

Blueprint for Business



**Cutting Red Tape and
Supporting DC Entrepreneurs**

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June 2021

INSTITUTE
for JUSTICE



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Table of Contents

Introduction	4
Grace the Grocer	8
Simpler: Streamline the licensing process	10
Faster: Improve communication and transparency between agencies and entrepreneurs.....	14
Home is Where the Business Could Be	17
Cleaning Up Clean Hands	18
Cheaper: Lower licensing, registration, and permitting fees	20
Supporting Small Business Owners Today	28
Conclusion.....	30
About the Authors	34



INTRODUCTION

A Cheaper, Faster, Simpler Path to Recovery

The District of Columbia is a dynamic place to live, from world-class museums and monuments that draw visitors from around the world, to vibrant neighborhoods across all eight wards, to the hard-working people who call DC home. At the heart of all that dynamism are the businesses that are integral to the local economy. These include beloved neighborhood restaurants that started with a family recipe and a dream and mom-and-pop shops selling last-minute necessities to busy families. These businesses keep residents fed, clothed, entertained, and so much more.

During the best of times, aspiring and existing small businesses often struggle with red tape, fees, and bureaucracy. But over the course of the COVID-19 pandemic, business owners in DC and across the country have faced unprecedented new challenges.

Research shows that as of December 30, 2020, the number of small businesses in DC was down 43.6% from January 2020—far above the national rate of 29.7%.¹

Despite these challenges, DC's local business community has innovated and figured out creative solutions to serve customers safely—from converting parking spots to outdoor cafes, to curbside pickups, to virtual workout classes. And DC leaders have taken action to help businesses adjust to the changing public health environment, finding creative ways to provide relief to businesses during this challenging time. Granting businesses more flexibility to adapt to an ever-changing environment has allowed some to keep their doors open and keep people employed while addressing the needs of their communities. But businesses are still struggling to stay afloat. Deeper reforms are urgently needed to ensure that the business owners of today—and the

entrepreneurs of tomorrow—can weather this storm.

This report outlines concrete recommendations for what DC leaders can do today to provide relief in the short-term, as well as the long-term reforms needed to recover and create a better regulatory process for businesses as the city moves forward.

Enacting Targeted Reforms

DC has many of the right elements for a healthy business environment: a talented and passionate workforce, creative entrepreneurs in every sector, and government officials and nonprofits who recognize the importance of supporting small businesses. But for entrepreneurs living in DC, navigating the licensing and registration process presents a maze of decisions, paperwork, and costs that many are unprepared to tackle. Would-be business owners face high fees, confusing

regulations, long wait times for approvals, and other roadblocks nearly every step of the way. Given current conditions, small business profit margins are razor-thin.

Business owners

cannot afford delays in opening their doors or dozens of hours of lost income spent navigating red tape.

DC has the opportunity to become a model for innovation, good governance, and smart regulations. We need cities to take bold action that prioritizes our small business communities—and the nation's capital can be a leader today. The reforms outlined here will help make the District work for all—not just those with the resources to navigate complex and costly processes, but for any Washingtonian who wants to earn an honest living for themselves and their families by doing what they love.

In order to understand barriers to small business ownership in DC, the Institute for Justice launched

The number of small businesses in DC is down 43.6% from January 2020

District Works—a coalition of small business owners and advocates—to host community roundtables, interview local entrepreneurs in each ward, meet with government officials and community stakeholders, examine DC’s Code and Municipal Regulations, and research best practices for business licensing and registration 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.**

We’ve created a roadmap for local officials and advocates seeking to enact policies that will break down barriers for entrepreneurs and pave a path to local economic recovery.

Our research has found that:

01

Regulatory fees and processes contribute hundreds—and sometimes even thousands—of dollars to the cost of doing business. Now more than ever before, these are costs DC residents are unable to bear.

02

In order to complete the registration and licensing process, business owners typically have to interact with at least 11 different agencies, sub-agencies, and divisions.² Many entrepreneurs must make multiple trips to agencies to complete their paperwork and clear up questions or discrepancies. This is a drain on resources for both business owners and government staff.

03

Because DC licenses specific business activities, one business might need multiple licenses. But with over 100 Basic Business License (BBL) categories on the books, figuring out which apply to a particular business is confusing.



The Department of Consumer and Regulatory Affairs (DCRA)—the District agency that oversees licensing—recently restructured the BBL process to improve communication with residents.

As part of Vision 2020,³ the agency’s long-term plan to reform internal practices, DCRA reorganized 128 business license types into 12 “primary” categories.⁴ These categories group licenses by business activity and reorganize application requirements, though fees for each license remain the same and must be paid separately.⁵

The goal is to help BBL applicants navigate complex rules, and we believe these efforts are a positive step in the right direction. But there’s still much work to be done. DCRA and DC Council should work together to codify Vision 2020 reforms into law, ensuring that old, unused licenses and steps that are still on the books don’t trip up entrepreneurs in the future. Then, DCRA and DC Council should focus on other critical areas of reform like lowering application fees and reducing obsolete, redundant, and unnecessary regulations mandated by DC Code.



The Cost and Complexity of the Licensing Process in DC:

01

Pushes entrepreneurs to open up shop in Maryland or Virginia instead.



02

Creates barriers for entrepreneurs who can't afford to hire lawyers and expeditors to help navigate the process.



DC's current system for regulating businesses is bad for entrepreneurs, bad for customers, and bad for DC's economy. The unique challenges of 2020 have made the need for reform imperative. It is crucial that DC enact reforms to make it cheaper, faster, and simpler to start a business in DC.

03

Forces some to decide between not starting a business at all or operating in the informal economy.



04

Focuses already-stressed government resources on unnecessary paperwork and diverts them away from more important issues like ensuring health and safety.



