March 16, 2023

Dear Mayor Muriel Bowser and Chairman Phil Mendelson,

We are writing in advance of the transmittal of the Mayor's FY 2024 budget to the DC Council next week. We ask that the FY 2024 budget prioritize restoring vibrancy to the DC economy; supporting downtown's recovery; and preserving long-term investments in DC residents.

The CFO's recent projections suggest less tax revenue will be coming in the door, driven largely by declines in commercial property values. Last fall, members of the business community wrote to CFO Glen Lee, sharing our observation that the commercial real estate market was deteriorating in a way that was impacting building values and that soon would impact the tax base. Unfortunately, we were correct, and the city can expect $463.8 million less tax revenue over the next three years. It could get worse. The CFO's pessimistic scenario suggests that a revenue decline nearly twice as large is possible.

This budget will likely face harder, more contentious decisions about how money will be raised and spent. Saving downtown and commercial property values must be part of the plan. Future tax revenues—and spending on social services—depend on it.

Reinvigorating the Economy

As the Federal City Council shared on its recent bus tour of growing regional suburban nodes, the District is losing its competitive edge. The region's jobs and investments are increasingly flowing to Virginia and Maryland. In the past, the District as the seat of Federal Government and home to many federal government agencies had a regional monopoly on business attraction and being the go-to location for fun, walkable, transit-oriented urban spaces. That is no longer the case with the existing work-from-home environment for both private and public sectors. Moreover, National Landing, Reston and Bethesda can offer similar experiences.

The District has lost its edge among investors, too. According to the Association of Foreign Investors in Real Estate (AFIRE), the District has fallen from being the third most attractive city for international investors down to fifteenth. **The budget is the District's best tool to reinvigorate the economy, get started on the DC Comeback Plan, and rev up the city's downtown economic engine again.**

Tax Policy

It has always been more expensive for employers to locate in the District, but now the cost premium that businesses are willing to pay to do so is declining. **We ask that you impose no new tax-increases during**

this budget cycle; not only will new taxes impair businesses already under distress, but the signal it sends to existing and potential investors will counteract the District's broader recovery goals.

The Tax Revision Commission is underway. DC leaders should wait for its recommendations before enacting any new tax increases, starting with the sunsetting of the deed recordation and transfer taxes as scheduled by law. When the tax surcharge was imposed, you committed to making it a temporary increase. This commitment is more important now than ever, with commercial property taxes and deed taxes in decline and the real estate market in severe distress not seen for a generation.

There is another way to jolt the commercial property market. The elimination of the "gain exclusion to the unincorporated business franchise tax", which has been in place since January 1, 2021, has been a failed experiment and has greatly hindered outside investment in the District. Restoring this exclusion will remove an important barrier to capital investment downtown and across the city. Moreover, it will ensure more deed and recordation transactions and thus will create more revenue without increasing taxes.

Regulations

The regulatory environment matters for the city's attractiveness as a place to do business. You understand this, which is why you passed and signed the BEST Act last year, reducing barriers to entrepreneurship, small business formation, and business growth. This is a good start. We ask that you fund regulatory improvements, most notably the BEST Act business licensing fee reductions, and use the budget process to look for opportunities to streamline the administration of government programs, as well as the timing of disruptive capital projects and regulations passed in a different economic environment.

We need incentives to build more housing and attract businesses downtown, but they won't work if they are too heavily laden with regulatory requirements.

Protecting Core Services

The District's general fund budget has increased by $5.3 billion over the last decade. Given this budget growth, we hope you find it possible to **protect core government services in the budget process such as education and public safety**.

As a city, the District's long-term success is tied to its residents' success and we must not let up on preparing our young people to thrive through the education and workforce systems.

All residents are coping with a pandemic of gun violence in our city. Too often our young people are the victims and the perpetrators. The District must do more than what it is currently doing to support the youth. We would ask you to adequately fund public safety to help ensure that all our residents and visitors once again feel safe and secure in all the city's neighborhoods. As a city, we can't step back from this challenge.

Conclusion

With the tax base under threat, the choices ahead for the District will be difficult. Restoring the economy will take all of us working together. We agree with Mayor Bowser that the best way to revive downtown is not to discourage business from locating there. Collectively, we need to send a message that the District welcomes business and investment, and the budget is an important part of that message.

On behalf of the business community, we extend an open invitation to collaborate with you on solutions to help our city and residents thrive.

Very truly yours,

Anthony A. Williams
CEO and Executive Director
Federal City Council

Deborah Ratner Salzberg
Chairman
Federal City Council

On behalf of the following organizations and individuals:

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Angela Franco, DC Chamber of Commerce
Peggy Jeffers, AOBA

Jack McDougle, Greater Washington Board of Trade
Scott Reiter, REALTORS
Shawn Townsend, Restaurant of Metro Washington

Josh Bernstein, Bernstein Management Co.
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Peter Bonnell, The UIP Companies, Inc.
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Paul Dougherty, PRP Real Estate
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Stephen Grigg, Republic Properties
Monty Hoffman, Hoffman & Associates
Matt Kelly, JBG SMITH
Matt Klein, Akridge

Richard Lake, Roadside Development
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Councilmember Zachary Parker
Councilmember Charles Allen
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