DC FISCAL POLICY INSTITUTE

Independent Research. Poverty Solutions. Better DC Government.

Testimony of Ed Lazere, Executive Director
At the Budget Oversight Hearing on the "Fiscal Year 2020 Local Budget Act of 2019," "Fiscal Year 2020 Federal Portion Budget Request Act of 2019" and the "Fiscal Year 2020 Budget Support Act of 2019"
DC Council Committee of the Whole
April 26, 2019

Chairman Mendelson and other members of the Council, 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 address DC's economic and racial inequities and to build widespread prosperity in the District of Columbia, through independent research and policy recommendations.

I will focus my testimony today on ways to find resources that could be used to address the many gaps in funding that residents and advocates shared with the Council in the last month of budget hearings. Attached to my testimony is a sign-on letter from a diverse group of advocacy organizations that urges the Council to find resources to use the fiscal year (FY) 2020 budget to promote equity. This comes on the heels of yesterday's landmark hearing on the Racial Equity Achieves Results Amendment Act (REAR Act), where over 80 residents and organizations stressed the urgency of pursuing racial equity though the budget, policy, and implementation actions of DC government. The Council should seek racial equity opportunities now, through the FY 2020 budget.

When advocates and residents seek more funding for important services, they invariably are asked where to find the money. The attached sign-on letter attempts to answer that.

Maintain Proposed Budget's Revenue Increases

The primary revenue increases in the proposed FY 2020 budget are in the commercial property tax and deed recordation/transfer taxes for commercial properties. The revenue increases are sound proposals, and any effort to scale them back would make it harder to fund needed services.

Maintain Commercial Property Tax Increase: The proposed budget reinstates the commercial property tax increase the Council adopted in FY 2019, setting a higher rate on properties worth $10 million or more. The tax increase is part of the effort to fund Metrorail repairs and totals $40 million, less than one-fourth of the $180 million in new funds for Metro. Given the importance of Metro to DC businesses, asking them to shoulder a small share of the costs is reasonable.

Maintain Commercial Deed Tax Increase: The proposed budget raises deed transfer and deed recordation taxes to 2.45 percent on commercial property sales above $2 million. A review of DC's deed taxes for the DC Tax Revision Commission concluded that it is "an attractive source of revenues" because commercial properties are often owned by national or global interests. The study concluded that "taking fuller advantage of national and global interest in the District's office market by augmenting taxes for such properties could provide enhanced revenues with little downside impact."

Eliminate Ineffective Programs and Proposals That Work Against Equity

Our attached sign-on letter includes a list of ways to find savings in the FY 2020 budget that could be re-directed to higher-priority, more equitable, and more effective purposes.

For example, the proposed budget includes $20 million in one-time funding for the "Workforce Housing" program to develop housing for families earning between 60 percent and 120 percent of the area median income (AMI), or up to $140,000 for a family of four. While a wide range of DC families undoubtedly face challenges with rising rents and home prices, prioritizing families with above-average incomes over extremely low-income families is a questionable allocation of resources. Given that the Black median household income is approximately $42,000 and the "Workforce Housing" program's lower income limit is $70,000, it will exclude most Black District residents. Further, 40 percent of DC's most common occupations pay 50 percent AMI or less and yet none of these workers will benefit from the program.[1] The $20 million should be redirected towards other efforts such as public housing repairs that benefit residents with the most need.

The Council also should scale back "high tech" tax incentives that are not working. The Qualified High Technology Company (QHTC) incentive provides generous tax subsidies to companies that self-identify as "high tech," based on a loose definition. Many companies claiming these tax breaks, which total $40 million per year, are headquartered in Northern Virginia and maintain a small DC office. Many others were in DC before the tax incentive program was created, calling into question whether the incentives have made any difference at all. Some of the QHTC subsidies are permanent tax cuts, meaning some businesses have been claiming tax breaks for almost 20 years. DC's Chief Financial Officer could not find evidence that these tax subsidies actually support economic growth, concluding that they were "not able to reasonably identify what new actions were taken due to the incentives" or "what economic benefits are attributable to the incentives." The Council should cap tax benefits at 5 years, including current recipients. And following the CFO recommendations, the Council should cap how much a company can get in one year at no more than $250,000.

Raise Revenues in Smart Ways

Beyond the savings ideas identified above, the District can explore ways to raise new revenues in economically sound and equitable ways.

Higher Taxes on High Value Homes ("Mansion Tax"): The DC and national economies have been marked for decades by an increasing concentration of wealth in a few hands, a sign that our economy is not creating equal opportunities for everyone. The barriers to opportunity for residents of color are evident in our wealth gap, with the average wealth of white households now 81 times the average wealth of Black households. The District can tackle this inequality by better taxing extreme wealth – particularly by levying taxes on DC's highest-value housing, according to a recent report from the Center on Budget and Policy Priorities. A property tax surcharge of 1 percent on homes worth at least $2 million and 2 percent on homes worth at least $5 million would raise $74 million yet only affect 1.4 percent of homes.

Thank you for the chance to testify.

[1] Cheryl Cort and Patrick McAnaney, Making Workforce Housing Work, Coalition for Smarter Growth, March 2019.