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Testimony of Tazra Mitchell, Policy Director, DCFPI
Committee on Business & Economic Development Performance Oversight Hearing
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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 comment on how the DC Council and Department of Small and Local Business Development can strengthen the support that the District provides to legacy small businesses—many of whom 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. Businesses like Ben's Chili Bowl, Sankofa Video Books & Café, and Lee's Flower Shop have been vital to strengthening the neighborhoods in which they operate, and other staples, such as Islander Caribbean Restaurant and Lounge, have already closed their doors. Many others 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. Lawmakers could fund this effort by scaling back or eliminating ineffective corporate subsidies that go to larger companies.

We are encouraged by Chairperson McDuffie's commitment to creating a program targeting long-term support to legacy businesses—which could curb displacement, protect Black enterprises and wealth in Chocolate City, and forge a more equitable commercial landscape. Thank you for your leadership, Chairman.

DCFPI has a series of recommendations for how to best target assistance to legacy businesses that need the most help.

Solutions 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 this is neither a strategic nor sustainable and equitable long-term solution.

While the Department of Small and Local Business Development and other agencies provide 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 a short-term basis, possibly failing to address instability. In fact, the Legacy Business Grant Program excludes rent from its use of eligible funding uses[1]—meaning it is not specifically targeting businesses struggling to keep up with rapidly rising rents. Long-term but time-limited and targeted support would better alleviate the spiking property tax or rent strain that these legacy business owners face, allowing them to stay afloat and possibly expand services.

Policy Guardrails

The DC Council should prioritize long-term, anti-displacement support for small businesses that 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.

Specifically, the program should:

- **Provide long-term but time-limited support.** Support could be in the form of a grant program operated by DSLBD and/or a property tax abatement program—as it is in Chairman McDuffie's bill, *The Protecting Local Area Commercial Enterprises Amendment Act of 2019*—among other policy options, such as a loan program. The DC Council should clarify what the grants and loans could be used for and set a reasonable time limit on the tax abatement policy, such as 10 years.

- **Define "Legacy" Business:** The program should set a time threshold to determine what a legacy business is. 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. Sixteen percent of existing private sector establishments in DC (which employ 42 percent of private sector employment) meet this definition, according to the DC Policy Center.[2] To limit the cost, the program could limit support to businesses (1) with a small number of employees, such as 25 Full Time Equivalents, and (2) that can prove that they've contributed to neighborhood history and culture. 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.

- **Target legacy businesses most at risk due to gentrification.** 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.

Without such targeting, a new program could cover a very large number of businesses across the city, including many that are financially healthy, and could be very costly.

DC Should Prioritize A Tax Abatement Program for Legacy Small Businesses Over Corporate Tax Cuts

Protecting legacy small businesses from displacement could be a significant investment. However, it 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.

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[1] Executive Office of the Mayor, Office of the Deputy Mayor for Planning and Economic Development, "FY19 Legacy Business Grant: Request for Applications (RFA)," June 21, 2019, https://dmped.dc.gov/sites/default/files/dc/sites/dmped/publication/attachments/Legacy%20Business%20RFA%20%28final%29.pdf.

[2] Yesim Taylor, "Testimony of Dr. Yesim Sayin Taylor (Before the Committee on Business & Economic Development)," DC Policy Center, November 6, 2019, https://www.dcpolicycenter.org/wp-content/uploads/2019/11/DC-Policy-Center-Testimony-on-Legacy-Businesses.November-6.pdf.