

TESTIMONY IN SUPPORT OF
B22-525: MICRO-BUSINESS STARTUP FEE RELIEF AMENDMENT ACT OF 2017

COMMITTEE OF THE WHOLE
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Overview

Starting a business in DC is an expensive endeavor. Regulatory fees—like those required to obtain a Basic Business License (BBL)—contribute hundreds, and even thousands, of dollars to that cost. BBL fees are too high, and they disproportionately hurt lower-income populations, like residents in Wards 7 and 8, returning citizens, immigrants, and young people. DC Council should pass B22-525, which will significantly reduce BBL fees for new and small businesses and bring immediate relief to hard-working Washingtonians trying to earn a living doing what they love.

The Institute for Justice has spent considerable time combing through the Department of Consumer and Regulatory Affairs' (DCRA) regulations, interviewing local entrepreneurs, meeting with government officials and community stakeholders, and researching best practices for licensing in other jurisdictions. Each path has led to the same three themes. It is too expensive, too time consuming, and too complicated to navigate the licensing process in DC.

It is crucial that DC Council and agencies work together to bring major reforms to DCRA and its accompanying regulations. Many of these necessary reforms will take time, but lowering BBL fees is a concrete step that would have an immediate, direct, and significant impact on business owners across the District. DC Council should support this reform, which will help make starting a business more accessible to all Washingtonians and allow entrepreneurs to invest more money back into their businesses and the community.

High licensing fees drive businesses out of the District. Given the cost of doing business in DC, entrepreneurs are pushed to explore opening up shop in Maryland or Virginia instead. Our research has shown that lowering regulatory startup fees can result in higher rates of local business formation. DC Council should make it easier for local entrepreneurs to get their businesses off the ground, support themselves, and bring economic development to every ward by supporting the Micro-Business Startup Fee Relief Amendment Act of 2017.

This testimony will explore the following reasons to support BBL fee reduction:

1. BBL fees are too high
2. BBL fees are just one piece of the true cost of doing business in DC
3. Many business owners must pay for more than one BBL
4. BBL fees vary widely by category, and it is unclear how fee revenue is being used
5. Clean Hands Certification drives up costs for many applicants
6. High fees disproportionately hurt lower-income Washingtonians
7. Reducing fees might result in more businesses coming aboveboard

1. BBL fees are too high

Starting even the most basic type of business in DC can sometimes cost thousands of dollars in BBL fees alone.ⁱ Studies have shown that few Americans have access to the amount of money that it takes to become a licensed business in DC.ⁱⁱ Even for those who do, this is money that could otherwise be used to grow the business. License fees must be paid before the business owner makes a dime, or has even had a chance to test their business model, increasing the risks of starting a business. **Getting started is not the end of these fees. All BBL fees, and most other compliance fees, must be paid every two years when the license must be renewed.**

Each Basic Business License requires at least four different fees. Each of these four fees would be lowered for qualifying businesses under B22-525.

- Category License Fee: This varies from category to category. *See Appendix A, Price per Business License by Category*
- Application Fee: This is a flat fee of \$70 for each license category.
- Endorsement Fee: This is a flat fee of \$25 for each endorsement type.
- Technology Fee: This is calculated as 10% of the sum of the fees above.

Some BBLs require additional fees. For example, some license categories require additional paperwork as part of the BBL process, including background checks, which come with their own fees.

Research shows that most people just don't have these large sums of money sitting around. **According to Bankrate studies, most Americans—"nearly six in 10"—lack the savings to pay for \$500 in unexpected expenses.**ⁱⁱⁱ If most Americans struggle to cover a \$500 unplanned expense, how can we expect DC residents who are high on dreams but low on resources to cover hundreds, or even thousands, in licensing fees? Starting a business is an expensive and risky venture as it is; we shouldn't place extra stumbling blocks in the way.

DC's excessive licensing costs endanger young businesses, forcing entrepreneurs to spend huge sums up front without having a proven business model that they know will make money. DC requires all businesses to obtain a license and pay their fees before they've even made a dime, and before they know if their business is viable.

Business owners in the District pay an estimated \$12.5 million annually to DCRA just to obtain or renew BBLs.^{iv} DC's business environment could look dramatically different if some of that money stayed in the hands of the business owners themselves, who could use it to hire more workers or improve their storefronts.

2. BBL fees are just one piece of the true cost of doing business in DC

BBL fees are not the only regulatory costs that most entrepreneurs will face. The licensing process is long and complicated, and riddled with hidden costs. **In addition to BBL fees, many business owners must pay for zoning permits, corporate registration, and occupational licensing.**

- Corporate registration: For most entity types, it costs \$220 to register articles of incorporation. It costs an additional \$55 to register a trade name.

