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# MUTUALLY BENEFICIAL: HOW DC CAN BEST INCENTIVIZE KEEPING LIVING SOCIAL IN THE DISTRICT

By Kwame Boadi

LivingSocial, the online daily deal company, is looking for its own deal from the District of Columbia. The company says in order to stay in DC, where it is currently headquartered, it needs some financial incentives. The Gray Administration and LivingSocial have negotiated a $32.5 million tax break package, which is now currently before the DC Council for approval. The "Social E-Commerce Job Creation Tax Incentive Act of 2012" would give LivingSocial a $17.5 million corporate income tax break and a $15 million property tax break if the company meets certain identified targets. LivingSocial would also qualify for other DC subsidies available to high-tech companies, and these could add up to $5 million or more in additional tax breaks.

Should the District buy this deal? Yes — if the legislation is strengthened to make it a good deal for both LivingSocial and DC. Right now, the legislation benefits LivingSocial by handing over a lot of taxpayer dollars without many safeguards that the District will gain from the transaction as well. A few additions to the bill — such as guaranteeing job growth and hiring of DC residents, mandating good wages and benefits, and requiring LivingSocial to stay in DC for the long-term and maintain its product development headquarters here — will make the deal mutually beneficial.

There are good reasons to encourage LivingSocial to stay in DC. It is a homegrown company that has gone from an idea among four friends to over 1,000 employees in the District today. Half of LivingSocial's DC employees live in the city. It has 130,000 square feet of office space in the city, and wants to purchase or lease a new headquarters of at least 300,000 square feet. With its projected growth over the next few years, both Mayor Gray and company executives see LivingSocial as a catalyst to create a high-technology hub in DC and diversify the city's economy.

Yet LivingSocial says it is expensive to stay in the District, and now that it is looking to consolidate its operations into one complex, other cities have offered financial incentives to lure LivingSocial away from DC. There are concerns that the company may move if not offered a deal by DC, though the specifics of other offers are unknown.

What are the risks for DC? The biggest concern is whether this is the best use of a lot of taxpayer dollars. Offering a large tax break package to a big business raises a number of concerns, including whether a subsidy of this size is really needed, the lost potential to use these resources to support economic development in other ways — such as small business development — and whether this sets a precedent that companies can threaten to leave DC if they do not get a tax break. The proposed $32.5 million is more than double the cap on subsidies for high-tech companies that the Gray Administration recently proposed.

It is possible to make this a mutually beneficial deal for both LivingSocial and the District. While the District has an interest in encouraging LivingSocial to remain in the city, the terms of the current deal are not strong enough to guarantee a return on the city's investment, and it needs to be modified to better protect the city's interests. Hiring targets need to be strengthened so that as LivingSocial grows, the number of DC employees grows as well. The current deal allows LivingSocial to claim substantial subsidies even if it does not add any new employees or hire any DC residents. LivingSocial also could claim all tax subsidies well before the end of the ten-year abatement period and then be free of any obligations to hire DC residents or even remain in the city. Moreover, the cost of the proposed subsidy is relatively high when compared with state economic development programs. Finally, the community benefits that have been offered by LivingSocial are somewhat limited and lack specificity.

In order to maximize the benefits and minimize the risks to the city, District officials should amend the LivingSocial legislation in the following ways:

- **Guarantee job growth and hiring of DC residents:** LivingSocial should be able to claim the full tax subsidies offered only if the company actually adds employees — with the full subsidy tied to reaching 2,000 employees — and if it continues to have at least half of its employees living in DC. LivingSocial should lose all subsidies if the share of employees who are DC residents falls below a specified level, such as 40 percent.

- **Require LivingSocial to Provide Good Wages and Benefits:** LivingSocial pays its DC-based workers about $60,000 on average, and the company claims to offer competitive benefits. The subsidy deal should hold the company to maintaining these standards.

- **Limit LivingSocial's Eligibility for Other Subsidy Programs:** The subsidies that LivingSocial can claim should be limited to $32.5 million. It should not be able to claim other subsidies for high-tech companies or any other general business incentives.

- **Require LivingSocial to Maintain Its Product Development Headquarters in DC:** LivingSocial should be required to verify that a significant portion of its District employees are engaged in IT and software development jobs. The District's efforts to develop a technology hub would be hampered if LivingSocial shifted its product development and other tech-related division out of the District. Yet, as currently written, the legislation would enable LivingSocial to do just that.

