

**WRITTEN TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR**  
**Submitted for the Public Hearing on**  
**Bill 17-876, the National Law Enforcement Museum Sales Tax Credit Act of 2008**  
**District of Columbia Committee on Finance and Revenue**  
**October 29, 2008**

Chairman Evans and other members of the Committee, thank you for the opportunity to speak today. My name is Ed Lazere, and I am the executive director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. I appreciate the opportunity to testify on this important issue.

I am writing to express concerns about this bill, because it represents an earmark in the DC budget, because it will have an impact on future revenues and because it represents an unbudgeted subsidy to the Law Enforcement Museum.

Bill 17-876 would create a sales tax credit for the museum and its vendors, at a value of up to \$720,000 per year. This is the amount needed to finance a \$5.5 million loan 20-year loan. It appears that this law will allow the museum to retain \$720,000 in annual sales tax collections, rather than remitting them to the District, and that this will be used to finance a loan the museum plans to take. This is in effect a \$720,000 annual grant to the museum, or a \$5.5 million capital grant to the museum.

This raises at least three concerns. First, all tax abatements represent a loss of future revenues, and they have the same effect as an appropriated expenditure of the same amount. For this reason, tax exemptions, abatements, and credits are often described as “tax expenditures.” The proposed sales tax credit for the Law Enforcement Museum is a tax expenditure that represents a budget earmark provided through the tax code. Like all earmarks, it is a subsidy from the city that is awarded outside of existing agencies and programs and without competition. It would be far more appropriate to find support for the museum under an existing agency, such as the DC Commission on the Arts, and to award the subsidy using an existing appropriation and a competitive process.

Second, this bill would reduce DC revenues by \$720,000 every year for 20 years. That is a notable long-term reduction in DC revenues. Particularly at a time when the city’s revenue base is shrinking, legislation that further narrows our tax base does not make sense.

Third and relatedly, although bill 17-876 would reduce future DC revenue collections, the fiscal impact statement from this bill concludes that it will have *no* impact on the city’s financial plan because it would divert taxes from a museum that is not yet built. The CFO reasoned that the taxes from the museum are not factored into revenue forecasts because the

museum is not yet built, and as a result, diverting those tax revenues does not affect the city's current financial plan. While this may be true technically, the tax credit proposed in this bill clearly would affect the city's future finances by reducing revenues the city otherwise would collect. It is worth noting that the CFO's fiscal impact statement points out that a "sales tax credit will always result in foregone revenue," acknowledging that the tax credit would have a fiscal cost.

This reveals a serious problem in the rules governing how fiscal impact statements are developed. Under current rules, the impact of all bills is assessed by the CFO relative to the current financial plan. As a result, tax abatements for properties that are not yet built often are considered to have no fiscal effect, because the revenues from the new project are not part of the four-year financial plan. Yet this policy would allow the city to exempt all future developments from taxes, which clearly would affect the city's revenue growth, while officially having no fiscal impact.

This is not the best way to develop fiscal impact statements. It would be more fiscally prudent to modify the rules governing fiscal impact statements to require that the fiscal impact of any bill should be determined by assessing the revenues that would be collected without the proposed legislation with the revenues that would be collected under the proposed legislation. The difference between these figures would be the official fiscal impact. It is worth noting that the CFO has used this methodology at times, such as in the fiscal impact statement for the Constitution Square Economic Development Act of 2007.

Moreover, when any proposed legislation has costs that will be phased in over time, the fiscal impact should somehow reflect the costs of full implementation. Otherwise, the fiscal impact statement will not reflect the real costs of any bill in which the costs are not fully realized until late in the four-year financial plan window—or even after the four-year window.

For these reasons, the DC Fiscal Policy Institute believes that the tax credit proposed under Bill 17-876 is unwarranted. To the extent that any subsidy to the Law Enforcement Museum is considered, we believe the full costs should be recognized in a fiscal impact statement.

Thanks again for the opportunity to submit testimony.