- Clean Hands: Many entrepreneurs have outstanding debts that they must settle before starting the BBL process. Read more on Clean Hands Certification in section five of this testimony.
- Zoning registration: It costs around \$70 to get a Home Occupancy Permit and at least \$75 for a Certificate of Occupancy.
- Occupational licensing: The fees for occupational licenses vary widely. On average, these fees cost \$400 and require 261 days of training and an exam, but they can reach as high as \$1,485 and 6 years of training (this is for Interior Designers).^v These fees do not include the cost of the training requirements, which can range in the thousands.

Fees are just one component of the cost of obtaining a BBL. Extensive supporting documentation and paperwork can require a great deal of work by the applicant. Visits to agencies rack up transportation costs, time off work, and childcare expenses. Many entrepreneurs must hire lawyers, accountants, and expeditors to help navigate the regulatory labyrinth. These expenses take away time and money that the entrepreneur could be spending on building their business or paying other bills.

See the District Works binder for an outline of the entire business licensing process and examples of supporting documentation.

3. Many business owners must pay for more than one BBL

DC has too many license categories, and their definitions are too specific. Because of this, it is common for a business owner to need multiple BBLs.

Currently, there are 128 BBL categories—more than cities of comparable size—and 17 BBL endorsement types.^{vi} DCRA’s website is unclear about the purpose of endorsements, and unfortunately clicking on an endorsement returns the visitor back to a list of the license categories under that endorsement instead of a definition. Moreover, the 128 BBL categories do not include licenses that fall outside of the BBL process, like occupational licenses. Many license categories seem redundant, arbitrary, and/or unrelated to the health and safety of DC residents.

Business activities are defined so narrowly that many business owners need to obtain multiple licenses and pay multiple sets of BBL fees, driving up the cost of licensing even further. Examining food-related license categories helps demonstrate these issues. According to “*Money for nothing: D.C. businesses pay a technology fee but get very little in return*” published by the D.C. Policy Center:

For instance, a typical grocery store may need a grocery store license, a deli license, a cigarette retail license, a patent medicine license, plus health inspections and perhaps a liquor license. Each item has a separate cost.^{vii}

The definitions of some categories differ by only a few words, but the fees vary widely. It is also difficult for entrepreneurs to figure out which license(s) they need. DC Council should enact reforms to reduce the number of BBL categories, but reducing BBL fees can provide relief in the meantime.

See Appendix B, Food-related BBL Categories.

4. BBL fees vary widely by category, and it is unclear how fee revenue is being used

The varying costs between different BBLs are the category license fee, whether or not the fees are assessed on a per-unit basis, and the technology fee, which is assessed as 10% of all other fees. Category fees can differ widely, ranging from as little as \$0—though those applicants must still pay the application fee (\$70.00), endorsement (\$25.00), and technology fee (10% of \$70.00 plus \$25.00, which equals \$9.50), which amount to **\$104.50—to as much as \$3,107.50** (for an Ice Cream Manufacturer).^{viii}

The vast differences between some category license fees seem arbitrary. DC Code requires that fees be “reasonably related to the cost to the District of investigating, inspecting, and issuing the licenses,” but categories that would seem to require similar administration and enforcement costs can have very different fees. Even when there is a strong correlation between fee costs and regulatory costs, the overwhelming red tape that plagues the business licensing process is unnecessary and should be streamlined to drive down costs.

Below is the language in the DC Code related to licensing fees:^{ix}

DC Code § 47–2851.04

*(2) The fees established pursuant to paragraph (1) of this subsection may vary according to the class of license and the particular kind of business being licensed and **shall be reasonably related to the cost to the District of investigating, inspecting, and issuing the licenses.***

*(d)(1) All fees collected pursuant to this section shall be deposited in a special account and **used only to defray the costs of licensing and license enforcement, including salaries, staff training, equipment, records, and computers.***

Currently, 13% (17 of 128) of BBL categories have zero licensed businesses using that category. Additionally, 42% (54 of 128) of BBL categories have fewer than 20 licensed businesses. Categories that are rarely used should be combined with similar license categories. The most expensive licenses are also some of the least commonly used categories. It’s possible that the cost of those license types drive applicants to try to fit into more affordable BBL categories.