- **Require LivingSocial to Repay the Subsidy If It Fails to Meet Key Deal Provisions:** As noted, LivingSocial could potentially claim all of its tax subsidies fairly quickly, which would then free it from its obligation to maintain workers in DC and hire DC residents. The deal should require LivingSocial to repay some or all of the subsidy if it falls below specified employment targets or if it leaves DC before the end of the ten-year abatement period.

- **Obligate Any Potential Buyer of LivingSocial to Abide by the Legislation:** Several elements of the legislation are intended to protect the District from the volatile nature of the daily deal industry. However, none of the elements address the possibility that LivingSocial could be purchased by another company. If that were to occur, the legislation should ensure that the potential buyer meet the same requirements that LivingSocial is bound by.

- **Strengthen Community Benefits:** LivingSocial has pledged to hire students from DC's Summer Youth Employment Program, develop deals with businesses in DC affected by streetscape construction, train small businesses in social media, and train software developers who may work at LivingSocial or other places. But the company should commit to specific levels of assistance. Moreover, the company should work with DC-based educational institutions, including DC Public Schools, the University of the District of Columbia, or the Community College of the District of Columbia to better connect DC residents with training and skills needed to work at a company like LivingSocial.

The rest of this paper outlines in more detail the pros and cons of the deal that currently has been negotiated with LivingSocial, as well as the improvements that would make it a better deal for the city.

## Claim that LivingSocial Will Bring $160 Million in DC Taxes Is Not Well Founded

District officials claim that keeping LivingSocial in DC will result in $160 million in additional tax revenues for the city over ten years, but this claim — based on a study commissioned by the city — cannot be relied upon as meaningful. Such studies are highly dependent on the assumptions built into them, and the District has not released the study or all of the assumptions built into it.

The study takes into account a variety of factors including the income and sales taxes paid by LivingSocial employees, corporate income and real property taxes paid by LivingSocial, and hotel taxes paid by corporate visitors. The study also factors in "multiplier effects," such as the assumption that the expenditures of LivingSocial employees in the DC area will create additional employment in DC.

Although full details of the fiscal impact study are not available, there are many reasons to have questions about its conclusions.

- **Employment Assumptions:** The study appears to assume that LivingSocial will grow to 2,000 employees and that half will be DC residents. Yet, as explained below, LivingSocial does not have to reach this employment target to claim full tax subsidies. Moreover, the study treats all 2,000 employees as new, even though LivingSocial already has 1,000 employees in DC.

- **Retention Assumptions:** The study may assume LivingSocial stays in DC for the full ten-year abatement period. But if the company claims all subsidies in a shorter time, it may not stay for the full ten years.

- **Unknown "Multiplier Effects":** While there will be some spinoff effects of LivingSocial's presence, DC officials have not shared the details of the multipliers, including the number and types of jobs that would be created, what share of those jobs would be held by DC residents, and other relevant factors.

- **Assumptions of Company Profits:** The fiscal gain study assumes LivingSocial will have profits of certain levels. These figures have not been released, because they are proprietary. But

## What Has the District Offered LivingSocial?

*"Social E-Commerce Job Creation Tax Incentive Act of 2012"*

The LivingSocial legislation includes two proposals that would provide up to $32.5 million in tax breaks over ten years.

Of the $32.5 million, the first proposal is a property tax break of $15 million over ten years, starting in FY2016.

- LivingSocial earns a "New Hire Wage Credit" for employees hired from 2010 through 2015.
- The credit equals ten percent of wages, up to $5,000 per year, for the first two years of employment.
- The property tax break in a given year equals 100 percent of the full "New Hire Wage Credit" if at least half of new hires are DC residents; 75 percent of the full credit if the DC resident share is 40 percent to 50 percent; and half of the full credit if the DC share falls below 40 percent.

The second proposal, the "Resident Employment Credit" is a corporate income tax break of up to $17.5 million that can be claimed against profits over a 5-year period, beginning no earlier than FY2016. The credit is:

- $17.5 million if at least 50 percent of new hires during each fiscal year from FY2015-FY2019 are DC residents;
- $13.1 million if the DC resident share is 40 percent to 50 percent; and
- $9 million if the DC resident share is less than 40 percent.

LivingSocial cannot claim tax breaks in any year if it:

- Fails to make at least 50 new hires.
- Falls below 1,000 DC-based employees.
- Fails to have a joint business activity strategy with the District within 180 days.

