PUBLIC HEARING ON

B23-404, "Deputy Mayor for Planning and Economic Development Limited Grant Making Authority for Check IT Enterprises Amendment Act of 2019"

B23-439, "Longtime Resident Business Preservation Amendment Act of 2019"

B23-438, "Small and Local Business Assistance Amendment Act of 2019"

B23-432, "Protecting Local Area Commercial Enterprises Amendment Act of 2019"

Before the Committee on Business & Economic Development

Councilmember Kenyan R. McDuffie, Chairperson

November 6, 2019 10:00 AM
John A. Wilson Building

Testimony of Dr. Yesim Sayin Taylor
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Good morning, Chairman McDuffie and members of the Committee on Business & Economic Development. My name is Yesim Sayin Taylor and I am the Executive Director of the D.C. Policy Center, an independent, non-partisan think tank committed to advancing policies for a strong and vibrant economy in the District of Columbia. I thank you for the opportunity to testify on three of the bills under consideration today (B23-439, B23-438, and B23-432) regarding economic supports to small and locally owned businesses in D.C.

Rising commercial rents over the past decade have put economic pressures on longstanding D.C. businesses, including and especially small local businesses owned by Black residents and other people of color.[1] The three bills in question would provide additional support for D.C.'s legacy businesses, such as grants, loans, and tax credits, as well as subsidies to legacy businesses' landlords if they sign long-term leases.

It is very difficult to define a "legacy" business. Legacy businesses are certainly a source of pride, and residents dislike it when an establishment they have visited regularly goes out of business. But how do we translate these into a definition? According to the Bureau of Labor Statistics, 16 percent of the District's nearly 26,000 establishments have existed for 25 years or more. This is a remarkable number, accounting for 16 percent of total private sector establishments and 42 percent of private sector employment.[2] That is, many of the really old establishments are also really large establishments. The bills try to resolve these tensions by using broad concepts like "contributing to the history of the District" or "demonstrated commitment to maintaining physical features or traditions that define a business" to define eligible businesses, which makes it difficult to known how the legislation will be implemented and what potential impacts it may have.

[1] The District has relatively low shares of minority-owned businesses compared with most other jurisdictions in the region: In D.C., minority-owned establishments represent 9 percent of all establishments with five or more employees, accounting for 5 percent of employment and gross receipts alike.

[2] Across the entire US, similar establishments constitute 20 percent of all establishments and hire 44 percent of all employees. The District's share of establishments just under 1 year is much higher than the nation: 13 percent compared to 9.5 percent. These new businesses employ 2.5 percent of all private sector workers in DC compared to 2.3 percent across the nation.

For every three legacy businesses (let's say businesses formed before 1994) you can visit today, there are seven that were established at the same time and are now long gone. Some just closed doors, and some moved elsewhere. For some, broader shifts in business conditions certainly played a large role. Retailers, for example, do not always survive the competition from online or big-box stores. Firms engaged in tax preparation or accounting services cannot always compete with online conglomerates. For these establishments, revenues are declining because of changing business environment, so every bit of additional cost—be it taxes, rents, or wages-- push establishments closer to bankruptcy.

By focusing on the "old" businesses, these bills forget about the new. High costs of business afflict not only legacy businesses, but also new startups that contribute greatly to the economy. Already, D.C. consistently falls behind Fairfax, Loudoun, and Arlington counties in terms of business creation, business retention and business survival. To wit:

- **It is harder to start a business in the District compare to surrounding jurisdictions.** Fewer business applications become job-creating establishments compared to MD and VA. In the District of Columbia, only about a fifth of business license applications from high-propensity firms—firms with a solid business plan and employees at the time of applying for a license—turn into actual establishments within a year. In Virginia, about a third of business applications by high-propensity applicants turn to actual businesses; the similar share in Maryland is about 25 percent (See figure 2 below).
- **It is hard to retain growing businesses in the District:** Between 2000 and 2015, for every 10 jobs the District of Columbia received because an establishment moved in from other parts of the metropolitan area, it lost 24 jobs along with the establishments that decided to move out. No other jurisdiction in the metro area performs so poorly when it comes to business retention (See figure 3 below).
- **It is harder for businesses to survive in the District, especially in early years.** Looking at establishments that were formed since 2010, the five-year survival

rates in DC stands at 81 percent—a full five percentage points behind Fairfax County, and only ahead of Prince George's County (See figure 4 below).