See Appendix A, Price per Business License by Category

As mentioned in the first section, business owners in the District pay an estimated \$12.5 million annually to DCRA to obtain or renew BBLs. It is unclear how some of this money is used. For instance, the technology fee portion of the BBL fee was established in 2010 to upgrade DCRA’s outdated BBL platform, and intended to last three years. In 2013, it was made permanent, but it is still unclear which improvements that fee revenue has funded. According to “*Money for nothing: D.C. businesses pay a technology fee but get very little in return,*” published by the D.C. Policy Center:

Eight years have passed since the adoption of the technology fee, and it is hard to find any clear evidence of how the city uses the money from this fee. Looking at the budget books, we see that the District is set to collect an estimated \$71 million in business license fees from 2011 to 2017, and will collect another \$50 million more over the next four years ...

Despite the \$11 million in current and potential collections, since 2010, no regular plan has emerged on the use of revenue from the technology fee, and no accounting exists on how the city has so far used these revenues. Scouring budget books do not tell us much.^x

There has been some improvement with the launch of the DC Business Center website, but this site still does not operate as a one-stop shop or a single log-in system, as was promised. DCRA has not explained how the technology fee funds are being used to meet the original goal of the fee. The potential mismanagement of these funds should be of great concern to DC Council.

5. Clean Hands Certification drives up costs for many applicants

An additional cost and major barrier in the BBL process is Clean Hands Certification. **In order to obtain a BBL, applicants must sign an affidavit certifying that they do not owe more than \$100.00 to DC Government.** If an applicant owes more than \$100.00 to DC Government, they must settle those debts before proceeding. It may be possible to arrange a payment plan for debts, but we have not been able to find information on that process.

Many Washingtonians owe DC Government more than \$100.00, and this may be an insurmountable barrier for lower-income residents and returning citizens who have debts to the government but no way to pay them back. To give some context, a driver caught speeding just one mile over the speed limit twice would already hit the \$100.00 limit.^{xi} A single speed camera ticket is \$100.00.

DC Council should consider the additional costs posed by this requirement, and in addition to lowering BBL fees, the \$100.00 Clean Hands threshold should be increased or done away with entirely.

6. High fees disproportionately hurt lower-income Washingtonians

Expensive fees for starting a business hurt the very entrepreneurs that everyone agrees we should be working harder to support: like local and lower-income entrepreneurs, returning citizens, and communities in wards 7 and 8.

According to a D.C. Policy Center report, **DC natives generally struggle to make a living when compared to residents who move here from other places. The same goes for residents in Wards 7 and 8.**

According to “*Reducing barriers for job-seekers*,” published by the D.C. Policy Center:

Among all D.C. residents ages 15 and older who were born in the District, only about one in ten earn \$75,000 or more per year, compared with one in three residents who moved here from other parts of the US.

Wards 7 and 8 have the lowest median household incomes in the District, while also reporting the highest poverty rates (27.7 percent and 36.8 percent, respectively).^{xii}

Research by the Urban Institute confirms that **Wards 7 and 8 have disproportionately fewer businesses than other parts of DC, particularly retail and food businesses.** According to “*Inequality in the District: not just income but businesses too*,” published by the Urban Institute:

One measure of inequality that is less often discussed is the geographic distribution of businesses throughout DC. This distribution is important not only because residents of underserved areas lack places to shop, eat, and receive services, but also because they have less access to the jobs available at these businesses.^{xiii}

This reality contributes to poverty levels and exacerbates the mismatch between where job opportunities are located and where people live. One way we can address this problem is by

empowering residents in Wards 7 and 8 to start businesses and create jobs. Lowering barriers to entry by lowering fees is a great start.

The Institute for Justice created three maps to illustrate small businesses distribution in DC. This data is limited to businesses with fewer than 50 employees that generate less than \$100,000 in annual sales. Combined with the Urban Institute's research, these maps highlight the dearth of business creation in the areas that need it most. DC Council should focus on ways to ease the costs of doing business here. According to *"Inequality in the District: not just income but businesses too,"* published by the Urban Institute:

In DC, the distribution of businesses is highly unequal. Ward 2 is an outlier because it includes the downtown core, and therefore has the greatest number of establishments by far. But among the more residential wards, Ward 6 (the Capitol Hill area) and Ward 3 (the northwestern portion of DC) often have the greatest number of establishments, while Wards 7 and 8 (east of the Anacostia River) trail far behind, even though these wards are all close in terms of population.^{xiv}

The first map, *Appendix C: Concentration of D.C. Small Businesses Per Capita, by Census Tract*, indicates that there are **disproportionally fewer businesses across the river than in other residential areas of DC**. It may be unfair to compare Ward 8 with Ward 2, for example, because Ward 2 includes the downtown business district—but, as the Urban Institute report above indicates, comparing Wards 7 and 8 to other primarily residential parts of the city show that Wards 7 and 8 have proportionally less business creation.

