

Testimony for the DC Tax Revision Commission

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I am writing to you today as Chair of 'Our Nation's Capital', a 501C3 dedicated to helping the District to address its unmet financial needs regarding infrastructure. YOU might remember ONC as the co-producer of an earlier report with DC Appleseed, entitled "Building the Best Capital City in the World."

As one example, the water and sewer more than billion dollar programs are scheduled to last over twenty years. That remediation will also include the cleanup of the Anacostia and Potomac Rivers, a far too long period for a great city.

We are further aware of Metro's annual shortfall in its ability to address safety and efficiency needs. We have some suggestions below how the District might strengthen its finances revising its taxation policies.

ONC is very aware of the heavy demands placed on the District Government to provide, operate and maintain the physical and institutional infrastructure that makes the District a great place to live, work, shop and play. However, many of these demands come from non-resident employees whose income is off-limits to District taxation. So how can necessary infrastructure be funded without creating undue burdens on District residents or businesses?

As several of the Commission's reports indicate, the District should place a greater reliance on public service user fees and access fees. User fees obtain revenues in proportion to the benefits that people or businesses receive or in proportion to the costs that they impose upon others. By internalizing externalities, user fees and access fees can create economic incentives that are more harmonious with public policy objectives for job creation, affordable housing, transportation efficiency and sustainable economic development.

For example, the Clean Air Compliance Fee Act would obtain contributions from many who now park in the District for free. This new revenue would be used to fund the transit component of the District's clean air program, necessitated by the District's non-conformity with federal clean air standards. In addition to new revenues, this fee would encourage some to carpool, some to take transit, and some to move their homes and businesses to places where they could access their daily activities more conveniently.

Public service access fees obtain compensation from the hidden beneficiaries of many government facilities and services. These beneficiaries are the owners of prime commercial sites best-served by the District's infrastructure. In particular, "value capture" can be used to convert the property tax into a public services access fee. This is accomplished by reducing the tax rate applied to building values and increasing the tax rate applied to land values. The lower tax on building values makes it cheaper to build, improve and maintain buildings. This is good for residents and businesses alike. It will also spur jobs in construction and home improvement. Weatherization and other energy-saving retrofits will become more profitable by reducing the property tax penalty on improvement values that is now applied.

Surprisingly, a higher tax on land values actually helps keep land prices in check. So, without sacrificing any revenue, both buildings and land in the District could become more affordable. (Land values are an appropriate source of funding because, unlike buildings which are created by private effort, land values are created by public effort.)

Unlike congestion pricing of roads, which requires careful coordination with our neighboring jurisdictions and sensitivities regarding Congressional interference, value capture can be implemented by the District Government without raising the hackles of its neighbors or Congress. And doing so would give the District a competitive advantage over its neighbors in terms of providing more affordable housing and business locations than the status quo.

Thank you for considering our views.

Dick Suisman
Chair, Our Nation's Capital