July 17, 2020

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW
Suite 504
Washington, DC 20004

Subject: The Council's Consideration and Vote on the Fiscal Year 2021 Budget

Dear Chairman Mendelson:

We write to follow-up on our previous correspondence of July 3, 2020, in which we urged the Council to begin immediately addressing the economic crisis created by COVID-19, as part of its consideration of the District's Fiscal Year 2021 ("FY21") Budget. The failure to develop a comprehensive approach to addressing this economic crisis *now* will only prolong and worsen the economic pain of vulnerable District residents, which is why we urge the Council to develop such an approach. And the failure to make fiscally responsible budgeting decisions in light of falling revenues could lead to even worse economic pain.

We are fortunate that prior Mayors and Councilmembers invested wisely in a substantial accumulated reserve and resisted calls—year after year—to spend down these rainy-day funds. Had previous District leaders surrendered to the demands of certain vocal advocacy groups to spend those reserves when the sun was shining, the District would be cutting hundreds of millions of dollars from our FY20 and FY21 budgets today. It's a painful fate currently being experienced by states and cities across the nation.[1]

But we worry that current budget negotiations are losing sight of core budgeting principles. Fiscal prudence and a strong local economy go hand-in-hand. We learned difficult lessons in the past about what happens when governments overpromise and fail to understand the importance of a competitive local economy. The city's insolvency in the 1990s and the imposition of a Presidentially-appointed Control Board took a harsh toll, especially on our lower-income residents, when the money vanished and services were slashed.

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[1] "Recession Forces Spending Cuts on States, Cities Hit by Coronavirus," Wall Street Journal, July 8, 2020.

As representatives of many District employers, we are alarmed by the state of our labor market. But during budget deliberations, there was no discussion of a concrete plan to help District businesses survive COVID-19. Councilmembers cannot ignore the dire state of the District's economy.

Tens of thousands of District residents are out of work or on the verge of losing their jobs. These residents are looking to the Council for leadership and direction, which includes assistance in preserving their jobs and returning to work. Many businesses are on the verge of exhausting their cash reserves at the same time that Federal Paycheck Protection Program funds are running dry. This is a recipe for more closures and layoffs as businesses are unable to pay rent, payroll, insurance premiums, and basic operating expenses. Once closed, many of these businesses will simply not return, along with the services, jobs, and taxes that they provide. Some may move to Virginia or Maryland where the cost per employee is thousands of dollars less than in the District.

Some Councilmembers today argue the city must spend more because there is "great need." Of course, no one can deny that need and inequality persist in the District and elsewhere. However, just as we learned in the 1990s, an insolvent local government and a broken economy will not have the resources to close opportunity gaps. Raising taxes today will harm the ability to raise revenue in the future by weakening our economy's recovery. A better course of action would be to create government efficiencies, root out waste and enhance the District's economic and regulatory competitiveness.

We urge Councilmembers to remember that DC's tax regime is already extremely progressive. In 2019, over 80 percent of all personal income taxes were paid by just 25 percent of filers with incomes of $100,000 or more. Conversely, only 5 percent of personal taxes were paid by the nearly half of all filers with incomes of $50,000 or less.[2]

The same goes for spending. The latest comparative data show that the District Government spends over $19,000 for every city resident—the highest per capita (combined state and local) spending level in the United States and by a wide margin.[3] The District Government spends 89 percent more per resident than Maryland (~ $10,000) and 119 percent more than Virginia (~ $8,500).

Instead of tapping on the spending breaks, the District's FY21 budget would expand spending by 3.6 percent. That is an increase of **over 12 percent compared to the FY19 budget**, which just ended.

To be sure, Mr. Chairman, our frustration is not directed at you or your leadership of the Council. As long-time observers of the Council, we are grateful for your thoughtful service. As evidenced

[2] District of Columbia, Comprehensive Annual Financial Report for 2019, page 204.
[3] https://www.taxpolicycenter.org/statistics/state-and-local-general-expenditures-capita. Note: These figures include combined state and local per capita expenditures.

by your comments and those of several of your colleagues, during the recent FY21 budget deliberations, you and others do understand that our current financial situation is tenuous. We are, however, concerned that some Councilmembers don't share this understanding. This lack of awareness and action will have negative consequences for our local economy and will undermine our ability to meet our safety-net needs in the future.

Sincerely,

Jacqueline Bowens
President and CEO
District of Columbia Hospital Association

Kathy Hollinger
President and CEO
Restaurant Association of Metropolitan Washington

Angela Franco
Interim President & CEO
DC Chamber of Commerce

Peggy Jeffers
Executive Vice President
Apartment & Office Building Association of Metropolitan Washington

Solomon Keene
President & CEO
Hotel Association of Washington, DC

Lisa María Mallory
President & CEO
District of Columbia Building Industry Association

Jack McDougle
President and CEO
Greater Washington Board of Trade

Nicole Quiroga
President and CEO
Greater Washington Hispanic Chamber of Commerce

Anthony A. Williams
CEO and Executive Director
Federal City Council