The second map, *Appendix D: Small Businesses in D.C. by Median Household Income*, shows much of the same, and helps illustrate an important point. In comparing DC areas by income, it's obvious that **lower-income areas have less business creation, even when controlling for the residential-versus-commercial distinction**.

The final map, *Appendix E: Small Businesses in D.C. by Proportion of Black Population*, shows that **distribution of businesses in majority-black areas is sparser than other parts of the District**.

Starting and running a small business has long been a viable path towards achieving the American Dream. This path should be open to all DC residents regardless of income or zip code. Until we work to reduce regulatory barriers to entrepreneurship, like expensive fees, we will be keeping Washingtonians out of work, especially those in communities most in need of economic development.

7. Reducing fees might result in more businesses coming aboveboard

The current BBL fees may be keeping entrepreneurs from licensing their businesses. Lowering barriers so that unlicensed businesses can come out of the shadows is good for business owners, customers, and regulatory agencies alike.

In December of 2017, Illinois enacted a law that lowered the LLC filing fee from \$500 to \$150 and reduced corporate registration filing fees across the board.^{xv} **Since lowering LLC fees, Illinois has seen an enormous increase in LLC registrations.**

See Appendix F, Number of LLC Articles of Organization Filings by Quarter in Illinois

Lowering BBL fees in DC could have an even larger impact since unlike corporate registration, which is technically optional, virtually all businesses *must* go through the BBL process. **An increase in the number of BBL licensees could help offset the revenue lost by reducing licensing fees.**

Conclusion

DC Council should support reforms that will reduce barriers for residents who want to contribute taxes, innovative ideas, and jobs to our communities. Lowering BBL fees is an important first step in making DC a more welcoming environment for business owners in all income brackets. DC Council should pass B22-525, the Micro-Business Startup Fee Relief Amendment Act of 2017.

ⁱ Directory of All Basic Business License Categories, DCRA. <https://dcra.dc.gov/service/directory-all-basic-business-license-categories>

ⁱⁱ CNN Money. <https://money.cnn.com/2017/01/12/pf/americans-lack-of-savings/index.html>

ⁱⁱⁱ Ibid.

^{iv} D.C. Policy Center. <https://www.dcpolicycenter.org/publications/technology-fee/>

^v License to Work, 2nd Edition. Institute for Justice. <https://ij.org/report/license-work-2/>

^{vi} List of BBL categories, DCRA. <https://dcra.dc.gov/service/directory-all-basic-business-license-categories>; List of endorsements. <https://dcra.dc.gov/service/basic-business-license-bbl-endorsements>

^{vii} D.C. Policy Center. <https://www.dcpolicycenter.org/publications/technology-fee/>

^{viii} Get an Ice Cream Manufacturer Licenses, DCRA. <https://dcra.dc.gov/service/get-ice-cream-manufacturer-license>

^{ix} DC Code § 47-2851.04. <https://code.dccouncil.us/dc/council/code/sections/47-2851.04.html>

^x D.C. Policy Center. <https://www.dcpolicycenter.org/publications/technology-fee/>

^{xi} Fines for Common Traffic Violations, DC Metropolitan Police Department. <https://mpdc.dc.gov/page/fines-common-traffic-violations>

