



Building a Vibrant Economy in Washington, DC

Challenges and Choices for the New Mayor

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Washington, DC, has gained much from its unique position as the capital of the United States, but it has not fully harnessed its opportunities for equitable and resilient economic growth. To build a vibrant economy, the new mayor must encourage development that supports both new and established businesses, encourages entrepreneurship, and includes all of the District's neighborhoods and residents.

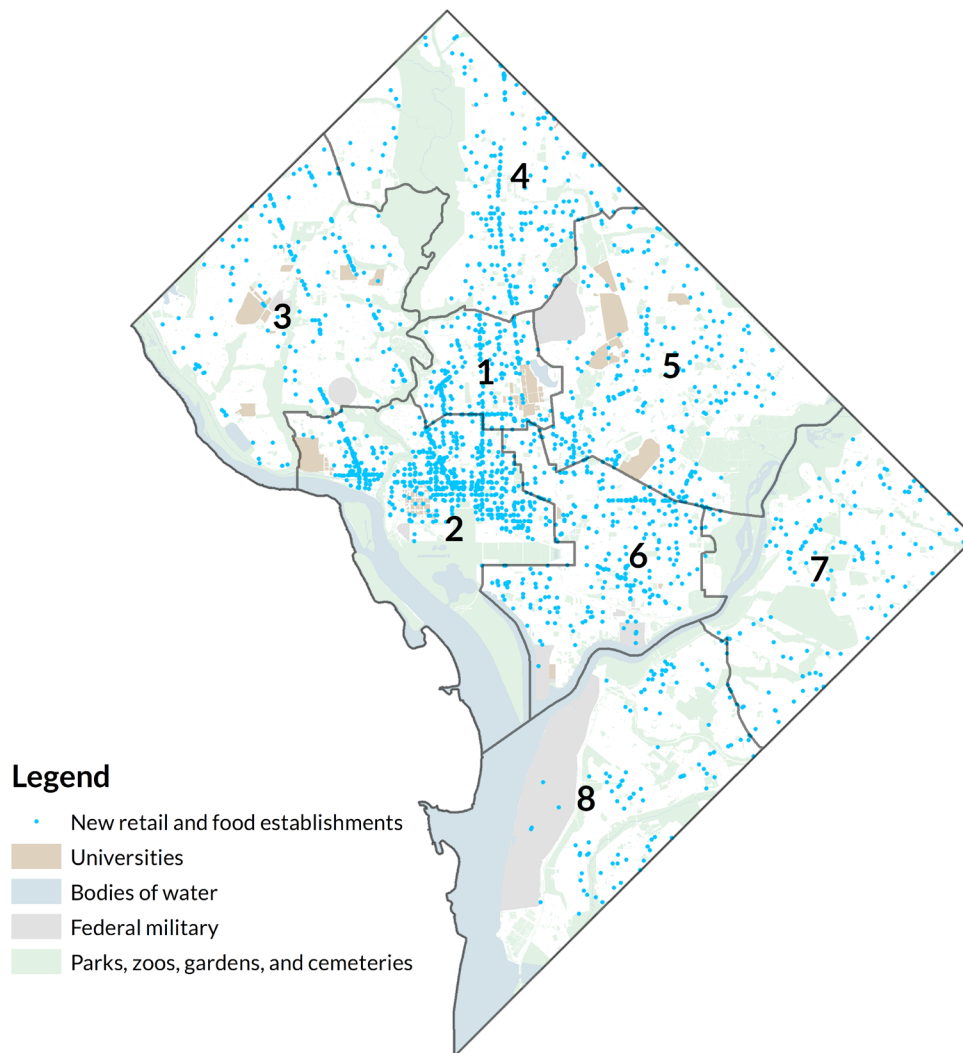
Major development projects and demographic shifts have transformed entire DC neighborhoods, but certain areas of the city remain underresourced and underserved. Though the total number of businesses, nonprofits, and government entities in the city has grown, the number of these establishments by ward is still highly unequal. Wards 7 and 8, which are east of the Anacostia River, contain about half to a third of the number of establishments as the other residential wards; figure 1 illustrates this pattern with new retail and food establishments opened between 2000 and 2011. Greater development alone is not the answer, however. Even residents of areas that have seen investments in their neighborhoods are worried about residential and commercial displacement.

While there can be trade-offs between policies and programs that promote overall development and those that promote equity, the two goals need not be mutually exclusive. Equity should be encouraged in a way that does not raise operational costs so high that businesses are discouraged from locating in the city, but overall development should also not be encouraged at the cost of equity. Proposed policies and programs should weigh these trade-offs carefully and consider their effects on each goal.

Another obstacle to economic development in the District are the challenges that small businesses and entrepreneurs face from the city's high real estate prices and zoning restrictions. A lack of access to both capital and information has made creating and maintaining small businesses challenging.