The tax subsidy deal is terminated permanently if LivingSocial ceases to occupy a building of at least 200,000 square feet or if the company files for bankruptcy.

*Qualified High Technology Company Incentives*

LivingSocial also qualifies for the following benefits as a Qualified High Technology Company (QHTC), above and beyond the benefits they will receive from their specific legislation. According to DC's CFO, these will total $5 million over the life of the abatement period.

- Sales Taxes and Personal Property Taxes: QHTCs are exempt from sales taxes on purchases and personal property taxes on their equipment.
- Staff Relocation Credits for New Hires: QHTCs are eligible for credits to address employee relocation expenses. After 2015, LivingSocial can deduct $5,000 from their corporate tax liability for every new employee who relocates from outside the DC area to the DC area. The credit is $7,500 for every new employee who moves from outside the area into the District
- Additional Credits for New Hires: LivingSocial's $15 million New Hire credit is for hires that occur before 2016. If there are new hires beyond that point, LivingSocial can claim the same $10,000 credit per employee, applied to its corporate income tax liability.
- Credits for Training and Hiring "Qualified Disadvantaged Employees:" LivingSocial can deduct the costs of training – up to $15,000 – for new employees who were recent TANF recipients or recently incarcerated.

given the fact that future profitability is impossible to predict, these assumptions cannot be considered reliable.

Large companies that are considering expansions often are able to play different localities against each other, forcing the "winning" locality to give up as much as possible to retain or attract the company. In an ideal world, states and localities would not be forced to offer competing subsidy packages to lure companies. In this case however, the District is faced with the real prospect of losing a major private sector employer if it does not offer some level of subsidy. The question then is whether the benefits to the District will ultimately outweigh the costs of the subsidy or the costs of LivingSocial leaving.

There are solid reasons for the District to encourage LivingSocial to remain in the city, but claims of a five-fold return on the city's investment should not be considered meaningful.

## Pros: Why Might it Makes for the District to Offer Subsidies to Keep LivingSocial in DC

There are several reasons to support keeping LivingSocial in the District, which may require a subsidy package that would help the company address the high real estate costs in the city and to counter offers from other jurisdictions. LivingSocial is a dynamic company that was started in DC and has grown substantially in recent years, with the potential for future growth that could add significantly to DC's economy. Moreover, the proposed subsidy deal requires LivingSocial to make a commitment to the city and to be successful in order to claim all possible subsidies.

The proposed deal also includes some provisions that are intended to benefit the District but are not strong enough to guarantee such benefits. Most important, the deal includes provisions related to hiring new employees and DC residents that are intended to result in job benefits for the District, but in the end these provisions do not guarantee that LivingSocial will add employees in DC or continue hiring DC residents. LivingSocial also is working with the Gray Administration on a set of community benefits that have the potential to be beneficial but have not been fully spelled out yet. These topics are included here because they have the potential to be beneficial to the city.

### #1: LivingSocial is a Large Employer with Substantial Growth Potential

LivingSocial employs more than 1,000 people in the District, and most of them were hired in the last two years. About half of LivingSocial's employees live in the city, which is higher than the typical employer. Overall, about one-third of jobs in the District are held by DC residents. LivingSocial expects to continue growing its workforce in DC rapidly over the next several years. The company projects that its DC-based employment will expand to 2,000 by the end of 2014.

It is important to note that there is no way to know whether these projections will hold true. LivingSocial's main product — online retail discounts — is a fairly new industry that has shown volatility recently and undoubtedly will change as it matures. Nevertheless, the chance that LivingSocial could grow substantially and provide a substantial boost to the DC economy provides reason for the District to encourage the company to stay.

### #2: Subsidies Are Tied to Hiring Goals, with Preference for DC Residents

The subsidy deal that Mayor Gray has proposed for LivingSocial requires the company to hire additional employees and to have a high share of those employees living in the District, in order to receive the full subsidy amount. Nevertheless, these provisions of the subsidy legislation have significant shortcomings that do not guarantee a large increase in employment of DC residents.

- **Hiring Requirements:** To claim the full $15 million property tax break, LivingSocial must have a total of 1,500 "new hires" — defined as full-time employees hired between 2010 and 2015 — who stay on the job for at least one and one-half years.[1] The legislation also requires LivingSocial to hire 50 new employees per year starting in 2016. If it fails to meet this target in any year, it cannot claim any tax subsidy that year.

