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Testimony of Tazra Mitchell, Policy Director, DCFPI
B23-432 – Protecting Local Area Commercial Enterprises Amendment Act of 2019
B23-439 – Longtime Resident Business Preservation Amendment Act of 2019
Committee on Business & Economic Development
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Chairperson McDuffie and members of the Committee, thank you for the opportunity to provide testimony. My name is Tazra Mitchell, and I am the Policy Director at the DC Fiscal Policy Institute (DCFPI). DCFPI is an anti-poverty non-profit organization that promotes opportunity and widespread prosperity through rigorous research and policy solutions to address DC's racial and economic inequities.

I'm here today to express support for DC Council's efforts to prevent the displacement of legacy small businesses that are struggling to keep up with soaring rents and property tax assessments stemming from a development boom that is gentrifying and transforming neighborhoods. Legacy small businesses, such as corner stores and hairdressers, have served their neighborhoods for decades and are the heart of our communities — particularly in the Black community. DC wouldn't be DC without them. Yet, many are at risk of closing because they can't run profit margins needed to cover doubling and tripling rents, and the resulting increases in property taxes.

Given the special role that legacy small businesses play in our communities and local economy, DCFPI believes that protecting their existence should be a policy priority. Yet, the District lacks a systematic program to provide long-term support to help prevent the displacement of legacy small businesses as neighborhoods change rapidly.

The Protecting Local Area Commercial Enterprises Amendment Act of 2019 and the Longtime Resident Business Preservation Amendment Act of 2019 propose steps in the right direction. By creating programs targeting long-term support to legacy businesses, both measures would likely help curb displacement, protect Black enterprises and wealth in Chocolate City, and forge a more equitable commercial landscape. DCFPI has a series of recommendations for strengthening the bills and targeting assistance to legacy businesses that need the most help.

Solution Must Be Rooted in a Long-Term, Systemic Approach

Addressing the displacement of legacy businesses must be met with a long-term, systemic approach that focuses on the roots of displacement. The District has attempted to preserve some legacy businesses with one-off tax abatement agreements, but today's hearing is a recognition that this is neither a strategic nor sustainable and equitable long-term solution. While DC provides some support to small or legacy businesses, including the Legacy Business Grant program, the programs tend to require a business to apply for support on an annual basis, possibly leading to instability. Long-term support would better alleviate the spiking property tax or rent strain that these small business owners face, allowing them to stay afloat and possibly expand services.

The Protecting Local Area Commercial Enterprises Amendment Act of 2019 would establish a program that provides (1) legacy businesses with technical assistance and grants of up to $50,000 per year and (2) a 100 percent tax abatement for legacy business owners or property owners leasing a property to them that is at or below market rate. Whereas legacy businesses could only receive up to 5 grants under the Act after proving that property taxes or rent is causing an economic hardship, there is no cap on the number of years for receipt of the tax abatement or any targeting to legacy businesses that are struggling due to rising rents and tax assessments in their area. Without such targeting, the bill could cover a very large number of businesses across the city, including many that are financially healthy, and could be very costly.

DCFPI recommends changes to the legislation to target legacy businesses most at risk due to gentrification. This could include requiring businesses to show that rising rent is causing an economic hardship to receive an abatement. This in turn could be accomplished by targeting abatements on businesses in areas where commercial values have risen sharply (based on analysis by the DC Chief Financial Officer), or having businesses demonstrate that their rents are rising far faster than the trend in their business revenues. DCFPI also recommends the DC Council should clarify what the grants could be used for and set a reasonable time limit on the tax abatement provision, such as 10 years.

The Longtime Resident Business Preservation Amendment Act of 2019 would provide rent stabilization on leases of at least 10 years and create a fund providing grants up to $1.5 million and loans up to $2 million for longtime resident businesses at risk of displacement. The rent stabilization payment provisions are well-designed. While the legislation is specific on the how the grants and loans could be used, it is unclear which business would get a grant versus a loan, or both, and why the maximum grant and loan levels are relatively high. The higher the maximum grant and loan levels, the fewer businesses the program would be able to serve.

DCFPI encourages the Council to modify the bill to allow DC's General Fund to be the source of the loan program, once the District reaches its fund balance requirement to have 60 days' worth of cash on hand. That way, the loan part of the program could be funded without competing with other funds in DC's operating budget.

As with the other bill, the Council should add specific criteria on how businesses can prove an economic hardship or risk of displacement due to rising property taxes and rent. For example, one criterion could be that the business must show that the rate of property tax increases exceeds their rate of gross revenue growth by a sizable margin, or the CFO could identify areas of the District where commercial values are rising most sharply, and limit the program to those areas.

Defining a Legacy Small Business and Evaluation Standards

The DC Council should prioritize long-term, anti-displacement support for those who have operated in the District for a substantial amount of time, contributed to neighborhood history and culture, and are at risk of being unable to keep up with rising property taxes and rents.

The Protecting Local Area Commercial Enterprises Amendment Act of 2019 conditions eligibility in part on a business being in operation in the District for at least 10 to 15 years, depending on whether it is a small business enterprise or a local business enterprise. In the District's *existing* Legacy Business Grant program, a business can participate only if they've been operating in DC for at least 25 years. The time requirement and broader definition of a legacy small business should be consistent across programs.

To limit cost, the City Council should consider limiting support to legacy businesses with a small number of employees, such as 25 Full Time Equivalents. We also recommend defining legacy businesses as solely those that meet the time requirement on the effective date of the bill, to focus on current legacy businesses. Future legislation could amend the rule, perhaps depending on an evaluation demonstrating whether the program is meeting its intended goals. An evaluation could also determine if the existing Legacy Business Grant program continues to be needed if a new program providing longer-term support is established.

The Protecting Local Area Commercial Enterprises Amendment Act of 2019 has strong provisions on an evaluation component as well as requirements for documenting costs and participation levels; however, the Longtime Resident Business Preservation Amendment Act of 2019 lacks those provisions and should be amended to include them.

Funding Mechanism

Protecting legacy small businesses from displacement could be a significant investment. The Protecting Local Area Commercial Enterprises Amendment Act of 2019 would fund the legacy business program by redirecting the 1 percent Discount Fee of total sales invoiced on the Supply Schedule — funds that currently go into the General Fund. The Longtime Resident Business Preservation Amendment Act of 2019 does not include a financing provision.

While both bills could represent a significant investment, either bill would be a more effective public investment compared to the generous tax breaks that DC policymakers provide to large corporations—like the Qualified High Technology Company incentive—that are wasteful and do not directly benefit DC's residents. As such, an anti-displacement program for legacy small businesses could be funded by scaling back or eliminating ineffective corporate subsidies that go to larger companies.

Thank you for the opportunity to testify.