Our recent research[3] shows that D.C. business establishments most frequently cite slow business or lost sales as a barrier to profitability, followed by unpredictability of business conditions and taxes. Businesses located in D.C. also tend to pay higher wages than elsewhere in the metropolitan area, with the "wage premium" highest for lower-paying jobs: For example, D.C.'s hotel and restaurant jobs pay 1.5 times more than similar jobs in neighboring jurisdiction, and twice those of exurban counties. The business environment is also unstable. Since the beginning of 2018, the District has adjusted its commercial property tax regime five times. As much of commercial space is leased through agreements that pass on any increases in property taxes to tenants, this has been a source of uncertainty (and cost) for business establishments of all sizes and kinds.

If the Committee wishes to support these small, local, and legacy businesses, it should consider policies with a broader lens to create a stable tax environment; support the absorption of existing office space and the development of new office space; and increase amenities in all parts of the District to attract businesses in all neighborhoods. This means, altering the current commercial property tax structure to make it more supportive of development, ensuring that the tax regime stays stable, and government policies focus on creating as much stability as possible.

Thank you for the opportunity to testify. I am happy to answer any questions.

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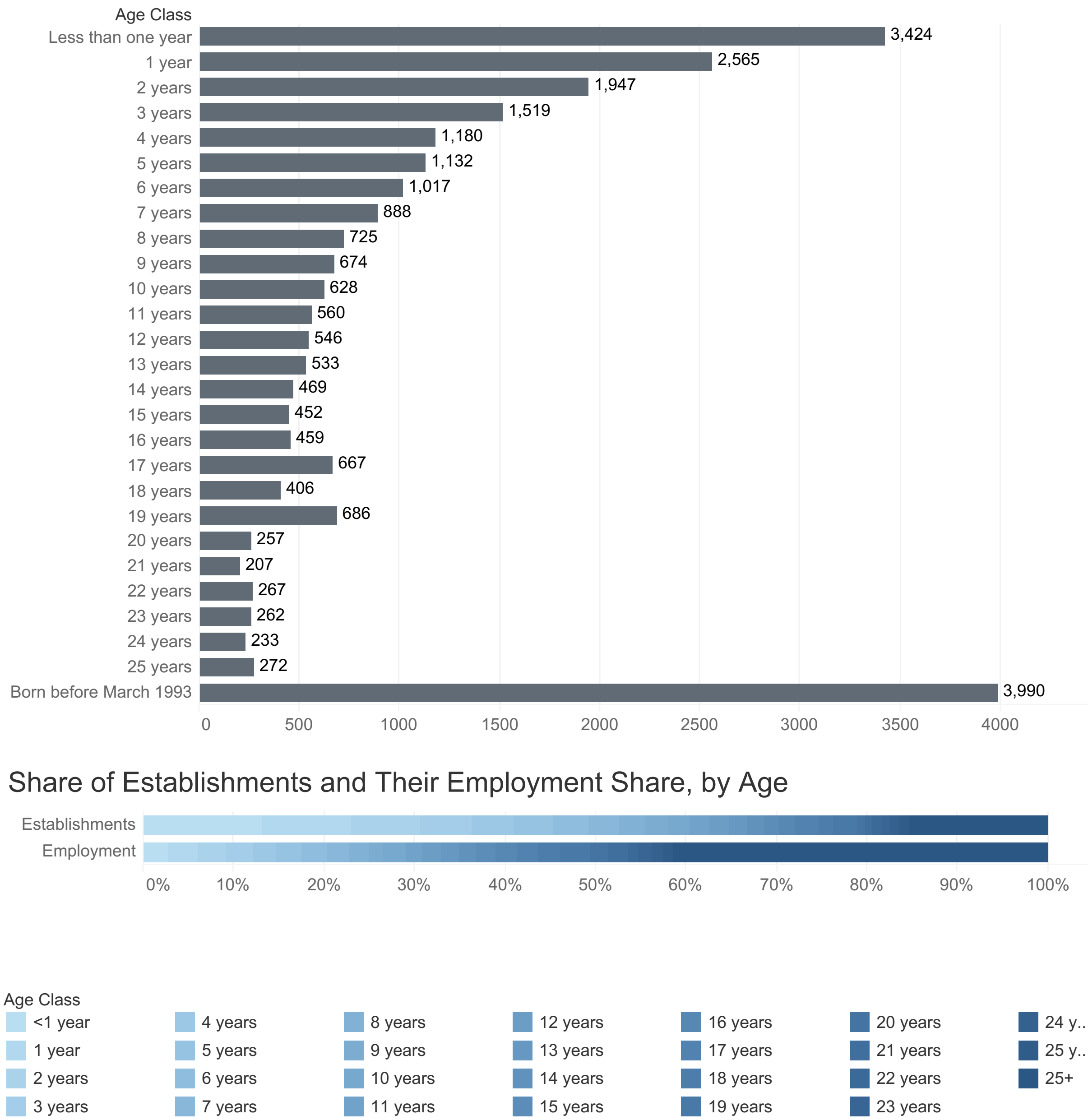
[3] "Building a competitive city: Strengths, weaknesses, and potential paths of growth for the District of Columbia." D.C. Policy Center, October 4, 2019. https://www.dcpolicycenter.org/publications/2019-state-business-report-building-competitive-city/