- **Preference for Hiring DC Residents:** To obtain the full property tax break and the full $17.5 million income tax break, at least 50 percent of LivingSocial's new hires must be District residents. If LivingSocial's new hires fall short of the 50 percent District resident benchmark in any year during the course of the subsidy period, the amount of the subsidy is greatly diminished.

While these provisions are intended to ensure that the LivingSocial subsidy deal will result in greater employment — and greater employment for DC residents — there are significant shortcomings. As discussed below, the "new hires" that LivingSocial would have to make could in many cases simply be replacing staff who are leaving and does not necessarily reflect a net increase in employment. Moreover, the subsidy deal allows LivingSocial to claim more than half of the $32.5 million in tax breaks even if it hires no DC residents.

### #3: Subsidies Are Tied to Company Performance

The online daily deal industry is relatively new and dynamic, and its future is unclear. The subsidy legislation protects the District against the possibility that LivingSocial may fail or not be as profitable as projected in two key ways. First, LivingSocial will be unable to claim any subsidies until FY 2016. Second, over half of the subsidy — the $17.5 million corporate income tax break — can only be claimed if the company is actually profitable. If LivingSocial does not make a profit, there will be no corporate income tax subject to a tax abatement.

### #4: The Subsidy Deal Requires LivingSocial to Make a Commitment to Stay in DC

Under the proposed legislation LivingSocial must build or renovate 200,000 square feet of office space in one building that will serve as the company's worldwide headquarters. If the company leases the space rather than owning it, the lease must be for ten years.

LivingSocial already occupies 130,000 square feet in the District and has a strong desire to consolidate into one space. Nevertheless, this provision would appear to require LivingSocial to make a long-term commitment to the city. Company officials note that they plan to acquire more than 200,000 square feet and are likely to lease a building rather than purchase one. This is a

[1] The legislation counts an employee as a "new hire" if they work at least 6 months in DC. This means LivingSocial also could claim the full property tax break by having up to 3,000 new hires who work at least 6 months in DC.

substantial amount of office space, and a ten-year lease is longer than the more common seven-year commercial lease. Ending a lease early for such a substantial amount of space is not likely to be easy.

If, on the other hand, LivingSocial ultimately purchases their building, it would be easier to sell and re-locate and represent less of a guaranteed commitment to stay in the city.

### #5: Community Benefits

As part of the subsidy agreement, LivingSocial must work with the District's economic development officials to devise strategies to provide tech-related community benefits to the District. These benefits include, but are not limited to:

- Hiring of "STEM" (Science, Technology, Engineering and Math) students as part of the Summer Youth Employment Program.
- Creating sales deals with businesses along commercial corridors that are disrupted by streetscape work.
- Providing social media and training opportunities for small businesses and individuals.
- Recruiting and training software developers in the District.

These community benefits have the potential to be meaningful, but because the legislation doesn't specify any benchmarks, it is not clear how meaningful the benefits will ultimately be. Any agreement with the District should include benchmarks for how many employees will be hired through the Summer Youth Employment Program, how many businesses in disrupted corridors will be assisted, and how many people and businesses will obtain social media training and software development training. As discussed in the recommendations section below, there may be other way to strengthen the community benefits in this deal.

## Cons: What's Wrong with the Deal DC Has Offered to LivingSocial

While the District has an interest in encouraging LivingSocial to remain in the city, the terms of the deal that has been negotiated are not strong enough to guarantee a return on the city's investment. The company says that it plans to 2,000 employees, continue to hire DC residents, and occupy a major amount of DC real estate for a decade or more, but the terms of the deal negotiated with the city don't promise any of those things. LivingSocial could claim substantial subsidies even if the company does not grow or if it grows but fails to hire DC residents. While the abatement period is ten years, LivingSocial could claim all tax subsidies well before that and then be free of any obligations to hire DC residents or even remain in the city.

Moreover, the cost of the proposed subsidy is relatively high, even if LivingSocial is able to expand to 2,000 employees in DC. At a cost of $65,000 per new job for DC residents, the subsidy is higher than what many states offer in their economic development programs. Finally, the community benefits that have been offered by LivingSocial are somewhat limited and lack specificity.

## #1: The Deal Doesn't Necessarily Promise New Jobs for DC Residents

The LivingSocial subsidy deal would allow the company to claim $16.5 million in tax breaks — more than half of the full subsidy deal — even if it does not hire a single District resident.

