How to Build a Resilient Economy:
Separating the Facts from Fear and Strategizing for the Future and Flourishing

Testimony submitted to the Committee on Business and Economic Development
Council of the District of Columbia

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Good morning, Chairman McDuffie and members of the committee, and thank you for the opportunity to offer testimony and participate in this roundtable as you grapple with the challenge of declining federal employment, and thus anticipated declining real property tax, sales, and hospitality revenues for the District of Columbia, as well as a potential mass sell-off of federally owned buildings within the city.

The long-term view

There has been substantial media coverage of the second Trump administration's efforts to reduce the size of the federal workforce. CNN estimates that 101,022 federal workers have been fired as of March 6.[1] While only 15% of the federal workforce is in the DC metropolitan area[2], a Washington Post analysis from December 2024 noted that the Washington, DC region is by far the most exposed large metro area to disruptions in the federal workforce, with 8.8% of all workers in the region directly employed by the federal government (other historically exposed major metros such as Colorado Springs, Virginia Beach, and Honolulu are all under 6% today).[3]

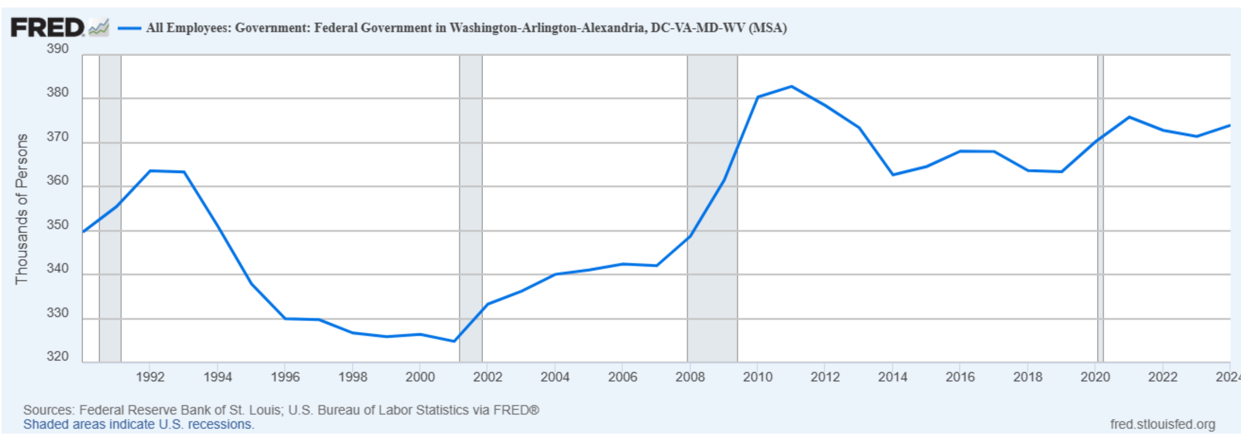
However, it is worth noting that even with the disruption of the coronavirus pandemic, in recent decades the overall economy has grown significantly more than the federal

[1] https://www.cnn.com/politics/tracking-federal-workforce-firings-dg/index.html
[2] https://help.usajobs.gov/working-in-government/myths/i-must-move
[3] https://www.washingtonpost.com/politics/2024/12/06/federal-workers-map/

workforce, and that this trend is not only national but also happening in the DC area. Thus, the region's reliance on direct federal employment has declined 5.3% since 2013, when feds were 14.1% of regional workers.[4]

Taking a longer-term view of federal employment in the DC area (Figure 1), we can see that over a 30+ year time period, the number of federal employees in the region has fluctuated between 320K and 390K, a spread of 70K workers, without destroying the city or its future. However, this is in part because increased federal procurement during this time period led to private sector job growth in the region that more than offset these fluctuations. One estimate suggests that 35% of private sector job growth in our region between 1990 and 2000 was due to federal spending.[5] So, while the good news is that there has been significant private sector job growth not directly dependent on federal spending, it is likely that the region's economic vulnerability to reduced federal spending remains large.

