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Testimony Before the District of Columbia Council
Committee on Finance and Revenue
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Public Oversight Roundtable
Qualified High Technology Companies Tax Incentives

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Thank you, Chairperson Evans and members of the Committee on Finance and Revenue for this opportunity to testify regarding tax incentives for Qualified High Technology Companies. My name is Anne Cunningham, I am a Senior Policy Attorney with Children's Law Center,¹ and I am a resident of the District. Children's Law Center fights so every DC child can grow up with a loving family, good health and a quality education. With nearly 100 staff and hundreds of pro bono lawyers, Children's Law Center reaches 1 out of every 9 children in DC's poorest neighborhoods – more than 5,000 children and families each year.

Children's Law Center is pleased to offer our support for scaling back DC's tax incentives for Qualified High Technology Companies (QHTCs). To this end, we supported the Fiscal Year 2020 Budget Support Act (BSA) amendment,² introduced last week by Councilmember Nadeau, that created the subtitle, "Downloading Lost Revenues Amendment Act of 2019."³ We thank the additional eight councilmembers⁴ who voted in favor of the amendment. In particular, Councilmember Evans, we applaud your support as leader of the Committee on Finance and Revenue. We urge you and your colleagues to cement passage of this Act by supporting a parallel amendment to the Fiscal Year 2020 Local Budget Act⁵ (LBA) during the LBA's Second Reading one week from today.

We support rolling back the QHTC tax incentives for two key reasons. First, fiscal responsibility demands our government urgently terminate superfluous and

failed programmatic expenditures. As you know, in November 2018 the District's Office of Revenue Analysis (ORA) published an in-depth analysis of the QHTC program.⁶

ORA's analysis found that:

1. The QHTC program cost the District \$184 million in corporate franchise tax revenue between 2001 and 2015, *including over \$100 million collected by companies that were already located in the District and paying taxes prior to being eligible for the program.*
2. In recent years, the QHTC program has additionally cost the District tens of millions in sales tax revenue and personal property tax revenue annually.
3. Gains in DC's high-tech sector could not be attributed to the QHTC incentives because the incentives are untargeted in nature.
4. The QHTC program is structurally flawed in a manner that exposes DC to fiscal risks and hinders enforcement.⁷

In light of these conclusions, there is no question that it would be irresponsible to maintain this program for even one additional fiscal year. Indeed, the substance of Councilmember Nadeau's amendment drew from the ORA's 2018 recommendations for improving the results and accountability of the QHTC program.⁸

Our second reason for supporting a rollback of the QHTC expenditure program is the fact that a slew of critical education and human services programs will benefit

from the recouped tax revenue. As members of the Birth-to-Three Policy Alliance and the Coordinating Council on School Mental Health, we strongly support investments that implement the Birth-to-Three for All DC Act⁹ and expand school-based mental health supports. This Act will contribute \$3 million and \$2.4 million, respectively, to these initiatives.

Children's Law Center's clients will benefit from more than just the subtitle's expansions of the childcare subsidy and school-based mental health program. We also represent children who have been exposed to lead, people experiencing homelessness, and pregnant and parenting teenagers, all of whom will collectively benefit from an *additional* \$9.2 million reallocated by this Act.¹⁰

Additionally, we would be remiss if we did not point out that such initiatives as Birth to Three, school-based mental health, replacement of lead pipes, and homelessness supports contribute far more to racial equity in DC than do the QHTC tax incentives, which, again, have shown no discernable impact on the supply of jobs for DC residents.

With the District's budget as tight as it is this year, we cannot imagine forgoing more than \$40 million in order to fund a corporate tax incentive program with no evidence base of support rather than funding tried and tested programs that bolster our children and low-income neighbors. We urge our nine Councilmembers who already voted once in this Act's favor to continue your support, and we urge the four remaining

councilmembers¹¹ to reconsider their opposition and champion this subtitle's inclusion in the LBA.

Thank you for this opportunity to testify. I would be happy to answer any questions.

¹ Children's Law Center fights so every child in DC can grow up with a loving family, good health, and a quality education. Judges, pediatricians, and families turn to us to be the voice for children who are abused or neglected, who aren't learning in school, or who have health problems that can't be solved by medicine alone. With 100 staff and hundreds of pro bono lawyers, we reach 1 out of every 9 children in DC's poorest neighborhoods--more than 5,000 children and families each year. And, we multiply this impact by advocating for city-wide solutions that benefit all children.

² B23-0209 - Fiscal Year 2020 Budget Support Act of 2019, *available at* <http://lims.dccouncil.us/Legislation/B23-0209>.

³ Amendment introduced by Councilmember Nadeau at the FY2020 BSA's First Reading on May 14, 2019 *available at* <http://lims.dccouncil.us/Download/42120/B23-0209-Amendments42.pdf>

⁴ Councilmembers Allen, Cheh, Evans, Gray, Grosso, Silverman, Robert White, and Trayon White voted in support of the Amendment during the May 14, 2019 Committee of the Whole BSA vote.

⁵ B23-0208 - Fiscal Year 2020 Local Budget Act of 2019, *available at* <http://lims.dccouncil.us/Legislation/B23-0208>.

⁶ Office of Revenue Analysis, Review of Economic Development Tax Expenditures, Nov. 2018. *Available at* <https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2017%20Economic%20Development%20Tax%20Expenditures%20111418.pdf>.

⁷ *See id.* p. 11-13.

⁸ *Id.* At 13.

⁹ B22-0203 – Birth-to-Three for All DC Act of 2018, *available at* <http://lims.dccouncil.us/Download/37704/B22-0203-SignedAct.pdf>.

¹⁰ \$4.6M toward permanent supportive housing vouchers for people experiencing chronic homelessness, \$1.2M to fully fund homeless street outreach, \$3M to replace lead pipes, and \$375k for New Heights, a DCPS program for pregnant and expecting students.

¹¹ Councilmembers Bonds, McDuffie, Mendelson, and Todd.