As previously noted, LivingSocial would be eligible for the full property tax and income tax subsidies if at least 50 percent of newly hired employees are District residents. However, it would receive about $20 million in subsidies if the share of new employees who are District residents is between 40 percent and 50 percent, and it would receive $16.5 million in subsidies if the share of new employees who live in DC falls below 40 percent, including as low as zero.

If the District hopes to help create jobs for residents with this legislation, the subsidy deal should set a minimum requirement for the share of employees who live in the District.

## #2: The Subsidy Deal Doesn't Really Require a Net Increase in District Jobs

The proposed LivingSocial subsidy requires the company to hire new employees under two provisions, but neither provision actually requires a net increase in the number of employees:

- To claim the maximum property tax credit, LivingSocial must have at least 1,500 new hires between 2010 and January 2016. Many of the existing 1,000 employees already count as new hires. And the legislation also would allow LivingSocial to reach 1,500 "new hires" in this five-year window merely by turnover, without any net increase in employment in the city.

- The subsidy deal also requires LivingSocial to hire a minimum of 50 new employees each year that it receives an abatement, which can start in fiscal year 2015. However, this requirement also can be met through turnover. If LivingSocial loses 50 employees each year, it could simply replace them with 50 new employees and still meet the hiring requirement.

The only provision setting a minimum employment level requires LivingSocial to have 1,000 employees — a standard that it already meets.

## #3: High Per-Job Price Tag

One way to assess proposed economic development subsidies is to measure the size of the subsidy for every job created. Because LivingSocial already has 1,000 employees in the District, the proposed $32.5 million in subsidies can be compared with expected increases in employment among DC residents.

By this standard, the cost of the subsidy package is high:

- Because the legislation does not mandate any job hiring figures beyond LivingSocial's maintenance of its current workforce, the subsidy could result in no net increase in employment.

- If LivingSocial reaches a workforce of 1,500 — as noted, it must have 1,500 new hires by 2016 for the full subsidy — it would add 500 employees and as many as 250 District resident employees. This would represent a cost of $65,000 per job — and $130,000 per District resident job.

- LivingSocial expects to achieve a workforce of 2,000 employees by 2015. This would mean adding 1,000 employees and as many as 500 District resident employees. This is a cost of $32,500 per job or $65,000 per District resident job.

Even in the most optimistic of job creation scenarios, the legislation is costly when compared with economic development incentive programs. For example, the federal government caps the cost-per-job at $35,000 for state economic development programs for which it provides HUD loan guarantees, and programs in a number of states have caps far below what the District would spend to create additional jobs at LivingSocial.[2]

Additionally, there are no provisions in the subsidy legislation that speak to the type and quality of jobs that LivingSocial is expected to produce in the District. To LivingSocial's credit, their average DC-based employee makes around $60,000 a year and receives a benefits package that the company describes as competitive, including health and dental insurance, vacation, and sick leave. Nevertheless, there is nothing in the subsidy deal that requires LivingSocial to maintain high-quality wage and benefit standards.

Moreover, a key purpose of the District's subsidy offer is to spur development of a high-tech industry in the city. While some LivingSocial employees are engaged in software and web development — an estimated 15 percent according to the company — many more work in jobs more closely associated with marketing and sales. The subsidy legislation would allow LivingSocial to move its software and web divisions out of the District and still be eligible for the full subsidy. This would do little to advance the District's goal of a tech hub.

### #4: LivingSocial Can Take the Money and Run

If the District uses tax subsidies to encourage LivingSocial to remain in the District, there is a risk that LivingSocial could choose to leave as soon as the tax abatements are entirely used up — which could be before the ten-year abatement period has passed. There is nothing in the subsidy deal that would discourage LivingSocial from leaving early, which would hurt the District's goal of creating a high-tech hub.

One of the main pressures that LivingSocial faces is the fact that DC's commercial property rents are high, when compared with prices around the metropolitan region or other metro areas. This reflects the fact that there are many commercial tenants willing to pay a premium to be located in the heart of the city and near the seat of the federal government. These prices will no doubt remain high, meaning that LivingSocial will continue to face this pressure when the abatement ends and potentially before.