FIGURE 1

New Retail and Food Establishments in Washington, DC, between 2000 and 2011



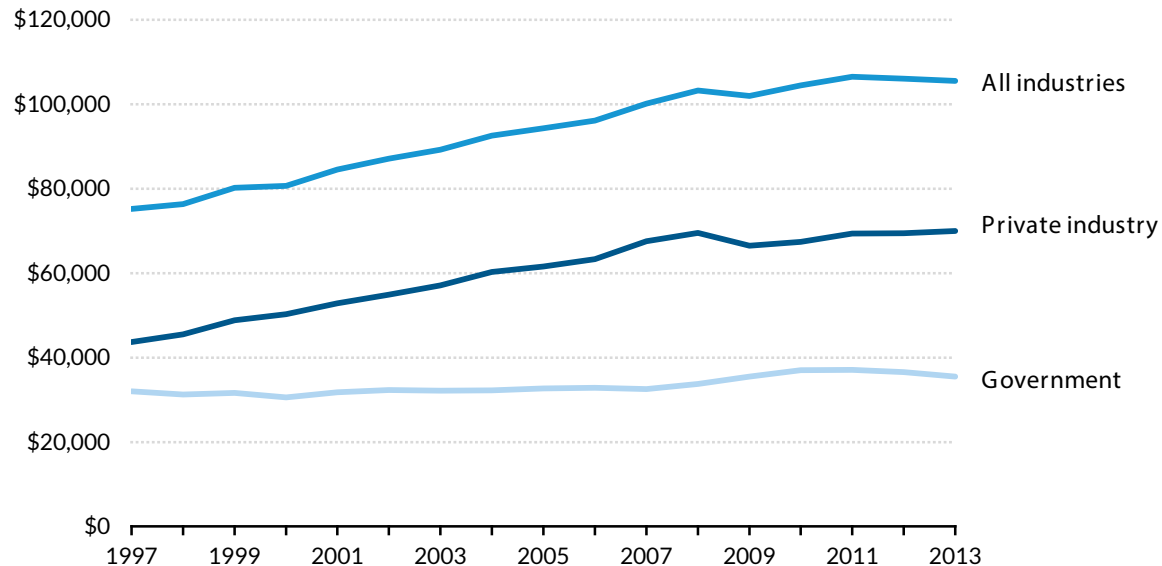
Source: National Establishment Time-Series database.

Looking at the citywide economy, DC's gross domestic product (GDP) has grown significantly, albeit with some stagnation in recent years (figure 2). Though it appears that much of this growth has occurred in private industry, a good portion of private GDP in DC is still government-led through contracting and grants. These contracts and grants have been fluctuating over the past decade; they ran up after the Great Recession because of stimulus funding and then declined to pre-stimulus levels after those funds ran out. DC's reliance on federal spending makes its economy particularly vulnerable to federal spending fluctuations, which has led some to push for the diversification of industry and the strengthening of existing private industries.

FIGURE 2

DC Gross Domestic Product: Private Industry and Government

Millions of 2009 dollars



Source: Bureau of Economic Analysis Regional Economic Information System.

Recommendations

The mayor can take a number of steps to respond to these issues. Recommendations in this memo are organized around three key challenges:

- Encouraging equitable economic development
- Fostering small business development and entrepreneurship
- Growing the citywide economy

Encouraging Equitable Economic Development

Though the District's overall economy is fairly strong, equity both geographically and across socioeconomic groups remains a challenge. The mayor should take immediate steps to ensure that **new developments** serve equity goals and that all residents have equal access to **existing opportunities**.

- *IMMEDIATE ACTION: Foster an inclusive development process through community engagement.* Many long-time DC residents feel that recent economic developments have been implemented without their well-being in mind and that they do not have a voice in the process. The DC government has hosted citywide and ward-specific summits to foster inclusion and generate recommendations, but community advocates feel that these recommendations have not been

acted upon because of a lack of political pressure. Mayor Bowser recently announced that she will be experimenting with OUR RFP, a new endeavor to give the community the first opportunity to shape development. Though conversations about equity have been held earlier in the development cycle on some other projects, as evidenced by the 11th Street Bridge Park's Equitable Development Task Force, these conversations need to translate into action on the part of the DC government.

