional federal COVID-19 relief funds, if obtained, to benefit small businesses and employees through pass-through property tax abatements and additional micro grants, etc.

The Mayor's Fiscal Year 2021 Budget Support Act contains a few key provisions, which are unfunded, but are well-positioned to serve as vehicles for these types of investments. These provisions include:

[5] District of Columbia, FY2019 CAFR, p. 204

- **Economic and Community Development Grants in Wards, 5, 7, and 8**: This subtitle permits the DMPED to issue grants to organizations in Wards 5, 7, and 8 to support increased economic and community development in underserved areas.

- **Economic Opportunity and Creativity Grants**: This subtitle expands the grantmaking authority of DMPED to include issuing grants to support programs, projects, and initiatives that support the District's economic development goals and activities.

Conclusion

During these unprecedented times, I applaud the Mayor for developing a responsible budget that protects the District's social safety-net and makes critical investments in our future. Revealing the promise of our residents, especially those long subjugated, requires significant investment and opportunity.

For this reason, we urge the District to begin focusing immediately on the District's near-term recovery and long-term economic sustainability. It bears repeating that without a strong economy, there will be fewer resources to fund our progressive agenda and to invest in a more equal community.