District economic development officials estimate that LivingSocial will be able to claim all the property tax credit in as little three years after the abatement starts in FY2016. This means the

[2] http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_16477.pdf

abatement could be fully claimed by the end of FY2018. It is impossible to predict how quickly LivingSocial would be able to claim the corporate income tax subsidy, since that would depend on company profits. If LivingSocial's profits rise sufficiently high in the near term, it may be able to claim most or all of the tax subsidies in a few years.

If LivingSocial were to leave, it would not be the first company to take the money and run. Just this year, Sears Holding Corporation announced that it would be laying off several employees at its Illinois headquarters just 20 days after signing a subsidy package with the state valued at up to $275 million. This package came on the heels of a $168 million 23-year deal that was soon to expire, and came about because Sears executives threatened to relocate to another state. In another example Diebold, based in Ohio, won $55 million in tax incentives from the state in 2011, and this year announced that it would be laying off hundreds of workers in its Ohio headquarters.

### #5: The Deal Doesn't Allow DC to Reclaim Subsidies if LivingSocial Fails to Meet Its Obligations

Many state and local subsidy deals include a "clawback" provision, which obligates the subsidy recipient to repay some or all of the subsidy if it fails to live up to their end of the agreement. Clawbacks hold subsidy recipients to meeting their requirements or ensure that jurisdictions are held financially harmless if a subsidy recipient does not meet these requirements. The tax break package for LivingSocial includes some provisions to cancel the tax breaks going forward, but it does not include any clawbacks.

- If LivingSocial fails to hire 50 employees or to maintain 1,000 employees (its current employment level) in a given year, it cannot claim any subsidies that year. The company would still be able to claim any unused subsidies in future years, if it meets the subsidy requirements in those years.

- If LivingSocial fails to occupy a building with of least 200,000 square feet or files for bankruptcy, the subsidy is cancelled at that point and no subsidies can be claimed in the future.

While these protections are important, they are not sufficient to require LivingSocial to maintain a large presence in the city and employ a large number of DC residents.

- As noted, LivingSocial could potentially take advantage of the full $32.5 million in tax breaks in just a few years. At that point it would not be required to maintain 1,000 employees in the District or to hire at least half of its new employees from DC.

- LivingSocial could decide to leave the District entirely or shift key tech-related operations out of the District well before the end of the ten-year abatement period, with no requirement to repay what was already received.

## How the LivingSocial Subsidy Legislation Should Be Improved

Although the District has a clear interest in keeping LivingSocial in DC, the subsidy deal negotiated by the Gray Administration does not guarantee benefits to the city that would justify the cost. LivingSocial plans to expand employment in the District and hopes to continue hiring a large share of its employees from the city, but these are not required by the subsidy deal.

There are a number ways in which this legislation should be improved to better protect the interests of the city.

- Tie subsidies to increased employment among DC residents.
- Specify that all jobs created must be quality jobs — with good pay and benefits.
- Limit the subsidy deal to $32.5 million and prohibit LivingSocial from taking advantage of additional subsidies that are available to high-tech companies.
- Require LivingSocial to Maintain its IT and Software Development headquarters in the District.
- Include a clawback provision requiring LivingSocial to repay the District if it violates conditions of the deal.
- Obligate any potential buyer of the company to abide by the stipulations of the legislation.
- Strengthen the community benefits.

### #1: Tie Subsidies Better to Job Growth and DC Hiring

A subsidy deal with LivingSocial should ensure that it results in employment for DC residents. Under the proposed deal, LivingSocial can receive the full subsidy only if half or more of its new hires each year are DC residents. Yet the deal would allow LivingSocial to be eligible for $16.5 million in tax breaks even if it hires no District residents.

LivingSocial should be required to meet a minimum DC hiring threshold to qualify for subsidies. Because the typical company has one-third of its employees living in DC, LivingSocial should not get any tax incentives unless it meets a higher threshold, such as 40 percent working in DC.

Additionally, the subsidy should be tied to net job growth. As previously discussed, the subsidy legislation requires LivingSocial to maintain 1,000 employees in the city — its current employment level — but other hiring provisions could be met simply through turnover. The District should tie the provision of the full subsidy package to meeting job growth projections that LivingSocial already hopes to meet. The company could be allowed to claim partial subsidies based on existing employment — a recognition that the company has grown substantially in DC in the last two years, but should not be able to claim full subsidies unless it reaches 2,000 DC based employees.