- *IMMEDIATE ACTION: Develop indicators of equitable growth and systematically track progress.* It is fairly easy to track larger measures of economic growth, such as GDP and employment. But measuring progress toward equity, both geographically and between groups, is more difficult. The mayor should develop indicators to track equity over time and space and should maintain a public database of these measures.
- *Use transit to create equal access to jobs and services.* Jobs and services need not be equally distributed across the District, but access to them should be. The mayor should create this equal access by altering the regional transit infrastructure to promote commuting out of the city for work as well as commuting in. Though public transit can help people access jobs and amenities, introducing transit lines may have negative consequences, such as skyrocketing rents and the displacement of businesses and residents. Those potential consequences should be monitored and minimized.
- *Require developers to ensure that existing residents gain from development deals.* The city should take advantage of new development opportunities, such as St. Elizabeth's and the FBI building, to create equitable development. Requirements such as community benefit agreements—which call for developers to provide specific amenities and/or mitigations to the local community or neighborhood—can help ensure that new developments support established residents and businesses. The trade-off between equity and overall development should be carefully weighed for each deal, so the requirements do not discourage businesses from locating in the District.
- *Alter land use policies to bring in entry- and mid-level jobs with career pathways.* Land use policy has kept out many employers that would create entry- and mid-level jobs matching the skills of much of DC's population. Many land parcels have been up-zoned for high-rise condominiums, while industrial and production-based businesses such as auto repair shops and plumbing supply warehouses have been zoned or priced out to surrounding suburbs. The first step in bringing these businesses and jobs to DC is to comprehensively study current and potential land uses in the city. Much of the land that industrial businesses want to use is owned by the federal government or owned, managed, or in receivership by the city. The DC Office of Planning completed an industrial land transformation study for Ward 5 that can be a model for other wards. DC can also look to Northern Virginia, which has maintained land for less high-end development. The mayor recently announced that the city will be supporting historic Anacostia by redeveloping a huge government-owned parcel there. Other such redevelopments or sales should be undertaken as well.

- *Encourage and retain new businesses that serve long-time residents through programs such as the Great Streets Initiative and training on the 504, SBA, and 7A loan programs.* Despite the availability of support programs, not many businesses survived the rapid development along the U Street, 7th Street, and 8th Street corridors. As Anacostia redevelops, businesses that do not own their spaces may be displaced. The city should train businesses to effectively use the 504, SBA, and 7A loan programs, and it should improve and expand upon them.
- *Systematically analyze the distributional effects of current policies.* While considering new programs to create equity within the city, the DC government should analyze the effects of its current programs to ensure that they are not impeding equity goals.
- *Take stock of DC's ability to act as both a city and a state.* As a state, DC has a larger portfolio of tools to use than other cities. For example, DC has jurisdiction over its welfare, criminal justice, and transportation policies and collects revenue from state and local taxes. DC has used some of its tools, such as the earned income tax credit, to redistribute funds. But other tools, such as Community Development Block Grants, could be used more strategically to promote equity.
- *Promote connections between long-time and new residents through mixed-income development and spaces that encourage interaction.* Mixed-income communities may still be segregated on a micro level, so the DC government should also promote development that brings people together across race and class, such as Busboys and Poets, Ben's Chili Bowl, and public libraries.
- *Track minority-owned businesses over time.* Research has shown that minority-owned businesses are more likely to hire minorities¹ and can thus be used to promote racial equity. However, data are lacking about the number and types of minority-owned businesses in the District. The data that do exist are incomplete because businesses voluntarily report minority ownership and may not wish to disclose this information. The mayor should work to remedy this data issue and maintain a database of minority-owned businesses throughout the District over time.

Fostering Small Business Development and Entrepreneurship

Small businesses and entrepreneurs are important for many reasons, one of which is their role in stimulating innovation. Mayor Bowser could build upon existing programs and initiatives to support small businesses and entrepreneurs and develop new ones.

- *IMMEDIATE ACTION: Improve or streamline interactions between city government and businesses.* Though the Department of Consumer and Regulatory Affairs' (DCRA's) regulatory role is important to protect consumers and community members, its processes can impede the development of new and established small businesses. For example, entrepreneurs have to sift through over 160 licensing categories to find their own. And, some residents perceive that the permitting process is more about political connections and persistence than consumer protection. The mayor should take the following steps to improve this process:

