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Testimony Before the District of Columbia Council
Committee on Public Works and Operations
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Budget Oversight Hearing:
Department of Licensing and Consumer Protection

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Introduction

Good morning, Chairperson Nadeau, and members of the Committee. My name is Makenna Osborn. I am a Policy Attorney at Children's Law Center and a resident of the District. Children's Law Center believes every child should grow up with a strong foundation of family, health and education and live in a world free from poverty, trauma, racism and other forms of oppression. Our more than 100 staff – together with DC children and families, community partners and pro bono attorneys – use the law to solve children's urgent problems today and improve the systems that will affect their lives tomorrow. Since our founding in 1996, we have reached more than 50,000 children and families directly and multiplied our impact by advocating for city-wide solutions that benefit hundreds of thousands more.

Children's Law Center's attorneys handle hundreds of housing conditions cases each year against landlord corporations who fail to adequately maintain their properties. These poor housing conditions cause serious health consequences for our clients and their children. It is important that our clients be able to hold their landlords accountable.

DLCP Must Better Enforce the District's Corporate Disclosure Law

Several weeks ago, I testified before this Committee during the Department of Licensing and Consumer Protection's (DLCP) Performance Oversight hearing about Children's Law Center's concern that DLCP has not been enforcing compliance with the District's beneficial owner disclosure requirements.¹ We first want to thank you,

Chairperson Nadeau, for posing questions about the issue to Interim Director Kwan-Hui in the same hearing and encouraging the agency to engage with our organization. We also want to thank DLCP for proactively reaching out to Children's Law Center to learn more about our concerns and suggestions. Children's Law Center sincerely hopes that DLCP will continue to meaningfully engage with us and other stakeholders so that together, with leadership from this Committee, we can implement changes to better protect tenants from negligent corporate landlords.

As a reminder, in 2018 the Council passed the Department of Consumer and Regulatory Affairs Omnibus Act of 2018 (B22-0317) – nearly unanimously,² with strong support of the Mayor.³ Among other things, this law requires all corporate entities operating in the District to disclose the name and addresses of each person who 1) has a greater than 10% beneficial interest in the corporation or 2) has a 10% or less interest but controls the entity's financial or operational decisions or day-to-day operations.⁴ The Council specifically passed these ownership disclosure requirements to address the well-documented problems of negligent landlords who owned multiple properties with poor conditions across the District⁵ and disreputable corporate home flippers who carried out unlawful renovations evading consequence by hiding behind multiple LLCs.⁶

As the agency in charge of the District's licensing system, DLCP is responsible for the effective implementation of these disclosure requirements and must deny the registration of and take action to dissolve corporations that fail to make the requisite

disclosures.⁷ While DLCP has technically collected information on the beneficial owners of entities on their filing and biennial reporting forms and web portal, CorpOnline, since the law became effective in 2020,⁸ the agency stopped there – well short of monitoring compliance with and enforcing the law. Under DLCP’s current practice, if an entity puts *anything* in the fields designated to collect beneficial owner information, it is deemed in compliance. DLCP does not assess the accuracy or completeness of the information supplied and, therefore, has no idea whether corporate entities are actually in compliance with the law. As a result, DLCP and the Department of Buildings (DOB) cannot fulfill the Council’s vision of identifying and taking action against individuals who own multiple residential properties across the city under different LLCs and consistently fail to provide safe, habitable housing to renters in their properties.⁹

An article published by DCist and WAMU last week illustrated why effective implementation and enforcement of corporate transparency is so vital to protect low-income tenants in DC.¹⁰ Reporter Morgan Baskin detailed one local real estate developer’s predatory practice of purchasing rent-stabilized buildings for an extremely low price, constructively evicting existing tenants by forcing them to live in deplorable conditions, and then marketing the shoddily flipped units to voucher holders because the District of Columbia Housing Authority, the agency that administers most federal and local vouchers in DC, will pay much higher rents.¹¹ Through laborious investigation, DCist/WAMU identified 33 buildings registered to this one unscrupulous actor and his