### #2: Specify the Quality of Jobs

If the city is to grant LivingSocial a subsidy it should also mandate certain standards for salary and benefits for LivingSocial employees to ensure that the city's investments results in good quality jobs. LivingSocial notes that the average salary for its employees is around $60,000 and that the company offers competitive benefits packages to its employees. Given that, it should not be controversial to include wage and benefit standards into the subsidy legislation. The legislation should ensure that at a minimum, LivingSocial maintain its current level of wages and benefits during the abatement period. Without minimum wage and benefit requirements, LivingSocial could pare back benefits or salaries as a cost-saving measure and still obtain a subsidy from the District.

### #3: Limit Subsidies to $32.5 Million and Prohibit LivingSocial from Claiming Additional High-Tech Subsidies from DC

As noted, even in the most optimistic job growth scenario, the cost of the legislation per new DC resident job created is substantial. But as a "qualified high-technology company (QHTC)," LivingSocial would also qualify for additional QHTC tax breaks, which the CFO has estimated could total $5 million or more. Because the $32.5 million targeted tax break for LivingSocial is substantial — it is more then double the cap on subsidies the Gray Administration has recommended for other high-tech firms — the company should give up any claims to additional QHTC tax breaks.

### #4: Maintain DC as the IT and Software Development Headquarters

The District hopes that LivingSocial will spur the growth of a technology hub, in part through the training and retention of software developers and engineers who may go on to begin their own startups in the District. Those efforts would be hampered if LivingSocial shifted its software development and other tech-related divisions out of the District. Yet, as currently written, the legislation would enable LivingSocial to do just that. As a condition of the subsidy package, LivingSocial should be required to certify that no less than 15 percent of its District-based employees work in software development and IT, matching the employment distribution of its current DC-based workers.

### #5: Include a Clawback to Require LivingSocial to Repay Subsidies if It Fails to Meet Certain Conditions

The legislation governing the LivingSocial tax subsidy has provisions to stop the subsidy if the company fails to meet certain requirements, but there is nothing to require it to repay subsidies already received. This is important because LivingSocial could claim all possible tax subsidies within a few years. The District already expects the company to claim its property tax credits well before the end of the ten-year abatement period, and LivingSocial could claim all corporate income tax credits in a few years, if the company proves to be highly profitable. At that point the company would not face any requirements to hire DC residents and it could move some or all of its employees out of the District.

If the intent of the LivingSocial subsidy is to build a technology hub in DC, it can only work if the company remains in the city and continues to grow. A clawback provision should be included in the legislation obligating LivingSocial to maintain the terms of the subsidy through FY2025, when the property tax abatement period passes, including keeping its corporate headquarters here and meeting hiring targets. The company should lose a portion of its subsidies and be required to repay DC if it no longer meets the targets. This provision will especially help safeguard the District against the possibility of LivingSocial leaving early.

### #6: Obligate Any Potential Buyer of LivingSocial to Abide by the Legislation

The Gray Administration wisely included a clause in the legislation that stipulates that LivingSocial will become ineligible for any benefits in the legislation if it declares bankruptcy. However, the legislation neglects to address another plausible scenario in this dynamic industry: LivingSocial could be purchased by another company. If that occurred, there is nothing in the legislation that would require the buyer to repay the subsidies received by LivingSocial if the buyer does not adhere to the requirements of the legislation. The legislation should include a clause that would require any potential future buyer of LivingSocial to pay back the subsidies if it decides not to uphold the standards set forth in the legislation.

### #7: Strengthen Community Benefits

The District should work with LivingSocial to ensure that the community benefits the company agrees to are as specific as possible. The legislation should include specific benchmarks for each of the commitments LivingSocial will make: hiring students from the Summer Youth Employment Program, developing deals with DC businesses in corridors disrupted by streetscape construction, and training individuals and businesses in software development and social media.

Additionally, the District should also consider having LivingSocial enter into a formal partnership with District educational institutions, such as McKinley High School, the University of the District of Columbia, or the Community College of the District of Columbia, to ensure that DC students studying computer science and engineering can be put on a pathway towards employment with the company.

## Conclusion

LivingSocial officials have made it clear that they want to be in DC and continue to grow here. DC officials clearly see the benefit in keeping LivingSocial in the city. This mutually beneficial relationship is good for the District's economy. But in order to maximize the city's benefits and minimize its risks, the legislation should be amended to more concretely tie the subsidies to what LivingSocial plans for growth. Like any good consumer knows, the District should not take this deal unless it is guaranteed something good in return.