Figure 1 – DC Establishments by Age. 2019



Source: Bureau of Labor Statistics, Establishment age and survival data, March 2019

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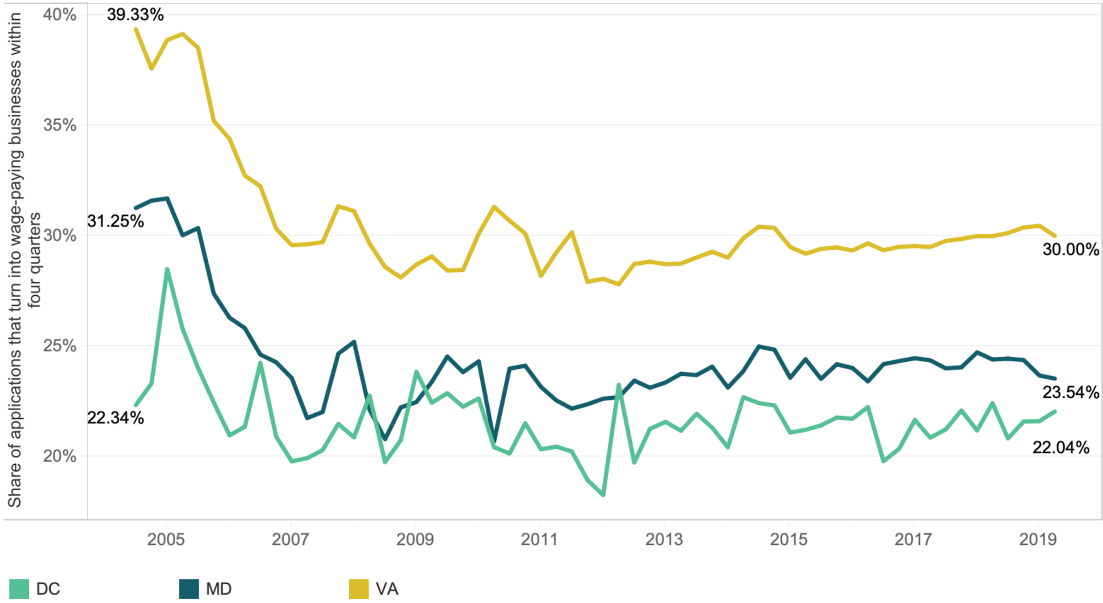
Figure 2 - Share of high propensity businesses that turn into wage-paying businesses within four quarters