Grace the Grocer

Imagine an entrepreneurial Ward 8 resident named Grace wants to increase healthy food options in her community in Anacostia. To get started, Grace surveys her neighbors, scopes out locations, and finds the perfect storefront to house a small grocery store. Before Grace can sell a single item, she must obtain all of the permits, licenses, and paperwork required to operate legally in DC.

First, Grace needs to create her corporate structure, a Limited Liability Company (LLC), with the Corporations Division at DCRA.⁶ For most entity types, this costs \$220.⁷

To use a business name other than her full legal name or her corporate name, she must register a trade name, which costs \$55. This step is optional but common.

Next, Grace has to complete her federal and local tax registration. Almost every business must get an Employer Identification Number (EIN) from the Internal Revenue Service (IRS). Then, Grace heads to DC's Office of Tax and Revenue (OTR) to register. She has to figure out which of her goods will be taxed at each sales tax rate—as soft drinks, prepared food, and alcohol are taxed at different rates in DC—and stay on top of her other business-related taxes.⁸

Let's assume that Grace already selected a location that is properly zoned—an experience that can become a major headache on its own—and

that the facility does not need any alterations. She still needs to acquire a Certificate of Occupancy (C of O, at least \$75). There are several types of C of Os, and Grace has to determine which type her store falls under, gather the required documentation, complete her application with DCRA, and pay a fee. She also needs to make sure she meets zoning requirements for things like parking and customer bathrooms.

Because Grace's grocery store is a food business, she must work closely with DC Health to complete the inspection process. First, Grace needs to arrange a pre-operational inspection to ensure that her facility is up to code. She must complete food manager certification training (\$150-300), create a Hazard Analysis Critical Control Point (HACCP) plan,⁹ and meet equipment requirements.

The final stage Grace must navigate is the BBL process. Since each BBL is tied to a specific business activity, it's common for entrepreneurs to need multiple licenses to operate. Every grocery store must get a grocery license (\$422.40). But Grace plans to serve healthy, prepared meals to-go and for dining in. She needs a license for her deli counter (\$599.50) and for her small dine-in restaurant area (\$599.50 for 10 seats, and the price increases with additional seating). If Grace wants to sell local craft beers, she needs to work with an additional agency—the Alcoholic Beverage Regulation



Administration (ABRA)—to obtain an Off-Premises Retailer Class B license (\$1,300.00). There are additional license categories and fees for bakeries (\$517.00), and for selling over-the-counter drugs (patent medicine license, \$254.10). These fees are non-refundable, even though Grace might change her mind or her business plan.

Grace needs a substantial amount of capital, time, and drive just to complete the licensing and registration process—especially since she’s likely paying rent on her space while she navigates parts of the permitting process. This also assumes that she’s able to figure out everything she needs to do on her first try. Many entrepreneurs have trouble identifying which documents are required and which rules apply to their business. These steps do not include the start-up challenges any business will face, like funding, finding customers, managing personnel, organizing inventory, and more—let alone the demanding ongoing requirements of running and growing a business on your own.

Government-imposed barriers like these keep local entrepreneurs without a lot of startup capital from serving their own communities. DC should strive to make it easier for entrepreneurs like Grace to set up shop.

TOTAL: \$4,192.50



Grace’s Grocery List of Paperwork & Fees

Paperwork

Registration with the IRS

OTR FR-500 or FR-164

DC Health inspection and
HAACP plan

Corporate Structure	\$220.00
Trade Name Registration	\$55.00
C of O	\$75.00

Food Sanitation Manager Training	\$150.00
ABRA Off-Premises Retailer Class B	\$1,300.00
Basic Business Licensing	\$2,392.50

Basic Business Licensing Breakdown

Grocery store license- \$422.40

Bakery license- \$517.00

Restaurant license- \$599.50

Patent medicine license- \$254.10

Delicatessen license- \$599.50



SIMPLER

Streamline the licensing process

A business license gives a business permission to serve the public. Many localities use business licensing to keep track of businesses, generate additional revenue from those businesses, and protect public health and safety.¹⁰ Most people would agree that a restaurant should have to prove that its kitchen is clean, for example, but DC's system goes far beyond common-sense regulations that protect the public. DC requires nearly every business to obtain a license, even if the business is small and presents no threat to public health or safety.¹¹

DC has over 100 BBL types on the books, far more than cities of comparable size and neighboring jurisdictions, and choosing a license can be a confusing process. These do not include licenses and registrations that fall outside of the BBL process, like occupational licenses and health department approvals.¹²

