DC Fiscal Policy Institute

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Testimony of Ed Lazere
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At The Public Hearing On
Bill 18-969, the Adams Morgan Hotel Real Property Tax Abatement Act of 2010
DC Council Committee on Finance and Revenue
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Chairman Evans and members of the Committee, thank you for the opportunity to testify 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.

I am here to testify against Bill 18-969, which would give a 15-year, 100 percent property tax abatement to the owner of a luxury boutique hotel operated by Marriott. DCFPI opposes this bill for a few basic reasons:

1. There is no evidence that the owners need public assistance to build this project.
2. The tax abatement would result in a substantial loss of tax revenue for the District — $61 million over 15 years.
3. It is unclear what benefits the District would receive from the project, making it difficult t o assess whether the proposed $61 million costs in lost tax revenue are justified.
4. Plans for the hotel include a restaurant and bar. Granting a tax break to these establishments but not to the longtime owners of neighboring restaurants and bars in the Adams Morgan nightlife district would give an unfair competitive advantage to the hotel.

Very simply, this bill is yet another example of bad economic development policy in our city. The use of tax abatements and other economic development tools should be to create incentives to build projects that would not otherwise move forward and that offer substantial benefits to the District—either by acting as catalysts for areas in our city that have not experienced development or by offering affordable housing or as a major job stimulus, to give a few examples. Yet there is no evidence to suggest that any of these goals would be met through the proposed Adams Morgan Hotel tax abatement. Instead, it appears that the developer is seeking a tax abatement out of an expectation that he all development projects are entitled to them. Brian Friedman of Friedman Capital recently told the *Washington Business Journal* that "It's like any other hotel built in this city…There's always a subsidy."

It is time, especially given our budget crisis, for that expectation to change.

There is no evidence that the owners need public assistance to build this project.

The proposed project is a $100 million, 150-room luxury hotel designed by Ian Schrager and operated by hotel conglomerate Marriott to be built at the corner of Euclid and Champlain Streets NW in Adams Morgan. These "Edition" hotels are part of a new effort by Marriott to open boutique hotels in cities around the world. The first of 100 planned hotels opened in Waikiki Beach in Hawaii, and others will soon open in Istanbul, Barcelona, Bangkok and South Beach. I mention this because Schrager and Marriott clearly see an economic opportunity in the District. There is no evidence that they wouldn't be able to move forward on this hotel without economic assistance from the city.

The proposed tax break would have substantial costs for the city, yet those costs would be hidden because they occur outside of DC's four-year financial plan window.

A just-released fiscal impact statement indicates that this bill would cost the city approximately $61 million in lost tax revenue over 15 years. That's money that will be unavailable starting in Fiscal Year 2015 for schools, trash collection, and public safety, among others.

It is important to note that this tax break would not start until 2015, presumably because that is when construction will be completed. By starting the tax break in FY 2015, however, the Adams Morgan Marriott hotel tax exemption has no official fiscal impact, because the fiscal impact is only measured in a four-year window. This is an increasingly common problem with tax abatements tied to development projects. Because the project will not be completed for several years, the official impact on DC's finances is grossly understated. Fortunately, the CFO's fiscal impact statement projects costs beyond four years to inform policymakers and the public on the full costs of legislation.

It is unclear what benefit the District would receive from the project, and whether the cost of what we are giving away in property tax revenue will be more than the gain in economic development.

What would we get for $61 million? We don't know. This gets to a greater issue. Rather than continuing the current process of providing tax abatements on an ad hoc basis, the District should adopt guidelines to determine when a property tax abatement or exemption is justified. The Exemptions and Abatements Act of 2009, which had a hearing in this committee earlier this year, would fulfill this goal by requiring the Office of the Chief Financial Officer to determine whether the developer would be unlikely to undertake the project without assistance from the city and to quantify the benefits the District is likely to receive as a result of the tax relief.

Plans for the hotel include a restaurant and bar, and granting a tax break to these establishments but not to the longtime owners of neighboring restaurants and bars in the Adams Morgan nightlife district would give an unfair competitive advantage to the hotel.

Most restaurants and bars in DC are required to pay property tax. Exempting one restaurant or bar from these taxes creates a competitive disadvantage for other businesses in the area. Why should the bar in the "Edition" get a tax break while Madam's Organ or Toledo lounge doesn't?

Thank you for the opportunity to testify. I am happy to answer any questions.