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**TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR,
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**At the Public Oversight Roundtable on
"Small Business Property Tax Relief"
District of Columbia Committee on Finance and Revenue
October 10, 2007**

Chairman Evans, other members of the Committee, thank you for the opportunity to speak today. My name is Ed Lazere, and I am the executive director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. Thank you for the opportunity to testify on this important issue.

The goal of helping small businesses facing rising costs of doing business as a result of the city's economic revitalization is important. It is somewhat analogous to the risk of displacement that many low-income families are facing because of rising housing costs. It reminds us that dynamic growth has a downside as well.

In recognition of this challenge, the DC Council appropriated \$11 million in the FY 2008 budget for small business property tax reduction. The Council left the details to be determined later, however, in large part because of difficulty in designing an appropriate mechanism to deliver tax relief to small businesses, many of whom do not own their buildings and/or are located in large buildings.

One of the options being considered is a grant for small businesses that have experienced large increases in the property taxes in recent years. While this appears on the surface to be a reasonable target, I have several concerns with this approach and believe the Council should consider alternative methods to help small businesses.

First, it's important to remember that recent sharp increases in assessments and tax bills for commercial properties reflect market changes. Commercial lease rates and sales prices have increased dramatically in recent years, a sign that DC's real estate market is strong — and an indication that the commercial property tax rate has not been a hindrance overall to the city's real estate market.

These market factors also suggest that property tax reductions may not accomplish the goal of helping small businesses remain viable in gentrifying markets. Businesses facing higher taxes also are likely to face rent increases as soon as their leases expire. Indeed, media coverage about challenges facing small businesses in DC has focused on rising rents as much as on taxes. In other words, the changing market poses the greatest threat to these businesses, and rising taxes is just one symbol of that.

Moreover, the \$11 million that the Council appropriated is a relatively small sum. If distributed as a grant to businesses facing tax increases, it will likely go to a limited number of small businesses. To have any meaningful impact, the benefit would have to be available each year to the businesses that get it in 2008. Otherwise, it will simply be a one-time benefit with no obvious long-term impact on business success. Unless the program is greatly expanded—and it is not clear there is support for that—a grant tied to tax increases will create a small favored group of businesses while leaving other deserving businesses out.

Third, it is not clear that rising property taxes is the best way to target tax reductions. A business located in a thriving area, where property values are rising, could be experiencing a substantial increase in gross receipts, in which case tax increases would not be a problem. A business in a thriving area that is not seeing an increase in business, by contrast, could be poorly run or simply not the right kind of business for a changing market. Yet these are the businesses that would have the greatest motivation to apply for tax reduction benefits.

When I testified on this topic in 2006, I suggested that the District might do better to provide technical assistance to small businesses to help them remain profitable, rather than offering tax breaks. It is my understanding that the Department of Small and Local Business Development has prepared such a proposal to use the \$11 million to provide grants, loans, and loan guarantees to small businesses. This has several potential advantages. Because loans and grants would likely be one-time funding, the program could cover an expanding number of businesses each year, compared with a tax-relief mechanism that would likely serve the same businesses over time. A grant or loan program with an application process also would allow the District to identify businesses that would most benefit from assistance, rather than simply those facing a tax increase. While this may be somewhat different from the intent of the \$11 million appropriation as originally conceived, it may be a better way to achieve that goal.

Finally, one of the challenges faced by locally owned businesses is the competitive advantage that national chains have, given their brand-name recognition, national marketing, and efficiencies of scale. If one of the city's goals is to help preserve unique locally owned retail in DC neighborhoods, one option is to adopt some form of formula business zoning regulations. These are regulations that make it more difficult for national chains to locate in targeted neighborhoods. While zoning restrictions are a blunt instrument, they would help locally owned businesses who cannot afford the rents that national chains can and it would directly address the goal of preserving small locally owned businesses.

Thank you for the opportunity to testify. I look forward to answering any questions you may have.