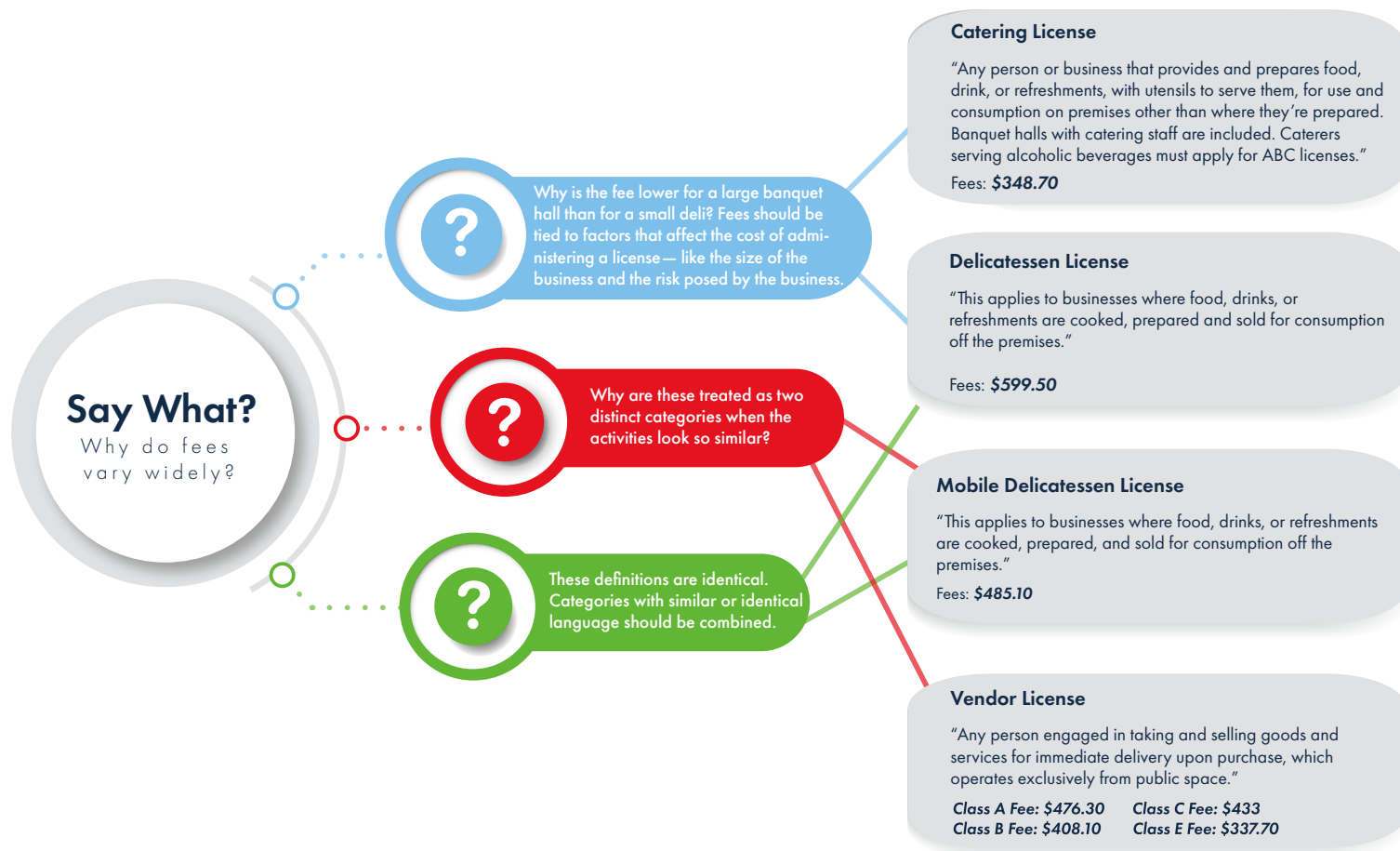
Many license categories are redundant or unrelated to the health and safety of DC residents. Figuring out which license(s) fit a business is also time consuming, as some licenses come with their own paperwork and regulations. Entrepreneurs report receiving conflicting advice when they contact government officials to clarify which sets of rules apply to them.

With so many license categories, it's little surprise that many categories go unused. According to data on DCRA's website as of January 2019, 13% (17 of 128) of BBL categories had zero

businesses licensed under that category. Additionally, 43% (55 of 128) of BBL categories had fewer than 20 businesses licensed under that category.¹³ Leaving these unused or underused categories on the books means more complexity and more regulations for entrepreneurs to review, without adding value.

During our roundtable discussions with entrepreneurs, attendees reported that there are simply too many forms and too many different agencies involved in the licensing process. They found it difficult to understand which order the steps should be completed in, and how. Many of the entrepreneurs we interviewed were "stuck" and unsure of what they need to do next. Attendees asked for a better sense of the steps, paperwork, costs, and wait times up front. They also asked for website text to be written in straightforward language rather than "legalese."

DCRA has already taken some initial steps to address this burdensome and confusing system by reorganizing business license categories and updating the agency's website, but more can be done. Other cities have explored alternative models that allow local government to protect public health and safety by keeping track of business activity while offering more flexibility and less confusion for business owners.



Say what? Redundant categories leave entrepreneurs confused: The definitions of some food service categories differ by only a few words, but the fees vary widely.¹⁴



Looking to other cities

Cities around the country have explored creative ways to reduce and streamline business licensing by consolidating license categories, creating a category for innovative businesses, and implementing a simpler approach to business licensing. DC can learn from what has and hasn't worked in other cities.

Consolidating licenses to reduce confusion and fees: Chicago

In May 2012, Chicago passed legislation to reduce the number of license types from 117 to 49—a reduction of 60%—through consolidation and the removal of outdated licenses. As a result, fewer business owners would be vulnerable for technical violations like having the wrong license type. These reforms meant that over 6,000 businesses no longer required a general business license, and certain common types of businesses no longer needed multiple licenses. As a result, Chicago small businesses saved “\$2 million in license fees each year, money

LaNysha Adams is the founder of Edlinguist, an educational consulting and coaching firm. While LaNysha incorporated Edlinguist in Maryland, she started a nonprofit in DC called Break Free, an app that helps youth escape poverty. Like her primary business, Break Free gives LaNysha flexibility to earn a living on her terms while also helping those in need. Unfortunately, LaNysha's greatest obstacle to creating the app was not raising capital or finding clients, but navigating DC's business licensing process. Her application sat untouched for over a month, and once approved, she was never told she also needed a business license. After four months, multiple agencies still had not answered her questions, leaving her nonprofit's future at risk. By contrast, in Maryland, her application for Edlinguist was approved instantly, and she was ready to serve clients the moment she paid her business registration fees. If DC had a true one-stop shop, LaNysha would spend less time waiting in line and navigating regulatory uncertainty, and more time growing her nonprofit.

that they could instead reinvest in their businesses and communities.”¹⁵

While reducing the overall number of license categories, Chicago also created the Emerging Business Permit (EBP), a two-year permit that allows innovative business models that do not fit neatly into existing categories to operate under a temporary license. Chicago's reform aimed to say “yes” to entrepreneurs thinking outside the box, but it fell short.