Figure 1. Federal employment in the DC area fluctuates over time



Source: https://fred.stlouisfed.org/graph/?g=1EexG

Lessons from recent history: sequestration

That said, the time period from 2011 to 2014 is a helpful recent reference. During sequestration, a set of automatic ~7 – 10% cuts across the federal budget that were in the Budget Control Act of 2011, the region shed about 20K federal employees over a two year period (Figure 1) and federal procurement spending in the city fell by $7 billion[6], which combined with the cumulative impact of the Great Recession caused a revenue shortfall for the District. It is worth noting that in FYs 2011 and 2012 revenues ended up being higher than the estimates, and that looking back the impact of the recession on revenues was far

[4] https://www.govexec.com/management/2013/11/which-metro-area-has-highest-share-federal-employees-hint-not-washington/73937/
[5] https://www.brookings.edu/wp-content/uploads/2016/06/Federal_Procurement_FY00-1.pdf
[6] https://ora-cfo.dc.gov/blog/importance-federal-contracting-districts-economy

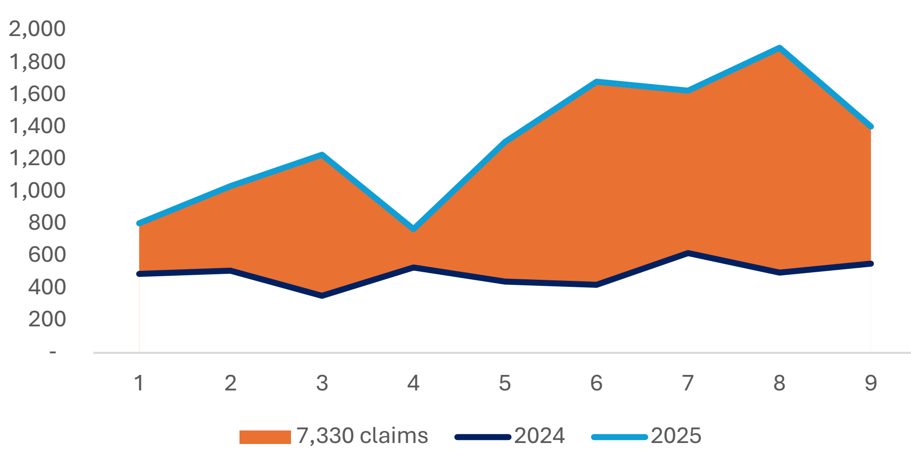
more severe than the impact of sequestration. In addition, residential property values dipped only slightly during this time and are currently still at historic highs, even adjusted for inflation. For the present moment, therefore, while the emotional proximity may feel less, the potential economic impacts of tariffs could exceed those of DOGE.

To the extent to which the lessons of sequestration apply to the current moment, we should remember that in the wake of sequestration, in 2015 MWCOG declared a focus on regional economic competitiveness centered on diversifying the local economy and prioritizing activity centers.[7] While our city and region have made real progress on these goals in the ensuing ten years, there is still enormous room for greater collaboration, investment, and realignment around these goals from our regional business community and our local governments. If Milwaukee can do it[8], so can we.[9]

This time might be different

That said, the analogy between sequestration and DOGE is clearly far from a perfect fit. Looking at the first nine weeks of calendar years 2024 and 2025, initial unemployment insurance claims in the District are cumulatively over 7K higher this year (Figure 2). This pace of job loss is steeper than sequestration, and could potentially be cumulatively much greater; the same is true for federal procurement spending.

Figure 2. YoY unemployment insurance claims in the District are significantly higher



