Although DC has many of the right elements for a healthy business environment, like a talented and passionate workforce, creative entrepreneurs in every sector, and government officials and nonprofits who see the need for change, the regulatory climate makes getting started expensive, confusing, and time consuming.

DC Council should work with the Department of Consumer and Regulatory Affairs (DCRA) and other agencies to enact reforms to reduce barriers for new and small business owners trying to earn a living doing what they love.

The Institute for Justice has spent considerable time combing through DCRA’s 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: Navigating DC’s licensing process is too expensive, too time consuming, and too complicated. These observations match research conducted by DC Government, as addressed in the Office of the Deputy Mayor for Planning and Economic Development’s (DMPED) DC Economic Strategy Plan published in March 2017.

Regulatory fees contribute hundreds, sometimes even thousands, of dollars to the cost of doing business. Entrepreneurs have difficulty understanding how to navigate and understand relevant rules and regulations. They report needing to make multiple trips to agencies to receive various licenses. Confusion and agency visits add up, costing business owners valuable time and money while waiting for paperwork and inspections. These fees and waits disproportionately hurt lower-income populations, like residents in Wards 7 and 8, who can’t afford to hire lawyers and expeditors to help navigate the process. The cost and complexity of the licensing process in DC pushes entrepreneurs to explore opening up shop in Maryland or Virginia instead.

It is crucial that DC Council and agencies work together to bring major reforms to DCRA and its accompanying regulations. Our research shows that lowering regulatory startup fees and streamlining licensing can result in higher rates of local business formation and better relationships between business owners and agency representatives. DC Council should support reforms that will help make starting a business more accessible to all Washingtonians.

This testimony will address the following recommendations for reform:

1. Streamline the licensing process by removing or combining underused and redundant licenses and processes.
2. Lower licensing, registration, and permitting fees for new and small businesses.
3. Improve communication and transparency between regulatory agencies and business owners by creating a true “one-stop shop.”
4. Reform requirements that create barriers for low income residents and returning citizens.
5. Review and reform home-based business regulations to ensure they allow entrepreneurs to start small businesses in their homes.
Reform #1: Streamline the licensing process by removing or combining underused and redundant licenses and processes

DC has too many license categories, and their definitions are too specific. This makes it difficult for business owners to determine which license(s) they need, and it is common for a business owner to need multiple licenses. DC should repeal licenses that are not being used, and combine licenses with similar requirements to avoid redundancy. DC Council and DCRA should also reduce the number of steps and paperwork entrepreneurs face when trying to navigate the overall licensing and registration process.

**There are 128 BBL categories that are defined too narrowly and many are not being used**

These 128 Basic Business License (BBL) categories—far more than cities of comparable size—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.

According to data on DCRA's website, **13% (17 of 128) of BBL categories have zero licensed businesses using that category. Additionally, 43% (55 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 is 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*

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 costs and time required for licensing. Examining food-related license categories helps demonstrate these issues. 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.

*See Appendix B, Food-related BBL Categories.*

**DC should follow the best practices of cities like Chicago, and reduce and streamline business licensing**

In May of 2012, Chicago passed legislation to reduce the number of license types from 117 to 49, a reduction of 60%. Reducing the number of license categories saved Chicago’s small businesses $2 million in license fees each year. In addition, fewer business owners were fined for technical violations like having the wrong license type. Over 6,000 businesses no longer required a general business license, and certain common business types no longer need multiple licenses to operate. Chicago also created an Emerging Business Permit for new business types that do not fit neatly into the existing licensing categories. DC’s business community and agency personnel could benefit from these reforms.

As mentioned above, DMPED’s *DC Economic Strategy Report* also recommends streamlining the licensing and permitting process, listing “redesign permitting and licensing systems” as their first reform initiative. According to this report:

“Licensing improvements could include increasing the speed of processing individual licenses, reducing the number or types of activities for which licenses are required, exempting small businesses and startups from certain licensing requirements, and redesigning license processes from a customer-centric point of view. For instance, designing a common form could allow licensees to apply for multiple licenses at one time.”

To address these issues, DC should enact reforms like Chicago’s and reduce and streamline license categories and regulations.
Reform #2: Lowering licensing, registration, and permitting fees for new and small businesses

Starting even the most basic type of business in DC can cost thousands of dollars in regulatory fees. Studies have shown that few Americans have access to the amount of money that it takes to become a licensed business in DC. Even for those who do, this is money that could otherwise be used to grow the business.