associates but noted that “[t]he full scope of his acquisitions and ownership stake in these properties is effectively shielded from public view” because only LLCs are named as building owners and full ownership behind the LLCs is not disclosed.¹² While Children’s Law Center deeply appreciates the work of Morgan Baskin and DCist/WAMU, tenants in DC should not have to rely on investigative reporters to identify the worst landlords in our city. If the beneficial owner requirements were operating as intended, DLCP and the Department of Buildings (DOB) would be able to coordinate and check if the owners of buildings with a high number of housing code violations own other properties in the city and proactively target inspection and enforcement to those buildings.¹³ Also, the District government could regularly compile and publish a list of the worst landlords in the city, based on housing code violations in all of the buildings owned by an individual landlord – like New York City, whose beneficial owner disclosure law DC’s was modeled after – to shame bad actors and empower tenants with information about their current or potential landlord.¹⁴ DC will not be able to take any of these strategic enforcement actions if DLCP does not collect accurate ownership information from corporations.

Budget Recommendations

It is imperative that DLCP 1) conduct a thorough analysis of the beneficial owner disclosures made by corporations that own rental properties to better understand whether entities are complying with the law and 2) adopt proactive quality assurance practices that enable the agency to enforce the law against corporate landlords who are

acting in bad faith. Children's Law Center hopes the Committee will ask DLCP what resources it needs to achieve those goals and ensure adequate funding in the FY24 budget is dedicated to enforcing the beneficial owner disclosure law.

Children's Law Center was happy to learn that DLCP is already in the process of updating the filing and biennial reporting forms corporate entities must submit to the agency and the equivalent sections of the CorpOnline web portal. We are in communication with DLCP about incorporating our suggested changes to increase voluntary compliance with beneficial owner disclosure requirements. As the agency is already planning on updating its physical and online forms, implementing these changes should be achievable within a reasonable timeline and without additional funding. We ask that the Committee continue to follow up with DLCP about its efforts to update the relevant forms.

Changing the forms, though helpful, will not be enough to ensure compliance with the law. To effectively implement DC's beneficial owner disclosure requirements, DLCP must *actively* enforce the law. Therefore, Children's Law Center urges the Committee to probe DLCP about the resources it needs to audit past beneficial owner disclosures to assess willful or ignorant noncompliance with the law and systematically check disclosures in new filings and take appropriate enforcement action. Children's Law Center and its partners are eager to collaborate with and support DLCP to develop and

implement these practices, and we hope the Committee can provide the agency with any additional resources it may need.

Finally, Children’s Law Center shares a concern that the Committee of the Whole has previously raised that DLCP’s Key Performance Indicators (KPIs) fail to measure compliance with the laws DLCP is responsible for implementing and the outcomes of DLCP’s enforcement actions.¹⁵ The agency’s KPIs related to corporations are focused on how quickly an entity can register in DC and how many corporations are registered each year, and while we understand that timely responsiveness to businesses and consumers is important, the agency’s KPIs do not include any measures of whether those corporate filings comply with DC law.¹⁶ Both the agency and the Council should be considering this broader information to evaluate DLCP’s effectiveness. As such, we ask the Committee to recommend that DLCP measure and report in its annual Performance Plan what percent of corporate entities are following beneficial owner disclosure requirements and the outcome of any enforcement action taken against corporations that fail to comply.

Conclusion

Thank you for your attention to this important issue. I appreciate the opportunity to testify and would be happy to answer any questions.

¹ Makenna Osborn, Children’s Law Center, Testimony Before the District of Columbia Council Committee on Public Works and Operations (February 22, 2023), *available at*: <https://childrenslawcenter.org/wp-content/uploads/2023/02/DLCP-Performance-Oversight-CLC-Written-Testimony-with-Attachments-Final-2.21.23.pdf>; DC Code § 29-102.01. Entity filing requirements, *available*

at: <https://code.dccouncil.gov/us/dc/council/code/sections/29-102.01>; DC Code § 29-102.11. Biennial report for Mayor, available at: <https://code.dccouncil.gov/us/dc/council/code/sections/29-102.11>.