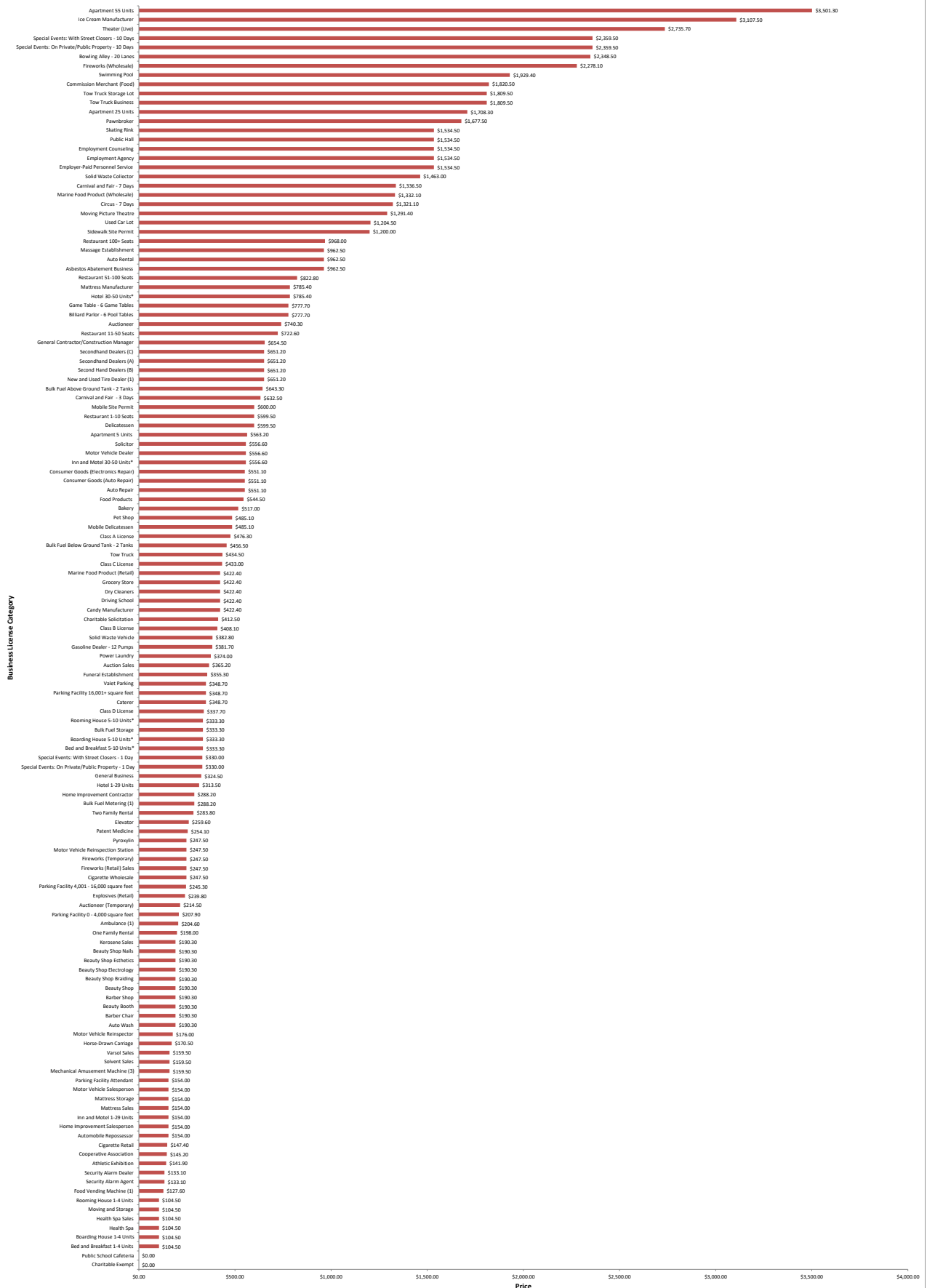
^{xii} D.C. Policy Center. <https://www.dcpolicycenter.org/publications/reducing-barriers-for-job-seekers-in-d-c-and-the-metro-region/>

^{xiii} Urban Institute. <https://www.urban.org/urban-wire/inequality-district-not-just-income-businesses-too>

^{xiv} Ibid.

^{xv} Chicago Tribune. <https://www.chicagotribune.com/suburbs/glen-ellyn/community/chi-ugc-article-tom-cullerton-cuts-excessive-fees-for-small-b-2017-12-20-story.html>

Appendix A: Price by Business License Category
 Source: DC Department of Regulatory and Consumer Affairs



Appendix B: Food-related Basic Business License Categories

[Candy Manufacturer License](#)

Description: “This classification applies if you manufacture chocolate confectioneries from chocolate produced elsewhere and manufacture non-chocolate confectioneries. This classification also applies if you retail confectionery products not for immediate consumption made on the premises from chocolate made elsewhere.”

Category License Fee: \$289

Application Fee: \$70

Endorsement Fee: \$25

10% Technology Fee: \$38.40

Total: \$422.40

[Caterer License](#)

Description: “Any person or business that provides and prepares food, drink, or refreshments, with utensils to serve them, for use and consumption on premises other than where they’re prepared. Banquet halls with catering staff are included. Caterers serving alcoholic beverages must apply for ABC licenses.”

Category License Fee: \$222

Application Fee: \$70

Endorsement Fee: \$25

10% Technology Fee: \$31.70

Total: \$348.70

[Delicatessen License](#)

Description: “This applies to businesses where food, drink, or refreshments are cooked, prepared and sold for consumption off the premises.”

Category License Fee: \$450

Application Fee: \$70

Endorsement Fee: \$25

10% Technology Fee: 54.50

Total: \$599.50

[Food Products License](#)

Description: “This classification applies if you sell “prepackaged” food items prepared on a licensed premise including foods typically found in convenience stores, grocery stores, and gasoline station food marts such as cereals, snack foods, packaged sandwiches, and other similar items.”