Source: Business Formation Statistics, Released on July 2019. Available from the U.S. Census Bureau. Business Applications include applications for an EIN except for applications for tax liens, trusts, certain fiancial filings, and appications from outside the U.S. High-Propensity Business Applications are deemed as entities with a high probability of turning into wage-paying businesses. The Census defines them as (a) from a corporate entity, (b) that indicate they are hiring employees, purchasing a business or changing organizational type, (c) that provide a first wages-paid date (planned wages); or (d) that have a NAICS industry code in manufacturing (31-33), retail stores (44), health care (62), or restaurants/food service (72).

Figure 3 - Share of high propensity businesses that turn into wage-paying businesses within four quarters

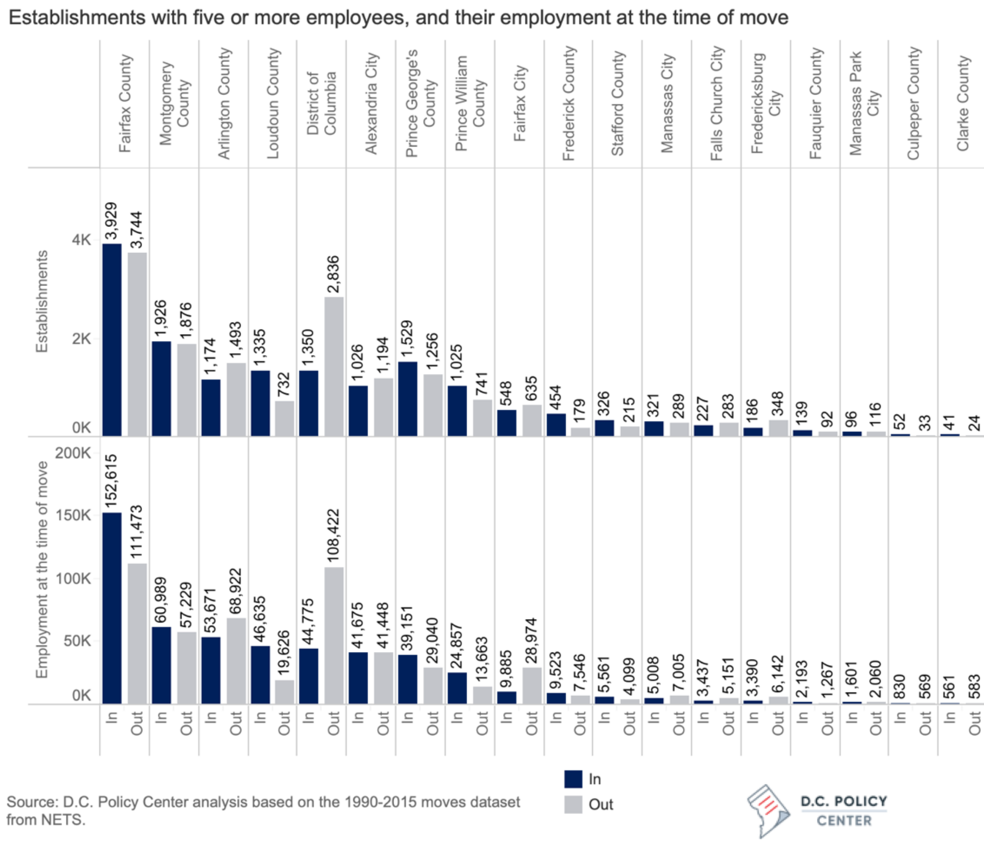
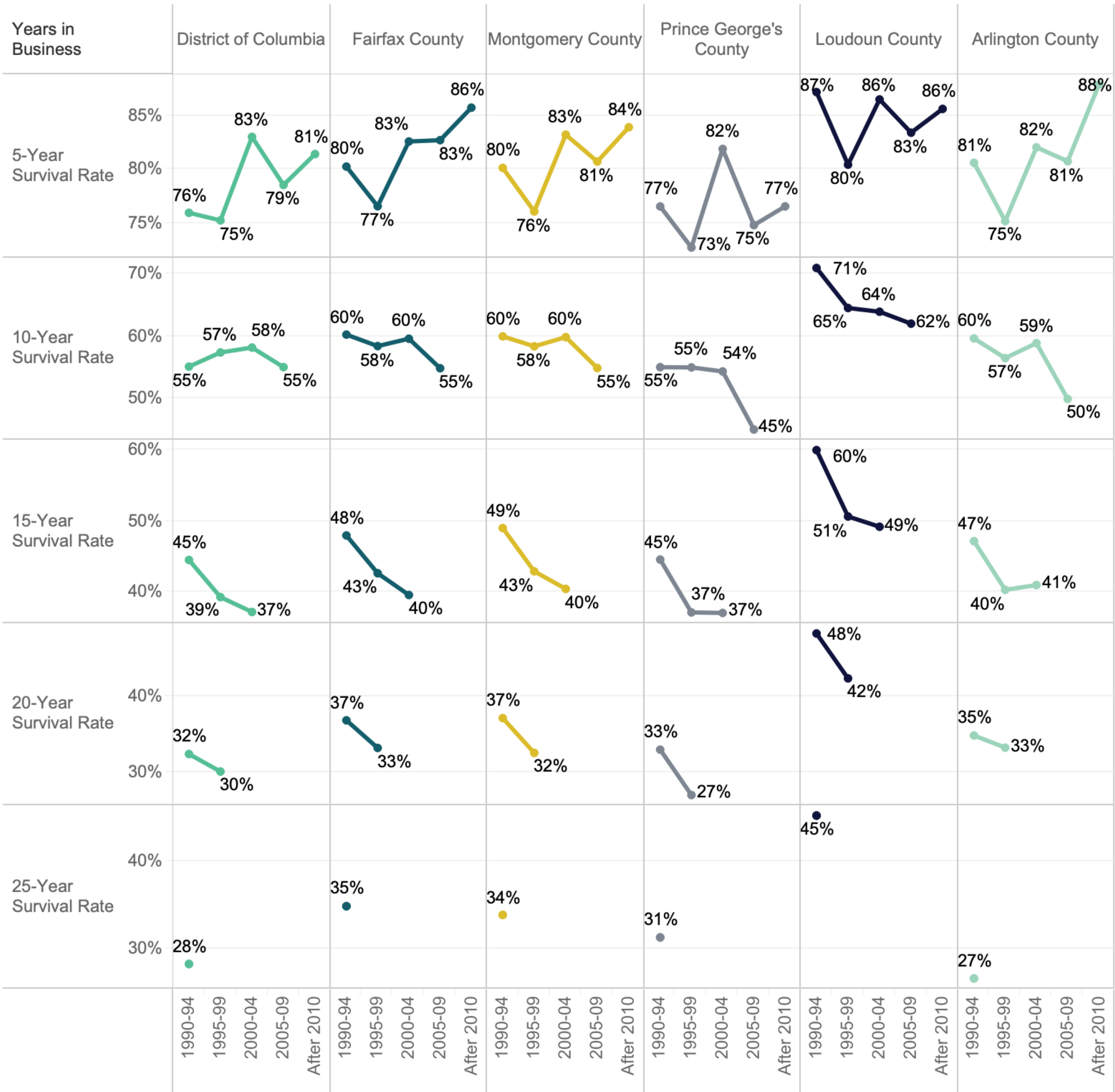


Figure 4 – 5, 10, 15, 20, and 25-year survival rates for different establishment cohorts across the jurisdictions of Metropolitan Washington Area



Note: Survival rates are calculated based on where establishments closed.
Source: NETS database, excludes public administration, K-12 education and universities.

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