Glen Lee
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Joyce, Ranking Member Hoyer, and members of the Financial Services and General Government Subcommittee. I am Glen Lee, Chief Financial Officer of the Government of the District of Columbia.

I lead the Office of the Chief Financial Officer (OCFO), which is an independent agency created by Congress and is charged with ensuring the financial integrity and long-term fiscal health of the District's government. I am pleased to provide testimony today on the current state of the District's economy and finances.

The District Government's finances are strong despite challenges in our economy brought on by remote work. The District's knowledge-based, high-wage economy is expected to grow at a modest rate through fiscal year 2028.

District employment is dominated by a substantial presence of federal agencies, government-related private service firms, international organizations, and universities. This employment base has been historically resilient, acting as a buffer against economic fluctuations that may disrupt other metropolitan economies.

Hundreds of historical sites and major cultural attractions lead to a dynamic hospitality and tourism sector supporting thousands of local businesses and tens of thousands of jobs. While this sector clearly suffered a sharp downturn during the pandemic, an all-time high of 26 million people visited the District in 2023.

The District Government is characterized by exceptionally strong financial management policies and practices. From my view, the District's most important practice is the annual development of a five-year budget plan that is bound by independent revenue forecasts generated by my office. Developing budgets on a five-year time horizon allows our elected policymakers to consider both short-term program outcomes as well as longer-term spending, revenue, and liquidity trends.

To facilitate budgeting for capital spending, the District maintains the most comprehensive and detailed capital asset management system of any city or state government in the country. This system provides District elected leaders and

stakeholders with a plan to address deferred maintenance of assets and infrastructure within 10 years.

The District maintains an exceptionally strong system of budgetary control, and keeps reserves for unforeseen expenses and to maintain liquidity. The District has strong financial transaction controls, which have resulted in "clean" financial audits for 27 consecutive years.

The District's pension and other post-retirement obligations are nearly or fully funded. As a result, the District's expenses to support post-retirement benefits are low compared to many other major jurisdictions around the country.

The District's debt service burden is stable and manageable. Borrowing costs are limited to 12% of general fund expenditures. While relatively high compared to many major cities, the District essentially finances the combined capital needs of a major city, a county, a school district, and a state.

Currently, the District's reserves, fund balances, and liquidity are strong. The District reserve funds, when fully funded, are 17% of the budget. In addition, fund balances beyond the reserves amount to roughly 25% of the General Fund budget. While the District's current five-year budget plan anticipates spending a large portion of the fund balances, we are working with District officials to ensure the remaining balances are sufficient to support the District's liquidity needs.

As a result of the District's policies and strong fiscal condition, the District attained a triple-A rating from credit rating agencies, an accomplishment achieved by only ten of the 25 largest cities and a rating higher than 38 states.

Like many other major cities in the United States, the District's primary fiscal challenge is addressing the consequences of the dramatic increase in remote work, which had its origins in the pandemic. Survey evidence by leading economists indicates that remote work represents a transformational shift in the employment market, not a temporary cyclical change. Data on office building utilization continues to show that office use is roughly 50% of what it was before the pandemic.

This means that between 100,000 and 250,000 workers are not commuting into the District each day. Fewer workers in buildings means fewer public transit riders, fewer people buying goods and services from businesses, and a reduction in demand for office space. The impact of the declining commercial property market has been incorporated into our revenue forecast and financial plan.

These trends reduce growth in District tax revenues to a level at or below the rate of inflation. Prior to the pandemic, revenues typically outpaced inflation by two or more percent each year. Relatively slow revenue growth requires elected officials to reduce the growth in spending, increase taxes, or encourage new economic development pathways that materially expand the tax base.

In conclusion, I believe that the District's high-wage economy and sound financial practices provide the resources the District's elected leaders need to overcome our current economic headwinds.

Thank you for allowing me the opportunity to provide testimony to the Subcommittee, and I am happy to answer any questions you may have.