The Deputy Mayor for Planning and Economic Development's (DMPED) *DC Economic Strategy Plan* also recommends streamlining the business licensing and permitting process, listing “redesign permitting and licensing systems” as its 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.*¹⁶

To address these issues, DC should enact reforms that reduce and streamline license categories and regulations.



Unfortunately, the EBP still requires city agencies and city council to introduce new legislation for each new business type that emerges.

This streamlined process saves time for businesses and regulators alike, without diminishing the ability to protect public health and safety.

A simpler approach to licensing: Seattle and Phoenix

In Seattle, WA, like in Arlington County, businesses must acquire a single business license tax certificate rather than choose a specific license category. The amount the business pays for that certificate depends on the business's annual taxable revenue. Instead of forcing all business types to obtain additional regulatory permits, Seattle has a shorter list of businesses that require additional review—like adult entertainment and marijuana businesses. Businesses that need health and fire permits—like restaurants—obtain special permits that are separate from the Seattle business licensing process.^{17 18}

Because a single certificate covers all business activity, applicants don't have to worry about choosing the right license category or applying for multiple licenses, each with its own paperwork and requirements. With fewer license categories to enforce, city officials can focus resources on permitting the business activities that pose the greatest health and safety risk to the public.

Other cities, like Phoenix, AZ, have avoided general business licenses altogether. Instead, they tailor regulations to fit specific health and safety concerns and only require licenses for a small set of higher-risk business activities.¹⁹ In Phoenix, only seven business types, like amusement parks, need a license; and only seven types of activities, like selling alcohol, require city recommendation or approval.²⁰

Recommended reforms

To reduce confusion and create a more common-sense licensing system for entrepreneurs and agency officials alike, DC should:

1. Rethink the current licensing structure and shift the focus away from licensing each specific business activity. Agencies should focus energy on protecting health and safety rather than on forcing every business to jump through hoops that have little connection to public safety.
2. Continue to streamline the licensing process and make sure that all reforms are codified in DC's Municipal Regulations and the DC Code. License categories that share the same requirements should be consolidated. License categories that are rarely used should be removed or combined with similar license categories. License requirements should be reviewed overall, and outdated regulations that do nothing to protect health and safety should be removed.
3. Find ways to better accommodate new or unique types of businesses without having to create a new license category for each one. This could come in the form of more flexible license terms that allow for experimentation.

DMV Comparison

In DC, choosing between so many different categories of business licenses adds unnecessary confusion and creates the need for multiple licenses.²¹ Across the Potomac in Arlington County, most businesses only need a single license tax certificate to operate.²²



FASTER

**Improve communication and transparency
between agencies and entrepreneurs**

The cost of time spent waiting for clarifications and paperwork adds up, as entrepreneurs pay rent on commercial spaces they can't yet use while pushing back their opening day. So much of that wasted time is spent communicating between siloed agencies and sub-agencies, which frequently deliver confusing and sometimes contradictory information.

Entrepreneurs navigating the licensing and registration process in DC will likely interact with as many as 11 different agencies and divisions, not to mention industry-specific boards and sub-agencies they may come across.²³ Getting clarifications on confusing rules and regulations isn't easy, and many entrepreneurs must make multiple calls or in-person visits to agencies to clear up questions and discrepancies.

Roundtable attendees reported that improved customer service, better communication between departments, continuing improvements to DCRA's website, and clearer instructions could all reduce the amount of time it takes to complete licensing and registration.

DCRA has taken steps to improve the agency's website and centralize information, but more must be done to ensure that entrepreneurs can find the information they need. 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 useful tool, as it helps aggregate information and allows the applicant to create a personalized checklist of compliance tasks that must be completed.²⁴ But it's not a true one-stop shop.²⁵ Rather than making 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, a vital feature of most one-stop portals.

In addition to dealing with DCRA, business owners must interact with a number of other agencies to complete their paperwork and stay in good standing. For example, a budding restaurant owner could have to interact with ABRA, BZA, CFA, Corporations Division, DC Business Center, DC Health, DCRA, DC Water, DCOZ, DDOE, DDOT, DOES, DSLBD, Fire, IRS, MPD, OCFO, OP, OTR, ZA, Permit Center, SBRC, and the Zoning Commission. That's 23 different entities. This estimate is based not just on agencies that issue permits and licenses, but also agencies that levy regulations restaurants must adhere to, as well as officials that restaurant owners may have to work with throughout the process.²⁶



Danielle Vogel is the founder and owner of Glen's Garden Market in Dupont Circle, a locally sourced grocery, deli, and craft beer bar that's grown to be a center of the community. After spending a decade on Capitol Hill as an environmental policy adviser, Danielle decided that Congress wasn't doing enough to address climate change. She founded Glen's to make a greater difference in business sustainability. Since opening, Danielle has helped launch 83 small food businesses that share her commitment. But starting Glen's was not easy. "Getting straight answers from DCRA is nearly impossible," she says, "and everyone's top priority seems to be shuttling you to the back of someone else's long line (which is usually the wrong one)." Many entrepreneurs like Danielle must visit DCRA in person to file paperwork and ask questions about licensing, and they too often experience frustration at the complex requirements and lack of clarity.



Looking to other cities

Some cities have developed in-person and online “one-stop shops” that consolidate the steps and paperwork required to license and register a business. The in-person versions typically house representatives from different departments like licensing and zoning in one room, while the online portals allow entrepreneurs to access and complete all of their paperwork online. DC can learn from other cities by exploring online, user-friendly portals or in-person one-stop shops.