DC’s excessive licensing costs endanger young businesses, forcing entrepreneurs to spend huge sums upfront without having a proven business model. 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. And getting started is not the end of these fees. Most compliance fees must be paid every two years when paperwork must be renewed.

See Appendix C, Fees to Start a Business in DC

Business owners in the District pay an estimated $48 million annually for business licensing, occupational licensing, inspections, registration, and other regulatory requirements. The licensing process is long and complicated, and riddled with hidden costs.

See the District Works flowchart of the business licensing and registration process

Fees should be tied to the cost of enforcing and administering licenses

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. The cost of a business license should be tied to factors like the size and risk posed by the business.

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 was intended to last three years. In 2013, it was made permanent, but it is still unclear which improvements that fee revenue has funded.

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.

High fees hurt lower-income entrepreneurs most

Expensive fees for starting a business hurt the very entrepreneurs that everyone agrees we should be working harder to support: local and lower-income entrepreneurs, returning citizens, and communities in Wards 7 and 8. 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. This reality contributes to poverty levels and exacerbates the mismatch between where job opportunities are located and where people live. Lowering barriers to entry would help empower residents in Wards 7 and 8 to start new businesses and create jobs.

Reducing fees might result in more businesses coming aboveboard

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. Since lowering LLC fees, Illinois has seen an enormous increase in LLC registrations.

See Appendix D, Number of LLC Articles of Organization Fillings by Quarter in Illinois
Starting a business is already an expensive and risky venture; DC Government shouldn’t place extra stumbling blocks in the way. The current fees may be keeping entrepreneurs from registering and 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. DC Council should support reforms that will reduce barriers for residents who want to contribute taxes, innovative ideas, and jobs to our communities.

Reform #3: Improve communication and transparency between regulatory agencies and business owners by creating a true “one-stop shop”

In addition to dealing with DCRA, most business owners must interact with myriad other agencies, including the Office of the Chief Financial Officer, DC Health, the Department of Transportation, the Department of Small and Local Business Development, the Alcoholic Beverage Regulation Administration, the Department of Housing and Community Development, Office of Contracting and Procurement, and the Department of Energy and Environment, among others. Communication between agencies—and even within department sub-agencies—is scarce. Entrepreneurs often hear conflicting information from different agency representatives and waste time and money bouncing from agency to agency.

The DC Business Center is a step in the right direction, but it is not a one-stop shop, as advertised

The DC Business Center was created to streamline the interactions business owners have with DC’s agencies, and make it easier for entrepreneurs to start, grow, and maintain their businesses. The Center is a step in the right direction, as it helps aggregate information and allows the applicant to create a personalized checklist of compliance tasks that must be completed. But it’s not a true one-stop shop. It does not necessarily make the applicant’s interaction with agencies easier or more streamlined; it simply tells the applicant which agencies they must visit. Further, it does not operate as an online portal with a single log-in, as is the goal of most one-stop portals.

Delaware created a one-stop shop, and saw improvements in processing times and customer satisfaction

In 2006, Delaware created a single log-in, one-stop shop to allow new businesses to register online through a streamlined application process that eliminates the need to contact different state agencies. The goal was to save time and money for businesses and for state government. As a result, Delaware saw immediate growth in consumer satisfaction and reductions in processing times.

Delaware’s One Stop allows users to complete corporate registration and business licensing; register with the Department of Labor, Division of Unemployment and the Office of Workers’ Compensation; connect with the Internal Revenue Service (IRS) to obtain a Federal Employer Identification Number (FEIN) and with Delaware’s Division of Corporations. Through this portal, a business owner can complete one or all of these applications in one place. The application process enables the user to pay fees using a credit or debit card and print a temporary business license that they can use until they receive their permanent license in the mail. As part of this effort, Delaware also enacted reforms to improve inter-departmental communication, and streamlined regulations overall.

The One Stop resulted in immediate improvements in processing times and customer satisfaction: “Within the first year after launch One Stop utilization grew to over 30% of all new business registrations while enabling a 300% improvement in license processing time and a nearly 90% satisfaction rate among customers using the service.”

Before implementing this One Stop process, Delaware’s business registration and licensing process looked a lot like DC’s. Applicants had to “visit three separate state agencies, as many as six divisions within these agencies, and then await the arrival of their business license in the mail; not to mention any other licensing requirements at the county
or local levels.” Each agency required their own forms and “the result was a process that was cumbersome, lengthy and confusing to the potential new business owner,” just like in DC.