- » *Move more processes online.* Businesses can benefit from DCRA's guidance in navigating the agency's processes. In this spirit, the department is creating a business-facing online portal with all the required forms to help entrepreneurs prepare for interacting with the DC government. The portal can be improved by making in-person interactions with DCRA unnecessary unless a business application has a problem. For example, businesses should be able to check the status of their applications online.
 - » *Create an ombudsperson position for small businesses.* The department should have dedicated staff to answer questions from business owners and answer inquiries about the status of an application. A project manager in the deputy mayor's office is already assigned to assist larger businesses; a similar role should be created in DCRA or the mayor's office for small businesses.
 - » *Consolidate functions between agencies so entrepreneurs need interact with only one or two departments.* Currently, entrepreneurs need to interact with multiple agencies to establish their businesses, and the lack of communication among city agencies creates unnecessary hurdles. Functions should be consolidated between agencies, and information about business applications should be shared more easily between agencies. Memoranda of understanding and data-sharing systems would make the process more seamless.
- *Improve technical assistance for businesses.*
 - » *Build the technological capacity of small businesses.* Small business owners need training in how to use technology to improve business performance. This ranges from using Excel for budgeting to using customer relationship management software and social media to increase sales. The city's technical assistance should focus on helping entrepreneurs and small business owners build these skills.
 - » *Foster growth for existing small businesses.* Many support systems are geared toward helping new companies start as opposed to helping established companies grow. Existing small businesses need guidance on how to get certified, how to incorporate, and how to receive special designations. Technical assistance can also help businesses reposition and rebrand to adapt to lower federal funding.
 - » *Integrate DC's technical assistance system.* The city's support infrastructure for business technical assistance is highly disjointed and should be combined into one system. The District can learn from the example of other cities—such as New York City—that have integrated their technical assistance systems.
 - » *Consider engaging universities in technical assistance.* Universities in the area receive requests for assistance but do not have resources to support these efforts. Mayor Bowser should explore ways to engage local universities in the technical assistance system. The mayor recently announced a new technology partnership with Howard University that will bolster efforts to support DC's growing technology and innovation sectors by addressing the needs of startups and entrepreneurs in the District. Similar partnerships should be made to address the needs of other types of startups and existing small businesses.

- *Improve access to capital for small businesses.* Many financial institutions are reluctant to lend to small businesses because these loans are viewed as risky investments. Although DC has five Community Development Financial Institutions, they operate at different tiers of financing, limiting the number of options available to small businesses. These and other financial institutions would be more willing to lend if more risk sharing programs were available, such as the Department of Insurance, Securities, and Banking's collateral support program. The Great Streets initiative is a successful source of capital for small businesses in the District and has expanded to 16 corridors, but it still has room for improvement and expansion.
- *Better link small businesses with large businesses in the region through a value-chain approach.* The value-chain approach, in which small businesses are connected to larger businesses to link the steps in their product's lifeline, has been used successfully internationally. This approach should be explored in DC to help integrate small businesses and entrepreneurs into increasingly competitive value chains. The Hispanic Chamber of Commerce organizes matchmaking events between small and large businesses to achieve this goal, and the District should support and expand upon these efforts.

Growing the Citywide Economy

Officials must often make trade-offs between policies and programs that promote overall development and those that promote equity, since equity policies can raise the cost of doing business. However, both objectives should be kept in mind, and the mayor should take steps to strengthen the overall economy without compromising equity goals.

- *IMMEDIATE ACTION: Support existing businesses.* Most job growth comes from established businesses, not startups or relocated businesses. The fact that these employers are here and already operating means that DC is likely a promising place for them. The mayor should prioritize supporting existing businesses.
- *Identify sectors that are strong and those with growth potential, and focus on developing them.* To understand how DC compares with the suburbs and other regions, the mayor should analyze which sectors in the District are growing and which sectors have the potential to grow.
- *Create and expand upon evidence-based policies.* The mayor should implement and expand economic development policies and programs that have been proven effective through evidence and data analyses. She should also commission analyses of programs that have not yet been proven successful.
- *Grow DC's export businesses through zoning and support.* Businesses that export goods and services are likely to employ more people and improve the balance of payments for DC. In particular, the city's comparative advantage lies in services. The mayor should speak with DC businesses that already export goods and services and those who would like to enter the District in order to understand their barriers to growth and development.

- *Tap into regional resources and strengthen regional coordination to build upon the region's strengths.* The mayor should take advantage of regional resources by collaborating with Virginia and Maryland at the state and county levels. This strategy builds upon the region's strength, rather than attempting to relocate new types of businesses to the region. For example, the mayor should embark on trade missions to market the region's assets and foster regional knowledge sharing by connecting the many federal labs.
- *Focus on development east of the river.* The mayor should explore the many opportunities for development and tourism east of the river, such as using vacant land for new businesses and services and preserving and promoting the many historical sites to increase tourism.
- *Lower the costs of doing business in DC.* The District can examine its regulatory and tax systems to find ways to make it easier to do business, such as reducing compliance costs. However, the cost of doing business should be reduced without sacrificing equity in and among wards.

Conclusion

The District's economy is still strong, but the city must work quickly to ensure that new and existing developments are equitable, support small businesses, and grow the DC-wide economy. Although trade-offs often exist between these three goals, the mayor has many tools at her disposal to make great strides in each of them.

Note

1. "Whites Found Least Likely to Hire Minorities," *New York Times*, September 20, 1987, <http://www.nytimes.com/1987/09/20/us/whites-found-least-likely-to-hire-minorities.html>.



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