Using tech to create a user-friendly portal: San Diego

San Diego, CA, partnered with OpenCounter, a California-based tech startup, to overhaul its online licensing portal. San Diego’s one-stop shop allows applicants to research and fill out many of the necessary forms from the comfort of their own homes. It features a single log-in, meaning fewer passwords for a user to remember, and it allows for communication across agencies so that entrepreneurs can avoid having to visit different agencies to acquire necessary licenses and permits. The portal also includes a zoning research tool to help applicants find a location for their business.

Navigating the portal is intuitive and user-friendly. When a license applicant opens the portal, it prompts them to answer questions about their business. Next, the portal estimates which licenses and permits are required and how much they’ll cost. Users can then create an online profile that tracks their progress as they apply for necessary licenses and permits.

For San Diego officials, the portal’s efficiency has made it easier for staff to deliver effective and timely service to businesses. OpenCounter noted that, “In the last 3 years, the San Diego Business Portal has been used to scope 93,437 zoning lookups and 51,481 business permitting projects which have saved an estimated 47,499 hours of staff time.”²⁷

An online one-stop shop: Delaware

In 2006, Delaware created One Stop, a single log-in portal with a streamlined application process that eliminates the need to contact different state agencies.²⁸ Business owners can pay fees online using a credit or debit card and print a temporary business license to use until they receive their permanent license in the mail. As part of this effort, Delaware also enacted reforms to improve interdepartmental communication and streamlined regulations overall.

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.”²⁹

Recommended reforms

To reduce headaches and time wasted communicating with agencies, DC should:

1. Improve communication and transparency between regulatory agencies and business owners by creating a true “one-stop shop” where business owners can complete all of their paperwork and answer all of their questions in one place.
2. Pursue an online portal with a single log-in so that business owners can access and complete paperwork without having to call or visit DC government agencies.

DMV Comparison

While the DC Business Center contains helpful information for businesses trying to set up shop, DCRA’s four-step outline of starting a business in the District covers just the basic requirements and lacks crucial detail.³⁰ Meanwhile, Arlington County’s BizLaunch features a Small Business Checklist that provides more thorough information for entrepreneurs.³¹

Some cities have developed in-person and online “one-stop shops” that consolidate the steps and paperwork required to license and register a business. The in-person versions typically house representatives from different departments like licensing and zoning in one room, while the online portals allow entrepreneurs to access and complete their paperwork online. Many cities struggle to present and organize information and services for residents, but DC can learn from cities that have explored online, user-friendly portals or in-person one-stop shops.



Home is Where the Business Could Be

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 steppingstone to commercial space while an entrepreneur collects revenue and creates a customer base.

But DC's regulations make this option less accessible, both by defining home-based occupations too narrowly and by creating layers of rules and conditions that shut out the very entrepreneurs who would benefit from this business model.

In addition to securing a Home Occupancy Permit (HOP), which costs around \$80 and can take weeks or even months to receive,³² home-based business owners must navigate a maze of "basic condition" requirements. These range from a list of which professions are allowed to be run from the home, to detailed regulations on the number of signs, employees, and visitors the business is able to have.³³ DC's process even restricts the amount of space dedicated

to the business, which can't exceed 25 percent of floor space, or 250 *total* square feet, whichever is less.³⁴ For context, the average apartment size in DC is 736 square feet,³⁵ meaning only 184 square feet (about 14 feet x 14 feet) could be used for business purposes. This arbitrary square footage requirement confines entrepreneurs.

Attendees at our summer roundtable series felt that starting a business at home should be easier. According to a Ward 7 entrepreneur, "the laws for simple and straightforward businesses should be simple and straightforward."

Home-based businesses offer flexibility to entrepreneurs and provide opportunities for women, minorities, and veterans.³⁶ District officials should recognize the importance of these small ventures, which contribute to the local economy and offer an accessible pathway for entrepreneurs to start small in their own homes. DC should simplify home-based business registration and revisit the required conditions for home-based businesses to remove outdated requirements.

Emily Annick is the founder of 440 Confections, a home-based bakery that makes specialty desserts. She's been developing her products since 2013 and wants to slowly build up to a brick-and-mortar bakery while maintaining her full-time job as an accountant. Despite DC legalizing cottage food home-based businesses in 2013, it was not until December 2017 that DC Health implemented the law. The following November, Emily became the first registered and licensed cottage food producer in DC—after five years of trying. "I contacted various individuals in the DC government and farmers' markets during the intervening years—sometimes weekly!—to get the law enacted and improved, without luck," Emily said. DC recently reformed the cottage food law, removing the onerous \$25,000 revenue cap and prohibition on selling goods outside of farmers' markets and special events, which have limited available space. Sadly, these reforms didn't come soon enough for Emily, and after years of struggling to operate her business according to DC's regulations, Emily decided to move to Virginia, meaning DC lost out on her burgeoning business.





Cleaning Up Clean Hands

In DC, a single traffic ticket or late utility bill can keep you from starting a business and earning an honest living.

In order to obtain a BBL, applicants must sign an affidavit certifying that they have “Clean Hands” and do not owe more than \$100 to DC government.³⁷ If an applicant does, they must settle those debts before proceeding.

Roundtable attendees consistently described Clean Hands as an unfair barrier to entry, telling us that either they or someone they know wants to start a business but owes more than \$100 to DC government. One entrepreneur in Ward 7 said, “When I ran into Clean Hands, I literally stopped. So, then I started looking into starting a business in Maryland.” Returning citizens, who often have no way to pay for fines and fees incurred before or during their incarceration, are particularly affected by Clean Hands. A second roundtable attendee, a disabled veteran and cottage food entrepreneur, has been held up from completing the licensing and registration process because of several parking tickets she wrongfully received. She’s waiting to fight those tickets in court, but in the meantime this debt is keeping her from starting her business. Another entrepreneur left their business dormant for years, unaware that they were racking up late fees on their BBL renewal despite the business’s inactivity.