² B22-0317 passed unanimously with the exception of one Councilmember who was absent for the vote. See B22-0317, *Notification of Vacant and Blighted Classification Amendment Act of 2017* (now known as *Department of Consumer and Regulatory Affairs Omnibus Amendment Act of 2018*), available at: <https://lims.dccouncil.gov/Legislation/B22-0317>; Voting Information for B22-0317, available at: <https://lims.dccouncil.gov/Legislation/B22-0317>.

³ Then-director of the Department of Consumer and Regulatory Affairs (DCRA), Melinda Bolling, testified in support of this legislation. See Melinda Bolling, DCRA, Testimony Before the District of Columbia Council Committee of the Whole (November 9, 2017) in District of Columbia Council Committee of the Whole Committee Report on B22-317, p. 40 (December 4, 2018), available at: https://lims.dccouncil.gov/downloads/LIMS/38265/Committee_Report/B22-0317-CommitteeReport1.pdf.

⁴ See B22-0317, *Notification of Vacant and Blighted Classification Amendment Act of 2017* (now known as *Department of Consumer and Regulatory Affairs Omnibus Amendment Act of 2018*), Sec. 3, p. 2, available at: <https://lims.dccouncil.gov/downloads/LIMS/38265/Meeting2/Enrollment/B22-0317-Enrollment.pdf>.

Relevant text:

Subchapter 2 of Chapter 1 of Title 29 of the District of Columbia Official Code is amended as follows:

(a) Section 29-102.01(a) is amended by adding a new paragraph (6) to read as follows: “(6) For entity filings made on or after January 1, 2020, the entity filing shall state the names and residence and business addresses of each person whose aggregate share of direct or indirect, legal or beneficial ownership of a governance or total distributional interest of the entity: (A) Exceeds 10 percent; and (B) Does not exceed 10 percent; provided, that the person: (i) Controls the financial or operational decisions of such entity; or (ii) Has the ability to direct the day-to-day operations of such entity.”

(b) Section 29-102.11(a) is amended by adding a new paragraph (6) amended as follows: “(6) For biennial reports made on or after January 1, 2020, the report shall state the names and residence and business addresses of each person whose aggregate share of direct or indirect, legal or beneficial ownership of a governance or total distributional interest of the entity: (A) Exceeds 10 percent; and (B) Does not exceed 10 percent; provided, that the person: (i) Controls the financial or operational decisions of such entity; or (ii) Has the ability to direct the day-to-day operations of such entity.”

⁵ “Recent news stories have come to light that have shown that negligent landlords operate in the District under the protection of the District’s LLC law. Typically, a negligent landlord will own properties across the District under many different LLCs, because LLCs are not required to report their complete ownership to the District government as part of registration or renewal. In turn, it is difficult for DCRA to identify all of the properties in the District that are owned or operated by the negligent landlord. By requiring disclosure of the ownership behind an LLC when one building is identified to be in poor condition, DCRA will be better able to pursue housing code enforcement at other buildings under the same ownership” (*Internal citations to then Director Melinda Bolling’s Nov. 9, 2017 testimony before the Committee omitted*). District of Columbia Council Committee of the Whole Committee Report on B22-317, p. 5 (December 4, 2018), available at: https://lims.dccouncil.gov/downloads/LIMS/38265/Committee_Report/B22-0317-CommitteeReport1.pdf.

⁶ Per the Committee Report, it is also important for District residents to know the identity of individuals behind corporate home flippers: “The Committee is aware of instances in which developers have been

using multiple LLCs when unlawfully renovating houses in the District, also known as house flipping. Multiple homeowners in the District have faced significant problems with new homes that were illegally renovated. In one instance, a company in Maryland used multiple LLCs to purchase more than a dozen homes in Columbia Heights and Petworth and all the LLCs had the same address. These situations have made it a challenge for homebuyers in the District to find out from whom they are buying. The Committee believes there needs to be more disclosure in these cases to protect homebuyers in the District.” District of Columbia Council Committee of the Whole Committee Report on B22-317, p. 6 (December 4, 2018), *available at*:

https://lms.dccouncil.gov/downloads/LIMS/38265/Committee_Report/B22-0317-CommitteeReport1.pdf.

