



Progressive Intel

A monthly digest of news, analyses and events of interest to defenders of pro-enterprise reform in the District of Columbia

July 1, 2009

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Welcome to the first edition of “Progressive Intel” – a monthly newsletter of DC Progress. Once a month, in these newsletters, we will present news and analysis for those interested in pro-enterprise public policy reform for the District of Columbia. We will also present the latest news from DC Progress.

NEWS FROM DC PROGRESS

DC Progress has launched an effort to create a public policy blueprint for the District of Columbia. Currently, there isn't such an effort for broad sections of various communities in the city—not simply businesses and business associations. A successful reform movement requires the advocacy and commitment from all constituencies. Toward this aim, DC Progress recently organized a meeting of key stakeholders to discuss the components of a blueprint, the timeline for its creation, approval and subsequent distribution. The organization also co-hosted, with the Competitive Enterprise Institute, a forum on how catastrophic insurance might be exempt from taxation. This exemption would be important because it presents the opportunity of drawing billions of dollars to our nation's capital. That money would have tremendous benefits to our local economy.

CHECK OUT our latest **OnPoint Memo**, which was also published in the [June 30th DC Examiner](#). In this latest OnPoint Memo, we explore the importance of the non-profit sector in the District. Authors Christian Robey and Eli Lehrer, also discuss simple steps the District government can take to bolster this important sector.

NEWS & ANALYSES

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Mayor's Privatization Efforts Ought to be Lauded, But...

Mayor Adrian Fenty should be commended for [privatizing operations of the city](#); through such efforts he intends to expand and improve mental health and childcare services among others. However, privatization loses much of its effectiveness [if not accompanied by a competitive process](#). While Mayor Fenty should move forward with the spirit of these reforms, he should do so prudently, drawing upon the best practices of other cities — this includes what's known as “managed competition.” First heralded in the 1980s, the process allows existing municipal departments that might be affected by privatization to actually compete for contracts alongside private sector entities. This can be a win-win for everyone. The city gets a healthy competitive process, which could mean a lower price for taxpayers. And, employees likely to be affected may very well win a contract, which means they don't lose their jobs. Fenty has not embarked on this “managed competition” process. He may want to consider embracing it, however.

\$25 Million in Waste Cited by Auditor Regarding Tax Office Error

[An audit](#) of the District's real property tax office alleges that the office failed to collect at least \$25 million in fines over the last three years. Those fines were supposed to be collected from commercial property owners who did not file legally required reports. As the city inspector general reports, waste costs the District more than fraud. DC Progress has examined the problem of poor city management in a [past On Point memo](#). Waste seems to be systemic in DC. Thus, new approaches are needed. If the city were to focus on eliminating waste, it could begin to resolve budget shortfalls without increasing taxes. The District could learn from other cities. Former [Indianapolis Mayor Stephen Goldsmith literally wrote the book](#) on reforming municipal services. Under Goldsmith, local agencies did exactly what DC Progress advocates for the Fenty administration. They invited private entities to perform specific public services. But they also invited government bodies into the competition. Often, those agencies out-performed their private-sector counterparts. As we stated in our OnPoint memo on city mismanagement, “if the District learned from cities such as Indianapolis, it could save taxpayers money, attract businesses, and do so “without hiring anymore employees, conducting any studies, or installing any more auditors.”

A Standard for Public Projects?

Fortunately, private investors stepped forward with capital [to finance part of the convention center hotel](#). The deal probably will move forward. Until now, the city was planning to finance the entire \$750 million project. The city should not use taxpayer dollars to subsidize large business ventures at all. In fact, as DC no doubt will consider major economic development deals in the future, officials ought to ponder establishing a floor or percentage of the overall project that private investors must contribute before receiving final approval. (For example, if there is a funding gap between the construction costs and future income stream, the city should require private sector beneficiaries make up that gap at minimum). That requirement creates a control mechanism and standard that can aid the city in deciding which projects to fund.

“Inclusionary Zoning” May Be Counterproductive

[DC is one step closer](#) to passing a law that would force businesses to set aside portions of their development for affordable housing; this is called “inclusionary zoning”(IZ). If the city truly wants to help the plight of lower-income workers, it ought to improve the fundamentals of the overall economy, while enacting policies that bring more jobs to DC. One such economic fundamental, for example, is giving businesses, or for that matter, any property owner the latitude to dispose of private property as they wish. Property rights are a key ingredient to a thriving economy. Businesses—as opposed to city planners-- oftentimes are in a better position to decide how their property ought to be used. To be sure, this would not solve the unemployment problem in DC overnight; it's far more complicated than that. Many low-income workers don't have adequate skills and education to avail themselves of jobs. But giving property owners the latitude to use their property as they see fit is a step in the right direction. More businesses will see DC as a city that respects property rights and as business friendly. That will encourage them to make



their homes here, which means more money and more jobs. That combination will provide workers with the resources they need to purchase their homes. Without businesses and jobs, it doesn't matter how much "affordable housing" is available, low-income residents still won't be able to avail themselves of it.