This Clean Hands requirement imposes a dollar limit that’s far too low—so low that it shuts out low-

and moderate-income residents from starting their businesses. The Clean Hands dollar limit is also far too inclusive, including money owed for parking tickets, past-due taxes, DC Water and Sewer Authority service charges, and much more.³⁸ This requirement punishes activity completely unrelated to starting and running a business. The fine for falsely signing the Clean Hands affidavit is \$1,000 per violation. This overly punitive fine hurts those trying to better their situations and pay their debts by starting a business.

No one’s American Dream should be put on hold because of a single speeding ticket or missed water bill. District officials should raise the Clean Hands threshold and tie collection efforts to actual threats to public health and safety, targeting repeat offenders who have racked up large amounts of unpaid debt related to their business activity. The Clean Hands requirement shuts lower-income DC residents out of job opportunities by needlessly putting business ownership out of reach. DC Council should reform the Clean Hands requirement to make sure that the District supports, rather than stifles, business creation.

In order to obtain a BBL, applicants must sign an affidavit certifying that they have “Clean Hands” and do not owe more than \$100.00 to DC government.



Marcus Bullock is a DMV native and founder of Flikshop, an app-based service that lets families easily send photos and short notes—a vital lifeline—to their incarcerated loved ones. After being released from prison in 2004, Marcus's first endeavor was starting a painting and contracting company, which employed other returning citizens. He founded Flikshop in 2011 after experiencing the disconnect from family members firsthand, and then founded the Flikshop School of Business, which teaches incarcerated youth life skills and entrepreneurship principles. When it came to starting his business in DC, Marcus "never thought the process would be so arduous" because of the many fees and unclear licensing structure. As someone who had to work hard to rebuild his life, he supports other returning citizens who want to do the same. By making the process simpler, other returning citizens like Marcus can rebuild their own lives by starting a business.





CHEAPER

Lower licensing, registration, and permitting fees

The licensing process is not only long and complicated, but also riddled with hidden costs. New businesses are hit with hundreds to thousands of dollars in upfront fees in addition to inspections, construction, and other costs. DC requires all business owners to obtain a license and pay their fees before they've even made a dime—and before they know if their business is viable—creating barriers for business owners who can't yet afford the cost. And getting started is not the end of these fees. Most compliance fees must be paid every two years when paperwork must be renewed. Studies have shown that few Americans have access to the amount of money that it takes to become a licensed business in DC.³⁹ Even for those who do, this is money that they could otherwise use to grow their businesses.

The cost of navigating the licensing process was a huge barrier for roundtable attendees. A Ward 7 attendee reported, "Cost for me has been the biggest challenge." Another added that they "didn't even know where to start" when expressing their frustrations about the cost. In addition to high fees, the total cost of the licensing process is unclear at the beginning. Business owners report that they would have made different decisions had they known the full cost.

Many entrepreneurs don't realize that as soon as they pay for licenses and registrations, the clock starts ticking toward their renewal. Attendees report this as unfair given the months—or longer—required for applicants to compile their paperwork and complete DC's four-phase licensing and registration process. Some found themselves paying for renewals before they'd had a chance to fully get their business off the ground.

In addition to the licensing and registration fees outlined in Grace's Grocery List on page 9, other regulatory costs entrepreneurs commonly encounter include building permits, retrieving copies of certified documents, special permits, business certification, and late fees.

Many fees, like the biennial 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 Manager ID must be renewed every three years.⁴⁰

Grace's example also 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 six years of training in the case of interior designers.⁴¹ These costs do not include training requirements, which can add up to thousands or more.⁴²

Late fees for renewing a BBL are steep and can be greater than the cost of the license itself. Renewing a BBL one day late results in a \$250 late fee, and the fee jumps to \$500 if payment is submitted 31 days after the renewal deadline. These fees must be paid in addition to license renewal fees.⁴³

Expensive fees for starting a business hurt the very entrepreneurs 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 and exacerbates the mismatch between where job opportunities are located and where people live.⁴⁴ Lowering barriers to entry would empower residents in Wards 7 and 8 to start new businesses and create jobs.

Although DC Code requires that fees be "reasonably related to the cost to the District of investigating, inspecting, and issuing the licenses,"⁴⁵ as shown in the *Say What* infographic on page 11, 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 that affect the cost of administering that license—like the size of the business and the risk posed by the business.

Even when there is a strong correlation between fee costs and administrative costs, the overwhelming red tape that plagues the business licensing process is unnecessary and should be streamlined to drive down costs. It shouldn't cost hundreds or thousands of dollars in fees to start a small business.

DMV Comparison

DC charges a flat fee for each license,⁴⁶ but Arlington County uses a revenue-based system⁴⁷ that helps accommodate new and smaller businesses. The County charges low, flat fees for businesses that gross less than \$100,000 per year.⁴⁸