Category License Fee: \$400

Application Fee: \$70

Endorsement Fee: \$25

10% Technology Fee: \$49.50

Total: \$544.50

[Mobile Delicatessen License](#)

Description: “This applies to businesses where food, drink, or refreshments are cooked, prepared, and sold for consumption off the premises.”

Category License Fee: \$346

Application Fee: \$70

Endorsement Fee: \$25

10% Technology Fee: \$44.10

Total: \$485.10

[Vendor License](#)

Description: “Any person engaged in taking and selling goods and services for immediate delivery upon purchase, which operates exclusively from public space.”

Class A Fee: \$476.30

Class B Fee: \$408.10

Class C Fee: \$433

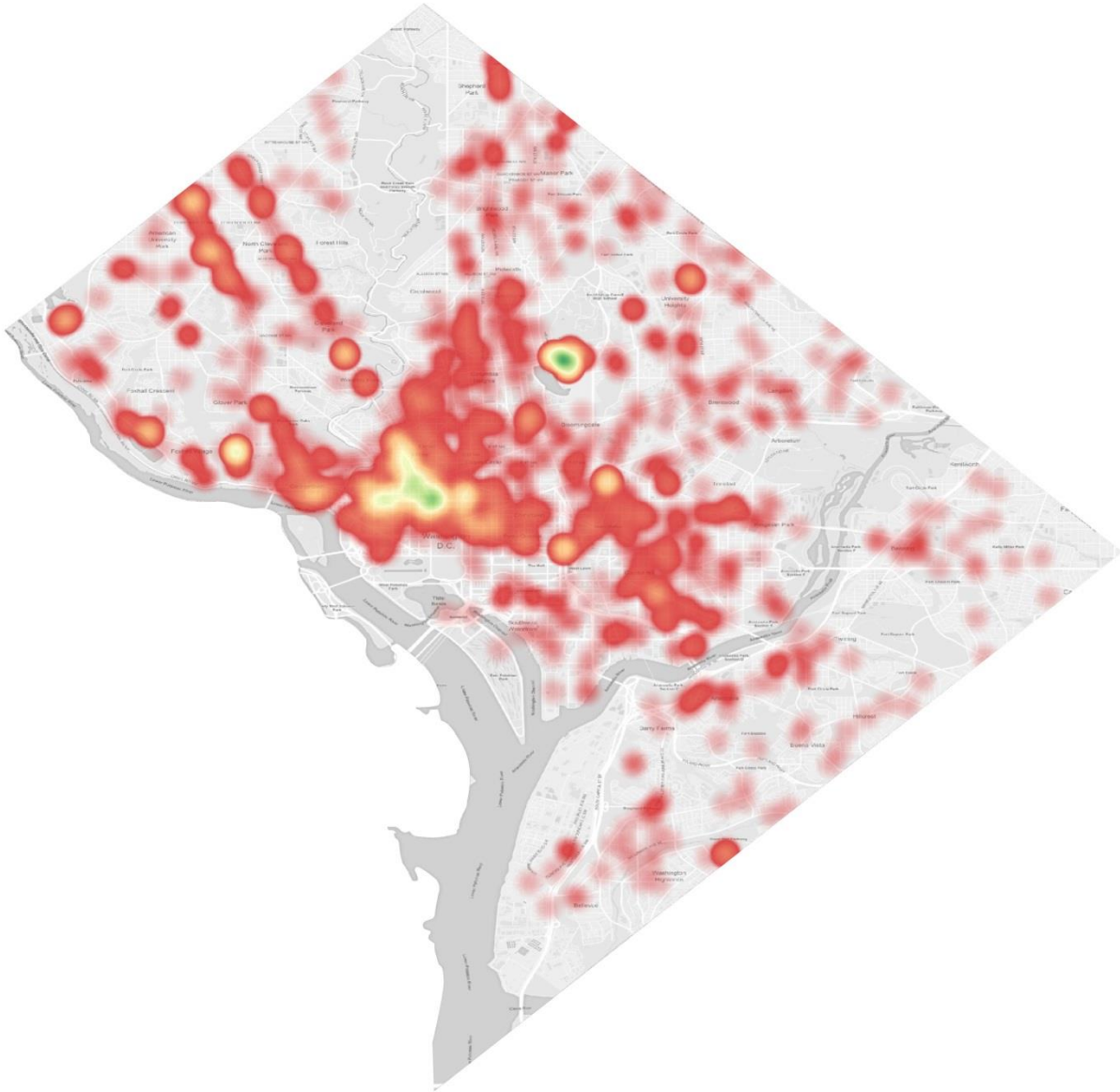
Class D Fee: \$337.70

Mobile Site Permit Fee: \$600

Sidewalk Site Permit Fee: \$1200

Appendix C: Concentration of D.C. Small Businesses Per Capita, by Census Tract

Businesses have fewer than 50 employees and generate less than \$100,000 in annual sales