Source: https://fred.stlouisfed.org/series/DCICLAIMS

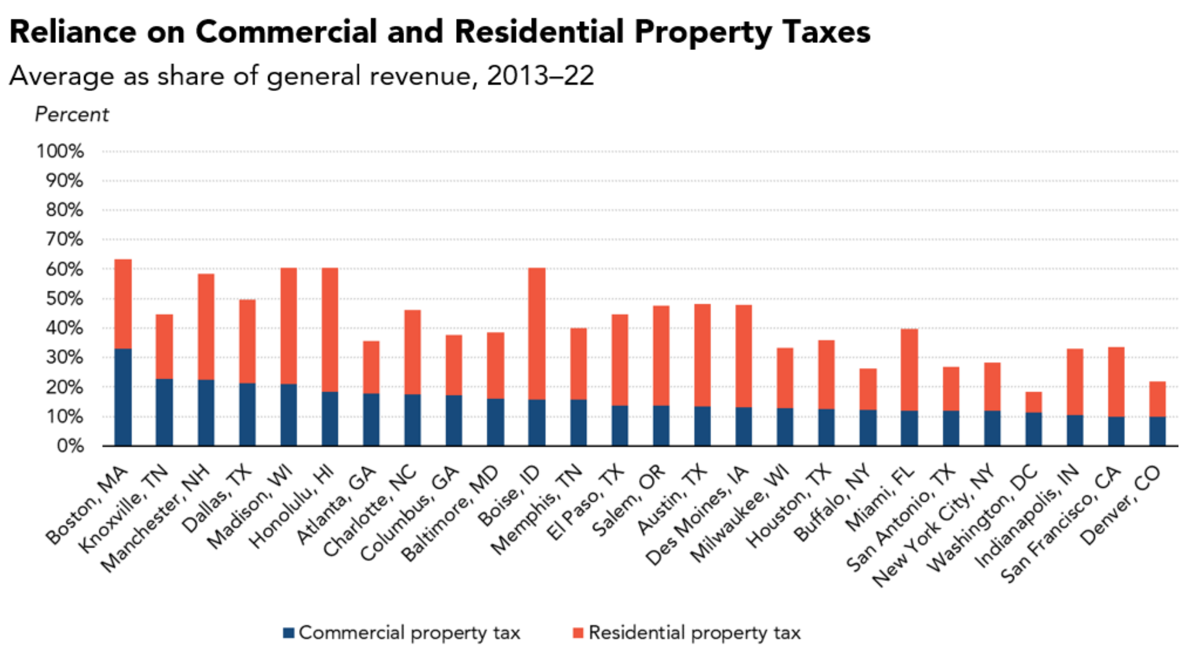
[7] https://www.mwcog.org/about-us/newsroom/2015/03/13/cog-board-launches-2015-focus-on-regional-economic-competitiveness-economic-competitiveness-economy/
[8] https://www.brookings.edu/articles/regional-alignment-not-competition-how-greater-milwaukee-is-remaking-economic-development/
[9] https://www.brookings.edu/articles/remaking-economic-development-the-markets-and-civics-of-continuous-growth-and-prosperity/

Therefore, it is prudent for the District to prepare for impacts beyond what we can expect from looking back at sequestration.

First, while property valuations remained mostly stable through the sequestration time period, the DC CFO does not project the same at this time due to two negative forces impacting office real estate in DC: 1) the structural reduction in demand across sectors caused by the widespread adoption of hybrid and remote work; and 2), the movement by the Trump Administration to eliminate or relocate multiple federal agencies and dump their real estate assets on the market simultaneously.

The good news is that DC has some protection from commercial property volatility. In FY2023, commercial property taxes were 14.2% of the District's local revenue.[10] Compared to peer US cities (Figure 3), the District has a much more diversified revenue model, in part because there is no distinction in the District between revenues available to local government and the state.

Figure 3[11]



Source: Authors calculations based on each city's Annual Comprehensive Financial Report (ACFR).
Note: There were 47 cities in the analysis. These 25 cities had the highest reliance on commercial property taxes. General revenue includes transfers from state and federal governments. Other sources of city general revenue.

Many local jurisdictions seek to add jobs without adding residents as a fiscal strategy. However, the District's relatively unique revenue mix means the city is relatively well

[10] https://ora-cfo.dc.gov/sites/default/files/dc/sites/ora-cfo/publication/attachments/DC%20Tax%20Facts%20Visual%20Guide%202024_final.pdf page 5
[11] https://taxpolicycenter.org/taxvox/navigating-looming-commercial-property-tax-shortfall

positioned to gain strength from residential growth, not just from residential property taxes, but because 26.4% of the city's revenue comes from income taxes.[10]

Given these fundamentals, there are two logical responses to the structural reduction in demand for office space. The most obvious is to convert obsolete offices into housing, which is already happening across the city. However, since such projects are relatively niche, a much larger, more impactful, and complimentary strategy is to simply add more housing citywide. The District's residential population is still more than 20% below its WWII era peak.[12] A larger labor pool would also have the complimentary effect of making the District more attractive to employers, including those that still use offices. Given that the city is undertaking a comprehensive planning process, ask yourself: what would the next comprehensive plan look like if one goal was to ensure the city's fiscal strength and resilience?

That said, both residential developers and potential residents themselves are looking to see job growth and locational amenities as major factors in their location decisions. With the current uncertainty about employment related to federal spending, housing is at best a medium-term strategy. In the short term, revisiting the city's existing policies to evaluate the extent to which the District is an easy place to start a business, be an employer, and grow a successful enterprise is critical.