Looking to other cities

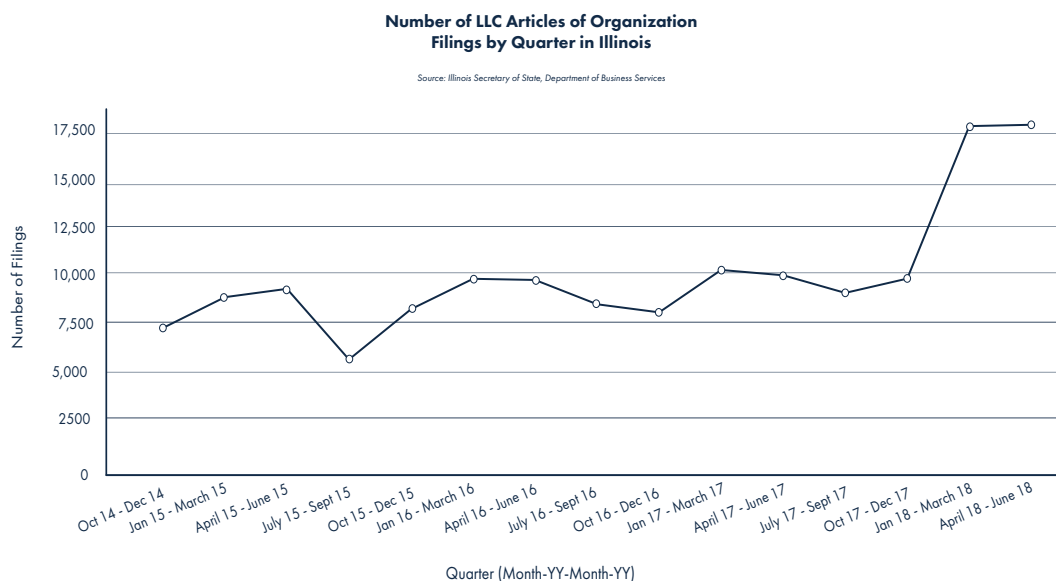
Our research found cities across the country with lower fees than DC's. By focusing on simple, revenue-based fee structures that facilitate business creation, DC could see a friendlier fee structure without making big sacrifices on generating revenue.

Lower fees, higher business registrations: Illinois

While lowering fees may seem like a counterintuitive way to boost revenue, lowering financial barriers can result in more businesses coming aboveboard. Illinois is a prime example of this in practice. 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.⁴⁹ Since lowering LLC fees, Illinois has seen an enormous increase in LLC registrations (see chart of Illinois LLC filings). Quarter 4 in 2017 (October-December) saw 9,264 LLC applications filed. After fees were reduced in December 2017, Quarter 1, 2018, saw a significant increase in LLC applications; 15,613 applications were filed from January to March, representing a 62% increase in LLC filings from the year prior.

Lowering Fees Can Increase New Business Registrations

After Illinois lowered corporate registration fees across the board, the state saw significant increases in new business registrations.



Che Ruddell-Tabisola co-founded BBQ Bus in DC in 2011 with his husband, Tadd. At risk of losing their jobs during the Recession, they decided to start their own business and put their culinary skills to work. They started out as a food truck and catering business, and in 2017, they opened their brick-and-mortar smokehouse in Brightwood, featuring new twists and classic BBQ favorites. Over the past eight years, Che says that “DC regulations have been wildly inconsistent. One inspector would pass my food truck and one would fail it. Same truck.” Without consistency, operating a food truck—or any business—becomes burdensome, even when every rule is followed, license acquired, and fee paid. One mistake and Che could receive a nuisance fee, which is often the same or more than the actual fee itself. “A nominal late fee is reasonable. But what am I paying for when I pay for a huge, astronomical late fee? We need to keep the cost of doing business affordable.”



A friendlier fee structure for new businesses: Seattle and Arlington County

Seattle and Arlington County have fee structures tailored to the size of the business. Both either exempt new businesses or have a graduated fee schedule. Graduated fee structures like these can cover regulatory costs while providing an entry point for new entrepreneurs, particularly those with little access to capital.

In 2016, Seattle introduced a business license tax certificate with a fee schedule based on annual taxable revenue. Seattle’s fee structure, which has six brackets of increasing fee amounts, provides an easier entry point for new and small businesses owners who can’t afford high upfront fees. For example, a new business with \$0 in annual taxable revenue would only have to pay \$55 for its certificate. On the other hand, a business with \$2,000,000 to \$4,999,999 in taxable revenue would pay \$2,400 for its certificate. Seattle’s structure is also simpler to navigate because there is a single tax certificate for each business, which means that unlike some category-based systems, Seattle does not have to create a new category each time a new business model emerges.


Under their business license tax system, DC’s neighbors in Arlington County don’t charge a tax certificate fee for businesses with less than \$10,000 in gross receipts.⁵⁰

When new types of business activities emerge, like breweries or urban farms, Seattle’s structure can easily adapt and capture licensing fees because each business only requires a single tax certificate. Conversely, category-based systems like DC’s require decisionmakers to create more and more categories to regulate new types of businesses. Because of this structure, innovative businesses get trapped in regulatory limbo because the legislative and regulatory processes required to create new categories can’t keep up with the pace of innovation. A system like Seattle’s would not require neatly defined categories to regulate businesses.

In addition, Arlington County’s and Seattle’s certificates must be renewed on an annual basis at the beginning of each calendar year, which reduces confusion about renewal dates.

When renewals are on a set schedule—like July 1 of each year—fees should be prorated for entrepreneurs who apply after the start of the term to avoid multiple full fee payments within a single term.



A person wearing a white long-sleeved shirt is seen from the side, working on a laptop. The background is slightly blurred, showing a wooden structure, possibly a desk or chair.

For example, in Jacksonville, FL, the renewal period for Local Business Taxes starts July 1 of each year, but for new businesses the city prorates the business tax beginning April 1, at which time half-year rates apply.⁵¹ In Minneapolis, MN, the license term depends on the license, but if the license is issued for less than a full year, the code has a four-part proration schedule.⁵²

Late fees that incentivize good behavior without being overly punitive to businesses that make honest mistakes in a complicated process: Philadelphia

Peers of DC with more simplified license processes have lower late fees. DC's late fees for renewing a BBL range from \$250 to \$500 for renewing a license 1 to 31 days late. This can be devastating for entrepreneurs operating on thin margins, especially when the late payment is an honest mistake. It's understandable that late fees can be necessary to encourage on-time renewals, but the current late fee structure is overly punitive and can actually discourage business owners from paying if they get too far behind.

After looking into cities with similar population size, DC's late fee structure was more punitive than its peers. For example, Philadelphia holds comparatively low rates for late license fee payments. If a license is paid late, a fine of 0.5% of the license fee is assessed, plus a 1% penalty per month where the license fee is unpaid.⁵³ While this still can be a burden for business owners, Philadelphia's late fees are low compared to sky-high late penalties of 10% to 30% in other cities and don't seek to overly penalize business owners who made be behind on a license payment.