Delaware isn’t alone; cities including Chicago, New Orleans, and Riverside have also created one-stop shops. DC should follow this best practice and enact a true one-stop shop.

Reform #4: Reform requirements that create barriers for low-income residents and returning citizens

DC Government encourages returning citizens to start their own businesses through training programs like Aspire to Entrepreneurship, but restrictions like the Clean Hands certification—as well as background checks for certain BBLs, and “good moral character” requirements for occupational licensing—create needless barriers for returning citizens and low-income residents. DC Council should seek to support, not alienate, returning citizens as they re-enter the workforce.

The Clean Hands Certification requirement is too low and too inclusive

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. The requirement imposes a dollar limit that’s far too low—so low, that it almost certainly shuts out low- and moderate-income folks from starting their businesses. Many Washingtonians owe DC Government more than $100. To give some context, a driver caught twice speeding just one mile over the speed limit would already hit the $100 limit.

The Clean Hands dollar limit is also far too inclusive, covering money owed pursuant to fines, past due taxes, DC Water and Sewer Authority service charges, parking fees, and much more.

Specific reform ideas to lessen the burden of Clean Hands Certification

• **Offer payment plans or debt abatement:** Currently, applicants may acquire a license if they have entered into a payment schedule, with approval from District government. But this opportunity is buried in DC Code. Officials should offer more payback or debt abatement options—and should advertise them to applicants more clearly.

• **Make the process less confusing:** Applicants may be confused as to when they should submit their Clean Hands certification. DCRA should simplify its website’s language to steer applicants toward the simplest option.

• **Reform punitive fines and fees:** Applicants are fined $1000 for making knowingly false certifications during the Clean Hands approval process. This overly punitive fine hurts those trying to better their situations by starting a business.

Returning citizens and low-income Washingtonians deserve the opportunity to build wealth for themselves and their families by starting and growing businesses. DC Council and DCRA should remove regulations that unnecessarily impede on that right.
Reform #5: Review and reform home-based business regulations to ensure they allow entrepreneurs to start small businesses in their homes

As the price of commercial space in DC rises, entrepreneurs find it increasingly difficult to afford to start and grow their businesses. Home-based businesses provide an affordable way for entrepreneurs to start small in their homes, reduce business costs, and save money on transportation and childcare. This model can provide a stepping stone to commercial space while the entrepreneur collects revenue and creates a customer base. But DC’s current regulations make this option less accessible by defining home-based businesses too narrowly and putting burdensome regulations and paperwork requirements on home-based entrepreneurs.

Streamline home-based business registration and regulations

DC defines a home-based business narrowly—and the list of allowable professions is small—likely leaving out innovative businesses that could thrive in a home environment. There are too many regulatory conditions, and some are arbitrary and don’t allow for innovation.

To start a home-based business, an applicant must abide by a list of “basic conditions.” For instance, no more than 25% of the dwelling’s floor area, or 250 square feet, can be used for the business, and the business cannot have more than one employee who is not a dwelling resident. There is an outlined list of allowable professions, including businesses like daycares, hair styling, and tailoring.

After determining that the applicant’s occupation and home space pass DCRA’s regulatory requirements, they must file an HOP Application and supporting documentation—which includes a copy of license, copy of articles of incorporation, listing of corporate officers, Letter of Good Standing, copy of occupational license—along with the accompanying fees for each document. The process can quickly become expensive and arduous for entrepreneurs looking to start small without much capital.

Expand and streamline DC’s cottage food regulations

In 49 states, cottage food laws allow food entrepreneurs to prepare and sell safe and shelf-stable foods like baked goods from their homes. DC Council passed a law allowing the sale of these goods in 2013, but the regulations and registry for this practice were not fully posted until July of 2018. Since DC Council passed the cottage food law in 2013, states around the country have passed more expansive cottage food laws, and DC now has one of the worst cottage food laws in the country.

As far as we know only one person, Emily Annick of 440 Confections, has successfully registered as a cottage food business in DC. Cottage food producers are only allowed to sell at farmer’s markets and permitted special events, and it is difficult or impossible for small-scale producers to secure stalls at these events. They are also capped at $25,000 in revenue. Producers are required to complete an arduous registration process which includes signing up for the registry, obtaining a Home Occupation Permit, completing food manager certification training, and completing DC Health’s inspection process.

