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**Testimony of Ed Lazere, Executive Director  
At the Public Oversight Roundtable on  
Real Property Tax Abatement for Chemonics International  
DC Council Committee on Finance and Revenue  
December 12, 2018**

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 is a non-profit organization that promotes budget choices to reduce economic and racial inequality and build widespread prosperity in the District of Columbia through independent research and thoughtful policy recommendations.

I'm here today to express the DC Fiscal Policy Institute's opposition to the proposed multi-year tax abatement for Chemonics International. The tax abatement fails the test of Economic Development 101, because it would not create a tangible number of new jobs for DC residents, and because the tax abatement is not critical to Chemonics' success in DC. In addition, Chemonics has a recent history of racial discrimination in hiring, and it just doesn't make sense to use the taxes paid by DC residents and businesses to subsidize a company with that history.

It's important to note that a tax abatement such as this proposed one—allowing a company to pay less in property taxes than all other companies—is a direct subsidy and no different from the District writing them a check. In this case, it's the same as putting \$650,000 line item in the DC budget every year for 9 years. In other words, tax abatements have an impact on the rest of the DC budget. The \$650,000 proposed subsidy for Chemonics could otherwise be used, for example, to fund several public bathrooms in downtown DC, which would improve the quality of life for visitors and help homeless residents who spend their days outside.

It should go without saying that tax abatements for economic development should have tangible economic benefits. Yet the proposed Chemonics tax subsidy doesn't bring clear economic benefits. The company has decided that consolidating its DC area staff makes sense, instead of the current division between DC and Northern Virginia. Chemonics would move its existing area employees into DC office space, but without creating new jobs. That means the move would not create new job opportunities for DC residents. It would fill DC office space, but in a highly developed area a block from a Metro station, an area where no subsidies are needed to attract development.

In addition, Chemonics does not appear to need a tax cut to thrive in DC. An analysis by the DC CFO concluded that the tax abatement would increase the company's profit margin to 3.6 percent from 3.5 percent, a nominal difference, and thus that the subsidy is not needed for Chemonics to succeed financially in DC. <sup>1</sup>

Instead, it appears that Chemonics wants to be in DC and only asked for a tax abatement because Virginia offered one, not because they need it. For the District, it is not strategic to spend precious budget resources on a tax abatement that will not generate meaningful economic benefits for DC residents.

This proposed tax abatement is a prime example of the destructive economic development warfare that states and cities engage in, which creates only losers and no winners. While the District may be successful at getting Chemonics into DC today, we may lose another company to Virginia tomorrow because of tax incentives they offer. And 12 years from now, when Chemonics' requirement to stay in DC would end under the abatement, they could threaten again to leave and ask for more tax subsidies. In the end, neither jurisdiction would be stronger, but both would find themselves with less money to invest in the things that really matter to business, such as transportation, education, and a clean environment.

The better approach to economic development is to invest in the kinds of things businesses need. As the CFO's analysis notes, the District can best attract businesses by having "a skilled workforce, good public transportation, and quality of life,"<sup>2</sup> things that are harder to invest in when economic development is focused on tax breaks.

In sum, DC should not provide tax breaks solely for a business to move existing staff to a booming neighborhood. DC should not create the expectation that every company who wants to move here should ask for a tax break, without having to do anything to increase employment opportunities for DC residents who most need them. Under this approach, we will find that the city loses a lot of revenue without doing anything to bolster the economy or create new opportunities for DC residents.

Thank you for the chance to submit this testimony.

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<sup>1</sup> Office of the Chief Financial Officer, Tax Abatement Financial Analysis for the "Amendment #1 to the Local Jobs and Tax Incentive Amendment Act of 2018," December 11, 2018, page 3.

<sup>2</sup> Ibid, page 3