⁷ “If an entity submits an entity registration filing that does not include the information required [disclosing beneficial owners], the entity shall not be allowed to register or do business in the District.” DC Code § 29-102.01(a)(8), *available at*:

<https://code.dccouncil.gov/us/dc/council/code/sections/29-102.01>; “Submission of a biennial report that does not include the information required [disclosing beneficial owners] shall result in administrative dissolution . . . or termination of [an entity].” DC Code § 29-102.11(a)(8), *available at*:

<https://code.dccouncil.gov/us/dc/council/code/sections/29-102.11>.

⁸ See DLCP, General Forms, *available at*: <https://dlcp.dc.gov/node/1622076>; DLCP, BRA-25 Two-Year Report for Domestic & Foreign Filing Entity, *available at*: <https://dlcp.dc.gov/node/1622191>; DLCP, CorpOnline, *available at*: <https://corponline.dlcp.dc.gov/Home.aspx/Landing>.

⁹ District of Columbia Council Committee of the Whole Committee Report on B22-317 (December 4, 2018), *available at*: https://lms.dccouncil.gov/downloads/LIMS/38265/Committee_Report/B22-0317-CommitteeReport1.pdf; DOB, Enforcement Action, *available at*: <https://dob.dc.gov/page/enforcement-action>.

¹⁰ Morgan Baskin, *The Next Hottest Rental Strategy? Market to Housing Choice Voucher Holders*, DCist (March 20, 2023), *available at*: <https://dcist.com/story/23/03/20/sam-razjooyan-housing-choice-voucher-holders-rent/>.

¹¹ *Id.* See also US Department of Housing and Urban Development (HUD), District of Columbia Housing Authority (DC001) Assessment, p. 46–47 (2022), *available at*: https://oag.dc.gov/sites/default/files/2022-10/DCReview_Final%209302022%20%281%29.pdf; Steve Thompson & Dalton Bennett, *DC Overpays Landlords Millions to House the City’s Poorest*, Washington Post (February 16, 2023), *available at*: <https://www.washingtonpost.com/investigations/2023/02/15/dc-housing-authority-overpays-landlords/>.

¹² Morgan Baskin, *The Next Hottest Rental Strategy? Market to Housing Choice Voucher Holders*, DCist (March 20, 2023), *available at*: <https://dcist.com/story/23/03/20/sam-razjooyan-housing-choice-voucher-holders-rent/>.

¹³ Anne Cunningham, Children’s Law Center, Testimony Before the District of Columbia Council Committee of the Whole, p. 6–10 (April 19, 2018), *available at*: <https://childrenslawcenter.org/wp-content/uploads/2021/07/DOB-Establishment-Act-of-2018-Hearing-Testimony-Childrens-Law-Cente.pdf>. See also Beth Mellen Harrison, Legal Aid Society of the District of Columbia, Testimony Before the District of Columbia Council Committee of the Whole (December 10, 2019) in District of Columbia Council Committee of the Whole Committee Report on B23-91, p. 55–59 (December 1, 2020), *available at*: https://lms.dccouncil.gov/downloads/LIMS/41724/Committee_Report/B23-0091-Committee_Report2.pdf.

¹⁴ District of Columbia Council Committee of the Whole Committee Report on B22-317, p. 5–6 (December 4, 2018), *available at*: https://lms.dccouncil.gov/downloads/LIMS/38265/Committee_Report/B22-0317-CommitteeReport1.pdf; NYC Public Advocate, 2022 Landlord Watchlist, *available at*: <https://www.landlordwatchlist.com/landlords>.

¹⁵District of Columbia Council Committee of the Whole Report and Recommendations on the Fiscal Year 2023 Budget and Corresponding Budget Support Act, p. 69–70 (April 21, 2022), *available at*: <https://static1.squarespace.com/static/5bbd09f3d74562c7f0e4bb10/t/62606a3fc640af181295a34f/1650485824377/COW+FY23+Report+-+Draft++4.20.22.pdf>.

¹⁶ DLCP, FY24 Performance Plan, p. 6–7 (March 22, 2023), *available at*: <https://oca.dc.gov/sites/default/files/dc/sites/oca/publication/attachments/DLCP24.pdf>.