When asked about DC’s regulations, Annick said, “It’s a big impediment to people who want to start their own business. You can only do it as a hobby.” DC’s cottage food business laws trail far behind our neighbors in Maryland and Virginia. DC should enact reform to streamline the registration process and allow producers to sell goods from more venues with no revenue cap.

Home-based businesses offer opportunities for women, minorities, and veterans, and they provide flexibility to entrepreneurs. DC Council should work with DCRA to streamline home-based business registration and regulations to make this business model more accessible.
Conclusion

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 and time-consuming paperwork, we will be keeping Washingtonians out of work, especially those in communities most in need of economic development.

DC has the opportunity to become a model for innovation, good governance, and smart regulations. We look forward to working with Mayor Bowser, DC Council, and regulatory agencies to enact reforms that will help Washingtonians earn a living for themselves and their families by doing what they love.
Endnotes


ii A one-stop shop is a website or office that allows entrepreneurs to complete all of their paperwork in one place. One-stop shops often promise single log-ins and a centralized online portal so that entrepreneurs do not have to contact the various agencies themselves and get lost in an inter-agency informational labyrinth.


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


xv Ibid


xx DCMR Section 11-203. http://dcrules.elaws.us/dcmr/11-203


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

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: $549.50

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

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

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

These definitions are identical. Categories with similar or identical language should be combined.

Shouldn’t candy count as a food product? The candy manufacturer category is likely a relic.

Why is it cheaper to start a banquet hall than a small deli? Licensing fees should be tied to the size and risk of the business activity.

Why are these treated as two distinct categories when the activities look so similar?

This information was found in DCRA’s Directory of All Basic Business License Categories at https://dcra.dc.gov/node/514522
Appendix C: Fees to Start a Business in DC

As an example, here are the typical fees required to register and license a delicatessen business in DC:

<table>
<thead>
<tr>
<th>Fee Type</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of organization for an LLC</td>
<td>$220.00i</td>
</tr>
<tr>
<td>Registering a trade name</td>
<td>$55.00ii</td>
</tr>
<tr>
<td>Category License Fee for a Delicatessen*</td>
<td>$450.00iii</td>
</tr>
<tr>
<td>Application Fee</td>
<td>$70.00iv</td>
</tr>
<tr>
<td>Endorsement Fee</td>
<td>$25.00v</td>
</tr>
<tr>
<td>Technology Fee</td>
<td>$54.50vi</td>
</tr>
<tr>
<td>Food protection manger certification</td>
<td>The price can vary, but typically around $150.00</td>
</tr>
<tr>
<td>DC Food Protection Manager ID</td>
<td>$35.00vii</td>
</tr>
<tr>
<td>Zoning registration: Certificate of Occupancy</td>
<td>At least $75viii</td>
</tr>
</tbody>
</table>

**TOTAL FEES: $1,134.50**

Other regulatory fees entrepreneurs commonly encounter include building permits, retrieving copies of certain documents, special permits, business certification, and late fees.

Many fees, like the biannual corporate reporting fee and all fees related to basic business licensing (category fee, application fee, endorsement fee, and technology fee) must be repaid every two years. Health requirements like food protection certification and the DC Food Protection Manger ID must be renewed every three years.ix

This example does not include occupational licensing costs, which are common for many professions. The fees for occupational licenses vary widely. On average, fees for lower-income occupations in DC 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).x These fees do not include the cost of the training requirements, which can range in the thousands.

*For a full list of business license category fees, see Appendix A, Price per Business License by Category.

**In addition to the fees above, the applicant must settle any debts with DC Government over $100.00.

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iii DCRA’s Get a Delicatessen License. [https://dcra.dc.gov/service/get-delicatessen-license](https://dcra.dc.gov/service/get-delicatessen-license)

iv Ibid

v Ibid

vi Ibid

vii DC Health’s Instructions on How to Apply for New/Renewal or Replacement ID Cards. [https://doh.dc.gov/sites/default/files/dc/sites/doh/publication/attachments/Application%20for%20ID%20cards-1.pdf](https://doh.dc.gov/sites/default/files/dc/sites/doh/publication/attachments/Application%20for%20ID%20cards-1.pdf)


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

Source: Illinois Secretary of State, Department of Business Services

LLC fees reduced 12/20/17