Three ways DC can invest in placemaking and small business starts, growth, and retention

Research from the DC Policy Center has emphasized that the number of businesses in the city remains higher than pre-pandemic, indicating positive growth.[13] In fact, a US Chamber of Commerce analysis ranked DC #7 of all states nationwide in business applications per capita in 2023 – we are clearly an incredibly entrepreneurial city. However, the Chamber also noted that new business applications were down 5.6% in DC in 2023 compared to 2022, while Maryland had 0.5% growth and Virginia had 2.7% growth.[14]

These are early warning signs that something is shifting in the business environment in DC. My comments here will specifically focus on the policy environment impacting storefront businesses, whose well-being matters not just for their owners and employees, but also the overall quality of their neighborhoods – hence, placemaking. The key takeaway is that

[12] https://fred.stlouisfed.org/series/DCPOP
[13] https://www.dcpolicycenter.org/publications/2024-state-of-business-report-creating-a-thriving-business-environment/
[14] https://www.uschamber.com/small-business/new-business-applications-a-state-by-state-view

DC is struggling to both require businesses to ***be*** better while growing their bottom lines so they can ***do*** better. There are three ways to fix this.

#1: Offer pop-up permitting citywide

We know we have the entrepreneurs with ideas. However, an individual trying to start a storefront business in DC will quickly run into a wall, which is how hard it is to get a certificate of occupancy. It can take up to 14 months to get a certificate, and there is no cap on this process. For storefront businesses, that means paying rent for months, even over a year, before they can open their doors, so they start in the hole. There is no case management or QAQC of the inspection process, so individual inspectors go out and give their individual take. You can get different answers from different people about one issue, and the answer you get from one person isn't binding on other people. Ultimately, this incentivizes non-compliance or corruption. It also disadvantages disinvested neighborhoods that have older buildings and accumulated deferred maintenance.

While there's no one quick fix to this process, in the meantime I note that Downtown DC has pop-up permits to make it easier for businesses to occupy spaces. These are basically temporary permits that you can get in one day. As a matter of both equity and economic development, why not make these available citywide?

#2: Maximize economic development investments in technical assistance to businesses

In the past few years, new laws have made major changes to the operating realities of storefront businesses in DC, from big changes like paid family leave and I-82 to banning straws and the Office of Human Rights anti-sexual harassment training course requirement. Logically, any requirement where compliance is paid for by businesses will result in business loss or even failure if it does not also provide return on investment (ROI) to the business. Therefore, to the extent that the city is going to change operating realities, the city should also invest in technical assistance to businesses to both support compliance and grow returns.

Right now much of our assistance to small businesses is in the form of grants. And it is true that access to capital is a huge issue in starting a business. However, rather than more and more granting, the public sector could also address this by reducing the amount of capital needed to start a business through structuring greater certainty into the startup process (those certificates of occupancy!). There are also a lot of other factors that go into a small business owner being able to access capital. Most small business owners can't go to a bank or even CDFI and get capital on their own today – they need technical assistance. So that is another area where the public sector could help, but where we have made limited and uneven investments, primarily through our Main Streets programs.

The first and biggest issue with this is that most of the city is not covered by a Main Street program. Small businesses within business improvement districts or only within shouting distance of a Main Street cannot access technical assistance. In addition, there is too much variation across Main Street programs in the extent to which they even provide technical assistance that is directed towards specific, measurable goals related to business growth, such as reducing debt, growing revenue, growing customer base, buying real estate, etc. Main Street efforts that are focused on appearance and awareness, such as façade improvements and marketing, while helpful, are about vibes and are limited in their impact without undergirding work on fundamentals of individual businesses.

The city should overhaul small business and place-based economic development approaches to incentivize such technical assistance and broaden the reach of providers who can demonstrate they are performing.

#3: Streeteries and vending are a chance to grow the pie

During the pandemic, being able to expand outdoors generated a lot of revenue for both storefront businesses and the city, as well as creating jobs. However, the early streeteries were a response to an emergency, and it makes sense to formalize their implementation for the long term. However, it's been five years since the pandemic started, and the updated streetery rules are still not available. In the meantime, businesses that have invested tens of thousands of dollars in streeteries may be rendered noncompliant in the future.

In addition, the council's attempts to legalize vending are stuck in a multi-agency Catch-22, where vendors can't get business licenses because they need health inspections, and can't get health inspections because they need business licenses.

Our livable streets are an asset unique to the District in our region. We need to leverage them with guidelines that balance private sector costs against potential public risks.

Conclusion

In conclusion, the current moment may feel full of very novel and existential threats to the future of the District. The regional solution remains the same as it has always been: uniting the economic development efforts of our regional business community and local governments to prioritize investment in strategic industries, invest in the innovation and talent ecosystems, and boost trade. However, part of how to meet the moment is to also focus on the hyperlocal parts of the District's unique value proposition that are most under our control and do our best to optimize them.