DC Government Scope

- DC Government performs the functions of a city, county, state and school district
  - Human services, including Medicaid
  - Education – Public and Charter schools, University, Parks and Libraries
  - Economic development and regulation
  - Public safety
  - Infrastructure, Transportation, and WMATA

- Federal programs that support the District
  - Criminal Justice – Prosecution, Courts, Supervision
  - Education
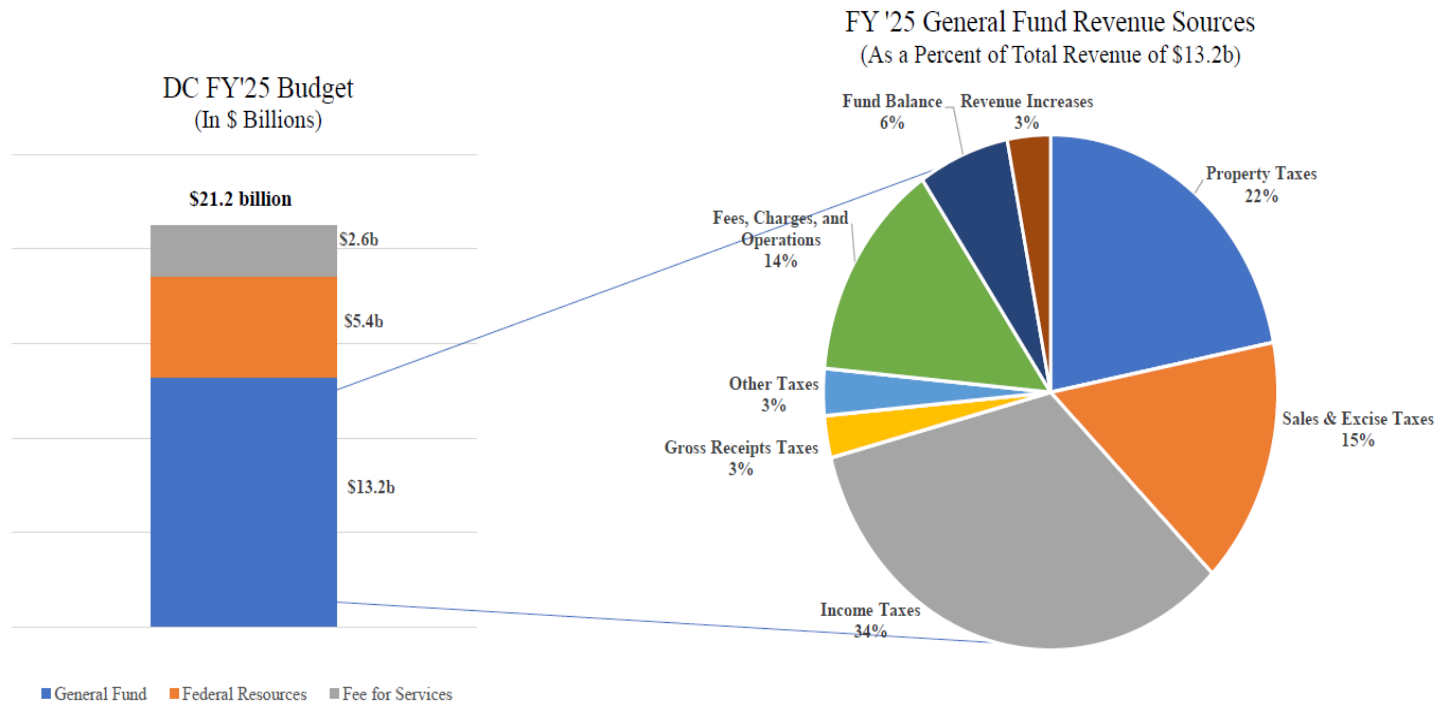 - Emergency Planning and Security Support

Office of the Chief Financial Officer
Government of the District of Columbia

DC Budget

- Operating budget (FY 2025)
  - $21.2 billion
    - ➤ $13.2 billion local taxes and levies
    - ➤ $5.4 billion federal operating and capital grants
    - ➤ $2.6 billion fee-for-service programs