DC's late fees for renewing a BBL range from \$250 to \$500 for renewing a license 1 to 31 days late. This can be devastating for entrepreneurs operating on thin margins.





Recommended reforms

Starting a business is already an expensive and risky venture; DC government shouldn't place extra stumbling blocks in the way. When entrepreneurs who lack the financial and legal resources to navigate the licensing process are forced to choose between operating without their proper paperwork or not operating at all, some will choose the former. It is in DC's interest to make it easier for these businesses to come aboveboard so that health and safety can be regulated, and tax revenue can be collected. Lowering barriers so that unlicensed businesses can come out of the shadows is good for business owners, customers, and regulatory agencies alike. By making business-related fees lower, DC could see more business creation along with increases in sales, payroll, and property tax revenues.

To reduce financial barriers for residents who will contribute taxes, innovative ideas, and jobs to our communities, DC should:

1. Rethink business license fee structures. License fees should be tied as closely as possible to the cost of enforcing and administering the licenses.
2. Adopt a fee structure that allows small and new businesses to comply without breaking the bank.
3. Lower punitive late fees, reducing the costs of making mistakes within a regulatory compliance system that is already complex and confusing.

Entrepreneurship 'Round the District

District Works hosted a roundtable in each quadrant of the District—at libraries in Capitol View, Mount Pleasant, Anacostia, and Capitol Hill—to bring together entrepreneurs of different backgrounds to talk about the barriers to starting a business. These conversations (involving a total of 42 DC entrepreneurs) highlighted what it is like to start a business in DC, which parts of the licensing process are the most burdensome, and which reform proposals would solve the worst pain points.

Ranking Reforms

Roundtable attendees shared wide-ranging feedback on reforms that would make their lives easier. To capture their priorities, we asked attendees to vote for the reforms that they would like to see first.

1. Lower licensing fees: 18% (22 votes)
2. Create a one-stop shop: 18% (22 votes)
3. Create a simpler, cheaper license for new businesses: 16% (20 votes)
4. Create more checklists: 12% (15 votes)
5. Ease home-based business requirements: 11% (14 votes)
6. Better customer service: 11% (14 votes)
7. Put everything online: 6% (7 votes)
8. Reduce number of license categories: 5% (6 votes)
9. Adopt better notification system: 2% (3 votes)

Note: Entrepreneurs said that if lessening the number of license categories would result in fewer/lower fees, they would vote that reform higher.

Supporting Small Business Owners Today

Increase flexibility for small business owners struggling to survive COVID-19

DC officials should take action today to reduce regulatory burdens for the city's small and local business community. Policymakers must ensure that businesses have the flexibility to meet the needs of their customers. To survive changing economic conditions, entrepreneurs may need to modify their business models, but rigid rules and steep fines can prevent them from doing so.

To embrace flexibility for District entrepreneurs, officials should take these five steps today:

1. Reduce business licensing fees for new and small businesses:

The financial burden of the pandemic has put stress on so many business owners. DC Government should allow entrepreneurs to use their limited funds to build their businesses and create much-needed jobs and economic activity. DC should lower application and renewal costs for new and small businesses. (Read more on page 21)

2. Expand opportunities for home-based businesses:

Entrepreneurs should be able to get started where they are—and right now, that's at home. With many unemployed or facing reduced hours, and with children attending classes virtually, the ability to run a business from home is critical. DC should remove square-footage limitations on home-based businesses and exempt these businesses from general business licensing requirements to ensure that people can start and grow viable businesses inside their homes. (Read more on page 17)





3. Allow flexibility for new business activities:

Expanding permitting for sidewalk and street cafes has allowed more businesses to move their activities outdoors and has helped many stay afloat during this difficult time.⁵⁴ Now that businesses have adjusted their business models to adapt to a new normal, DC should extend these programs and codify regulatory streamlining and rollbacks that work. DC Council must also codify DCRA's simpler licensing structure and give businesses options to modify their business model to meet changing demand. (Read more on page 11)

4. Reduce punitive fines and fees:

People are trying their best, but many are experiencing personal challenges that can prevent them from staying on top of paperwork. DC Government should be understanding of these extenuating circumstances and reduce late fees for businesses that make honest mistakes under the existing, complex license renewal process—particularly when unsettled debt from fines and fees keeps residents from getting a business license under DC's Clean Hands law. (Read more on page 18)

5. Improve DCRA's website and the online DC Business Center:

During this time of limited in-person interaction, access to reliable online services is crucial. Washingtonians need consistent and convenient access to information. DCRA should fix broken links, create effective checklists, and simplify the user experience for businesses applying online. (Read more on page 15)



Conclusion

Starting and running a small business should be a path towards achieving the American Dream. This path should be open to all DC residents, regardless of income or zip code. But until District officials work to reduce regulatory barriers to entrepreneurship, like expensive fees and time-consuming paperwork, DC will be keeping Washingtonians out of work, especially those in communities most in need of economic development.

DC leaders are already taking important steps to lower barriers to entrepreneurship in DC, but more must be done, and these changes must be codified. By focusing on specific suggestions from this report, which includes feedback from the District's small business community, officials and advocates can work together to make DC an even more vibrant place to start a business. DCRA and DC Council, along with other government entities that oversee the licensing process, must enact tangible reforms that will allow Washingtonians to earn a living for themselves and their families.



About the Institute for Justice

The Institute for Justice is a national, nonprofit law firm that works across the country to remove regulatory barriers to entrepreneurship and empower entrepreneurs to earn an honest living doing what they love.

About District Works

District Works is a coalition of small business owners, nonprofits, and community members striving to make it cheaper, faster, and simpler to start a business in DC.



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About the Authors



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