Deputy Mayor's Concerns Warranted

On his last day as Deputy Mayor for Planning and Economic Development, Neil Albert criticized the DC Council. In [a letter](#) he mentioned his concerns about a law that would set aside the currently unused Bertie Backus Middle School as the University of the District of Columbia's community college, which is mostly dream and not yet reality. Albert is firmly against the council's proposal and claims this would lead to the building being vacant for years until UDC can implement its plan. Albert is right. If the District wants to put this land to good use, it ought to allow all private parties to bid and present their proposals for it. Albert endorses this approach when discussing in his letter the Grimke School, where some offices of the fire department are located. Council members want to reserve that building for the African-American Civil War Museum. But, according to Albert, several developers already have begun bidding on the property, incurring "significant expense" to do so. He has asked that the council to allow that process to continue. Albert's letter raises a larger policy concern: How surplus land is disposed. Currently, there is legislation making its way through the Committee on Government Operations and the Environment that would significantly handicap the executive's ability to make sound real estate decisions beneficial to the current and future health of the District. That bill likely will be amended, as it should. The council should be judicious when intervening. It may want to refrain unless there is a potential or documented public harm as a result of a property's disposition.

DC Government is Largest Owner of Vacant Lots in the City

According to a recent [Examiner article](#), DC Councilman Jack Evans claims the DC government is the largest owner of vacant land in the city. District officials should consider selling some or all of this to private parties. Both parties walk away richer. But it's not just about economics. Vacant property can create eyesores and invite crime in communities that currently are battling to establish safe streets. Moreover, developers, particularly those hoping to create retail opportunities don't see possibilities in communities riddled with boarded buildings and overgrown vacant lots. Even if the city could maintain such properties, the results might be the same—vacant lots. But private owners likely would better care for the property and may even develop it more quickly, improving the look of nearby communities while enhancing economic opportunities.

Allow Vendors in Metro Stations

Metro has decided [against allowing food vendors](#) into metro stations. If improving economic activity and increasing tax revenue is the goal, then metro should allow vendors in its stations. The spaces could be auctioned to the highest bidder for perpetual leases. Vendors could then "sell" their space to other vendors. The auctioning system means spaces would go to the vendors who valued them the most. There would be several benefits to such a scheme: Metro would generate revenue from the sale of these spaces; jobs would be created at the new vending stands; and riders would be provided services or products that were not there before. Moreover, the city would generate tax revenue from the new businesses.

Reconsidering DC's Corporate Income Taxes

In the [May issue the Hill Rag](#), Elissa Silverman and Jenny Reed of the Fiscal Policy Institute argue for "The Equitable Income Tax Act of 2009, introduced by Ward 1 Councilmember Jim Graham" as a way to bring more revenue into the dry city coffers. Silverman and Reed claim "The bill would create a bracket of 8.9 percent for those with taxable income above \$500,000. Currently, DC's top rate is 8.5 percent. The Office of the Chief Financial Officer estimates the bill would raise \$11 million in revenue next year."



However, if the point of this bill is to bring in more revenue, adding yet another tax is not the best way to accomplish that goal. DC already is one of the most heavily taxed locales in the country, and [taxes are a drag on its economy](#). One approach to increasing revenue: attract more business to the District. How? The city could eliminate the corporate income tax rate for targeted businesses. At 9.975%, DC's corporate income taxes are among the highest in the country. But, they only generate approximately 4% of the total tax revenue. One of the reasons for this disparity is the relative absence of businesses in the District. A full one-third of the economy in DC is occupied by non-profit businesses. Many of the other entities in DC, such as the federal government and embassies, also are exempt from taxation. Bottom line: there are few businesses in DC. If the city wants to see an increase in businesses, and thus its tax revenue, it ought to repeal its corporate income tax altogether for retail and other businesses. To be sure, that action alone will not solve the District's financial woes, but it's a start in the right direction, helping to turn D.C. into a more attractive environment to do business.

[Is Union Station Tax Break Fair or Wise?](#)

Should Union Station get [a tax break](#)? That's the question the DC Council is weighing. Union station is federal property. But it is leased out to Ashkenazy Acquisition Corp, which owns the offices and retail spaces in the station. All such entities in the District are subject to something called a possessory interest tax. Union Station's possessory interest tax is particularly large – nearly \$3 million a year. As a rule the city ought not be in the business of cherry picking which businesses it wants to exempt from taxes, or selectively enforcing regulations or other public policy requirements. But, this idea may be worth exploring if the tax burden costs more than the improvements to the public amenities in the station. That exception aside, exemptions, as a rule, are bad. They incentivize other businesses to seek similar rewards, and in the end can lead to inappropriate links between businesses and the city government – in the long term, leading to possible corruption. If officials want to improve the economic outlook in the city, they ought not consider just the tax rate, but also the manner in which the tax rate is levied.

[National Group Weighs in on DC Voucher Program](#)

Robert Enlow, president and CEO of The Friedman Foundation for Educational Choice, writing in *USA Today* recently praised the DC Voucher Program, noting that it “improved the reading of girls and younger kids by about half a school year-- though results for other groups were iffier.” And yet, President Barack Obama and Congress have decided to close the program to new applicants. DC Progress has [written](#) and [been interviewed](#) about the important role choice and competition play in improving the educational system here in DC. Moreover, [national studies](#) have shown that voucher programs improve educational quality across the country. D.C. Public Schools Chancellor Michelle Rhee has done a commendable job in moving forward with reforms for the system. If these reforms are to take root, however, the voucher system ought to be kept in place as a way to introduce competition to the DCPS and thus incentivize it to provide a better education for all students in the District.

Upcoming DC Council events

<http://www.dccouncil.washington.dc.us/calendar#>

Talk to us: If you have news or events you think we should know about or write about in this newsletter, contact us at info@dcprogress.org