- Capital budget
  - Six-year budget of $12 billion, averaging $2 billion annually
    - ➤ Roughly half for transportation including WMATA
    - ➤ Supported by debt proceeds of $8 billion ($1.4 billion annually), federal grants, and cash

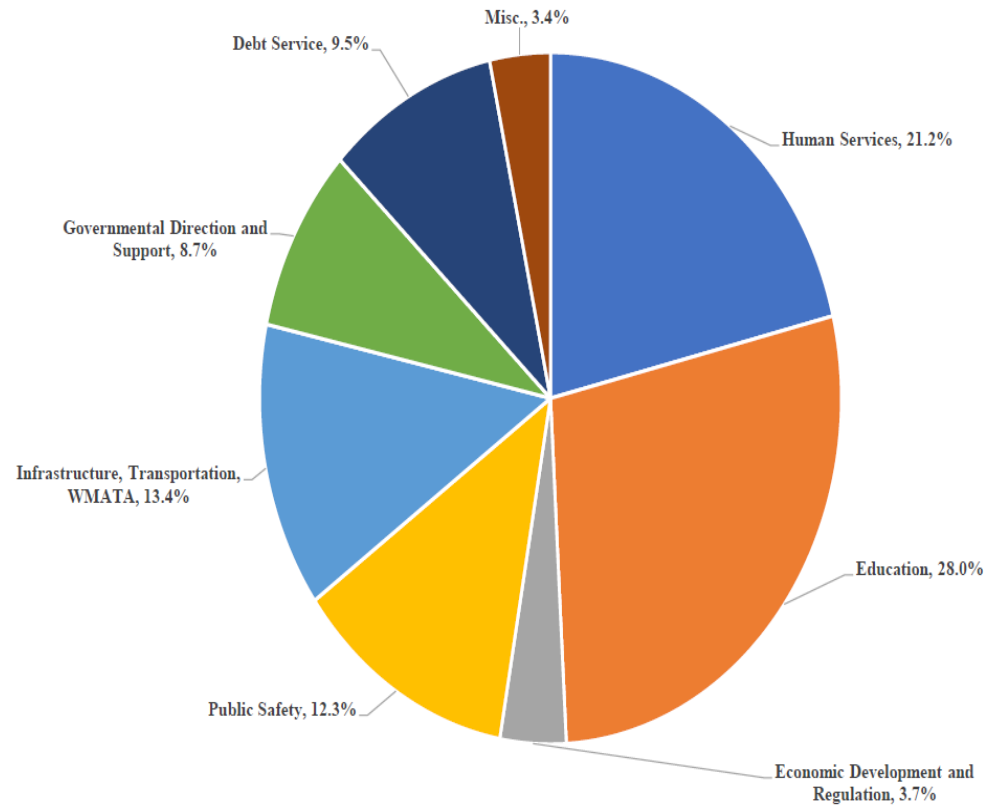- Federal programs that support the District
  - $850 million annually

Office of the Chief Financial Officer
Government of the District of Columbia

Appendices: DC General Fund Revenue FY 2025

DC FY'25 Budget
(In $ Billions)

$21.2 billion

- $2.6b
- $5.4b
- $13.2b

■ General Fund ■ Federal Resources ■ Fee for Services

FY '25 General Fund Revenue Sources
(As a Percent of Total Revenue of $13.2b)

- Fund Balance 6%
- Revenue Increases 3%
- Property Taxes 22%
- Fees, Charges, and Operations 14%
- Other Taxes 3%
- Gross Receipts Taxes 3%
- Sales & Excise Taxes 15%
- Income Taxes 34%

Office of the Chief Financial Officer
Government of the District of Columbia

6

FY '25 General Fund Budget By Function
(As a Percent of Total Budget of $13.2b)

Misc., 3.4%
Debt Service, 9.5%
Human Services, 21.2%
Governmental Direction and Support, 8.7%
Infrastructure, Transportation, WMATA, 13.4%
Education, 28.0%
Public Safety, 12.3%
Economic Development and Regulation, 3.7%

Office of the Chief Financial Officer
Government of the District of Columbia