July 13, 2021

The Honorable Chairman Phil Mendelson
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Ste 504
Washington, D.C. 20004

Re: The DC Council has more rigorous and comprehensive tools to evaluate major tax and paid leave benefit changes than the FY 2022 budget

Dear Chairman Mendelson,

Our city stands at a crossroads as you and other DC Councilmembers decide how public money will be collected and spent in the next few years. As representatives of the city's largest business membership organizations, we urge you to do your utmost to nurture our still-precarious economic recovery. Specifically, we urge you not to rush into a tax hike or paid leave benefit expansion without carefully considering the design and consequences of both.

Nearly two decades of a steadily growing population and economy have propelled a historic expansion in the city's tax base. It pulled the city out of a fiscal hole.

It also allowed for a historic expansion in public services for residents. Public schools and libraries have been systematically upgraded to be state-of-the-art facilities and educational outcomes have been on a steady incline. Metro now has a dedicated funding source. Affordable housing policy, from the Housing Production Trust Fund to the local voucher program, is among the most well-funded and generous in the country. DC guarantees near-universal health care coverage for its residents. DC still has a long way to go to spread opportunity and prosperity to everyone. But progress in the quality and quantity of government services, particularly before COVID, is indisputable.

The best investments by the DC Council are the result of a careful evaluation of all perspectives and attentiveness to the long-term health of the District of Columbia. It can be tempting to use the budget process for the sake of expediency or to fulfill longstanding policy goals, such as high-income earner taxation and paid leave benefits expansion. But the more rigorous policy path is to use all the tools at the Council's disposal to get it right the first time.

High Income Earner Tax

While no language has been introduced following a month of committee hearings and markups, many DC Council advocates are calling for higher tax rates on high income earners being added at the final votes in mid-summer.

The DC Council very recently endorsed a different approach, recognizing that tax policy is complex and interconnected, when it unanimously established a new Tax Revision Commission to evaluate and recommend changes to the tax code before rushing into any tax hike. The Council went further by putting in place a process to revisit tax policy every decade, recognizing the need to understand how our economy—and our tax base—has shifted and will shift in coming years.

This approach to tax policy is considered a best practice, but in this post-COVID environment, it is even more essential. We believe now is not the time to threaten our city's economic recovery with new taxes when economic uncertainty is at a high. We can no longer assume high-income residents will continue to stay in the District given the new teleworking mobility of high-skilled labor. DC was already especially vulnerable to losing office workers. Two-thirds of District workers are commuters and two-thirds of the region's workers can work from home. If costs continue to climb higher in the District, residents may pencil out their budget and find that it's just not worth it anymore to stay in the District.

Even before the pandemic, migration data from the IRS shows that there was net out-migration of households with a taxable income above $200,000. In 2019, the net loss of taxpayers in this income group took away $380 million in taxable income, which is approximately $23 million in income tax revenue.

There may be disagreement about how these trends will play out in DC post-COVID, but we think it is responsible to handle DC's delicate recovery with the same professionalism that helped our city navigate the pandemic. Public health experts directed much of the government response—as they should have. In the case of tax policy, the DC Council has put out the call for experts. Why make major tax changes without hearing from them?

Paid Leave Policy

A similar, careful approach should be used to assess the viability of expanding benefits in the paid leave program. It has only been in existence for a year, and it's a year that can in no way serve as an authentic baseline upon which to argue for significant programmatic changes.

The paid leave trust fund surplus, which arose out of unique COVID-related circumstances, should be treated as a one-time event. It should be used to fund one-time economic recovery priorities.

It should not be used to lock in benefit expansions that may be difficult to retract, could encourage fraud and may not be affordable in future years.

We ask that the DC Council consider changes to the paid leave program separately from the budget process. There should be separate public hearings after careful expert analysis about which benefit levels make the most sense and how best to fund them. The budget is not the right place to establish an entirely new benefits hierarchy with a new process, timeline, and order for the expansion of benefits without hearings that assess how the fund would operate under normal post-COVID scenarios.

The following specific changes proposed by the Committee on Labor and Workforce Development exemplify the changes that would be more responsibly evaluated on their own merits outside the budget process:

- Amending the DC Family and Medical Leave eligibility “lookback” from 12 months to within seven years;
- Expanding the retroactive benefit filing grace period from 30 to 180 days;
- Automatically expanding all benefit categories to 12 weeks based on annual fluctuations in the fund surplus;
- Removing the 7-day paid leave waiting period; and
- Expanding paid leave benefits to individuals who are currently not working or unemployed.

<u>A Legacy-Making Legislative Moment</u>

The DC Council is shaping a $17.5 billion operating budget with an unprecedented $2.3 billion in federal recovery funds. There is ample opportunity to invest in the District’s social needs and its economic recovery with the resources under your control.

The DC Council has better tools than the budget process to make major tax and paid leave benefit changes and should utilize all the tools at its disposal to make the best possible decisions for the District of Columbia.

Thank you for your leadership of the District of Columbia during this uniquely challenging period.

Sincerely,

Jacqueline Bowens, President and CEO
DC Hospital Association

Andrew Flagel, President and CEO
Consortium of Universities of the Washington Metropolitan Area

Angela Franco, President & CEO
DC Chamber of Commerce

Janene Jackson, Executive Director
Opportunity DC

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

Lisa María Mallory, Chief Executive Officer
District of Columbia Building Industry Association

Jack McDougle, President and CEO
Greater Washington Board of Trade

Anthony A. Williams, CEO and Executive Director
Federal City Council

cc: The Honorable Mayor Muriel E. Bowser
Members, Council of the District of Columbia
Dr. Fitzroy Lee, Interim Chief Financial Officer, District of Columbia