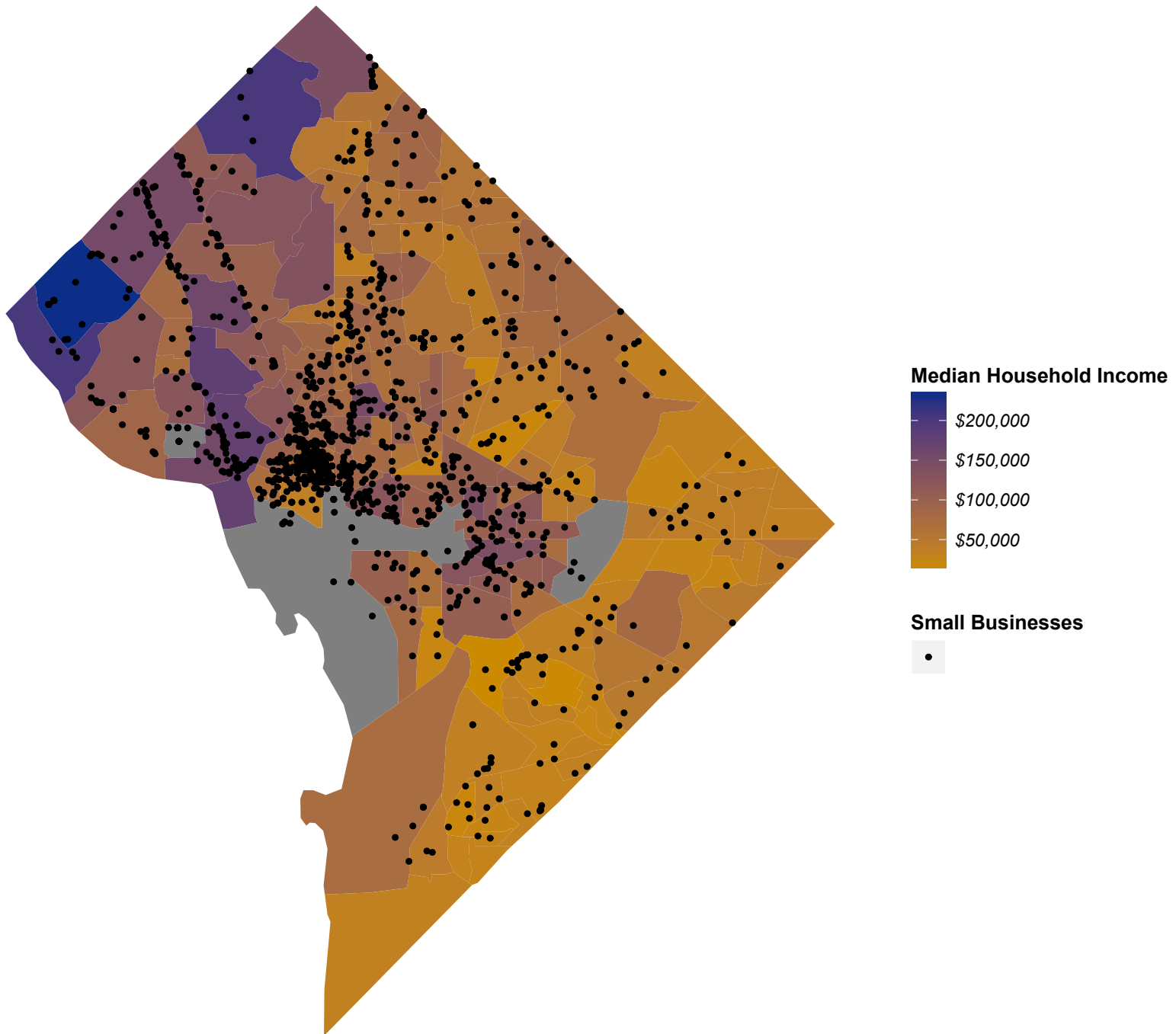
Source: American Community Survey 2016, InfoUSA

Important notes about these maps:

- Annual sales data collected from InfoUSA, a company that collects business data nationwide. Sales are imputed based on industry standards—they are not self-reported by each business.
- As such, these maps likely include some businesses that in reality generate more than \$100,000 in sales each year and exclude others that generate less.

Appendix D: Small Businesses in D.C. by Median Household Income

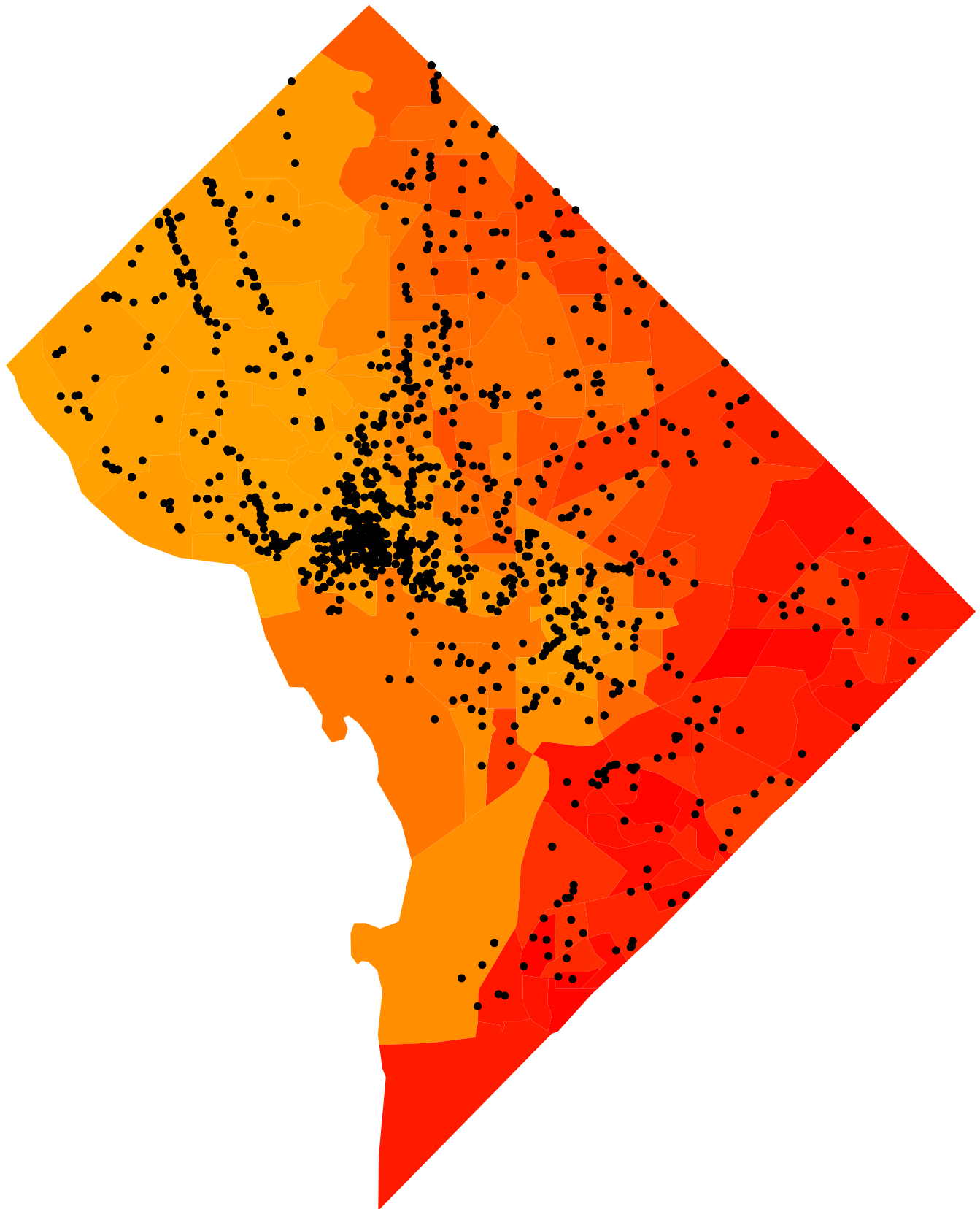
Fewer than 50 employees and less than \$100,000 in annual sales



Source: American Community Survey 2016, InfoUSA Note: Tracts where median household income data is unavailable are shaded in gray

Appendix E: Small Businesses in D.C. by Proportion of Black Population

Fewer than 50 employees and less than \$100,000 in annual sales



Small Businesses •

Percentage of Black Residents



25% 50% 75% 100%

Appendix F: Number of LLC Articles of Organization Filings by Quarter in Illinois

Source: Illinois Secretary of State, Department of Business Services

