



MONTGOMERY COUNTY PLANNING DEPARTMENT
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

MEMORANDUM

October 23, 2008

To: Montgomery County Planning Board

Via: Roselle George, Acting Chief of Research & Technology *RG*

From: Jacob Sesker, Planner Coordinator *JS*

RE: White Flint Implementation—Administration and Financing

PURPOSE

The purpose of this memorandum and discussion is to present to the Board a summary of the issues related to financing and administration of the White Flint Sector Plan, as well as Staff recommendations for addressing those issues. This memorandum expands upon issues presented on September 11th, 2008.

BACKGROUND

On September 11th of 2008, Staff presented to the Board the general concepts of the administration and financing section of the Plan. At that time Staff requested guidance from the Board with respect to establishing general principles to guide both the planning process and the future implementation of the Plan that ultimately is adopted.

At that time, the Board expressed support for an administrative structure capable of overseeing orderly implementation of the Sector Plan through capital programming and coordination of public facilities. The administrative structure would have an array of clearly defined powers and responsibilities.

In addition, the Board expressed support for three general principles to guide the financing aspects of plan implementation.

Value capture

- The Board supported the concept of expanding the Metro Station Policy Area (MSPA) boundary to include the entire White Flint Sector Plan (WFSP). The Board supported the idea of changing the existing impact fee legislation so that impact fees generated within the WFSP/MSPA boundary could only be spent on capital projects within the WFSP/MSPA boundary.
- The Board supported the concept of capturing some portion of the incremental General Fund revenues generated by new development within the WFSP/MSPA boundary. Those captured incremental tax revenues would then be reinvested within the WFSP/MSPA boundary.

Leveraging future private sector revenues

- The Board supported the concept of exempting, reducing, or phasing out impact fees on commercial development if the private sector is willing to subject itself to a special assessment or tax.
- The Board indicated support for a specific approach under which new residential development would continue to pay impact taxes, and new commercial development would not. Instead, commercial uses (new and existing) would agree to a special assessment or tax.

Leveraging future public sector revenues

- The Board expressed support for the concept of leveraging future tax revenues to meet the up-front funding gap for required infrastructure.
- The Board expressed support for the concept of using TIF-like financing mechanisms in order to pay for mobility projects that would allow for orderly improvement of Rockville Pike.

The administrative and financing principles must be clearly established in the language of the Plan. Staff is currently engaged in financial analysis of the proposed Sector Plan. That work is occurring in parallel with the efforts of consultants hired by some of the affected property owners. In Sector Plan work sessions Staff will present detailed analysis of the public sector and private sector financial issues as well as in-depth discussions of all proposed new legislation or changes to existing legislation.

GENERAL INFRASTRUCTURE ISSUES

The administrative and financing principles summarized above are intended to address two general issues affecting the feasibility of the White Flint Sector Plan—infrastructure delivery and infrastructure cost.

Infrastructure delivery

Infrastructure is typically delivered either by the private sector or by the public sector through capital improvement programming. Each of these delivery methods is flawed. In the case of infrastructure delivered by the private sector, that infrastructure is only delivered with new development; put differently, in the absence of new development, the infrastructure is not delivered. The resulting pattern of infrastructure often leads to numerous “parts” that do not make up a “whole.” For example, multiple blocks of a master planned street might be built, but if those blocks are not contiguous, then the result is significant expense by the private sector and very little private or public benefit (i.e. little or no improvement in overall mobility).

Public sector delivery of infrastructure generally occurs for the following reasons:

- The cost of the infrastructure is beyond what could be required through exaction,
- The benefit of the infrastructure is broad, or
- There are gaps in the infrastructure that need to be filled by the public sector as a result of incomplete/discontinuous redevelopment.

Regardless of the reason, the delivery of infrastructure by the public sector often fails to match private sector investment timelines. In the absence of certainty that the public sector will be able to step in and connect two unconnected sections of roadway, private sector developers are stuck with a choice between spending additional money to complete the off-site project themselves, or on the other hand deciding not to redevelop their properties.

Infrastructure cost

Sharing the cost of infrastructure becomes an issue because of both the magnitude of the cost and because of the broad incidence of benefit for some master-planned infrastructure. One reason for the high cost of infrastructure in White Flint is that the Plan calls for superimposing a fine-grained street grid on top of a successful existing commercial area. Another reason for the high cost of infrastructure is the substantial cost associated with transforming Rockville Pike into a boulevard.

If the cost of the infrastructure is placed entirely on the private sector, the orderly redevelopment of White Flint is unlikely to occur. This is because the cost to many individual property owners, in light of current revenue streams, would not justify interrupting a successful going concern. Many would choose to put money into tenant improvements to existing structures rather than developing new structures that meet the goals of the Sector Plan. Other possible consequences include the following:

- Redevelopment at less than highest and best use (i.e. underutilization)

- Inward-looking developments that do little to create a sense of place
- Higher infrastructure/site costs could lead to fewer proffers of bonus density affordable housing or other public benefits

ROCKVILLE PIKE ISSUES

The Rockville Pike improvements currently contemplated in the Sector Plan could be a critical component of the identity of White Flint; however, those improvements will have been built at great cost and with very little benefit for automobile congestion. The significant costs and practical challenges associated with the transformation of Rockville Pike are among the driving forces behind the administrative and financing aspects of the implementation plan.

Staff has estimated the cost of Rockville Pike improvements at roughly \$70 million, not including undergrounding of utilities. This estimate was based on two current or recent projects in the region (Route 1 in College Park and New York Avenue in the District). Also not included is the cost of acquiring rights-of-way (fee and easements), which could range from \$0 to perhaps as high as \$100 million, depending upon the timing of the acquisition and the alignment of the road.

ROW costs would be highest if the acquisition is up-front and all at once, such that little or no ROW is dedicated through the “natural” subdivision process. ROW costs would also be highest where the alignment is sufficiently disruptive to particular property owners that it would require total compensation. For example, in some cases where realignment would take out a property owner’s entire supply of surface parking, the public sector might need to acquire the fee interest in the whole parcel.

Improvements to the Pike will likely cause significant disruption to the flow of traffic through White Flint; consequently, substantial improvements to the road network will be required in order to accommodate both southbound and northbound traffic displaced from the Pike.

NON-TRANSPORTATION INFRASTRUCTURE ISSUES

Staff believes that in general, the District funding concept should be limited to transportation capacity projects. It may be necessary for the District to acquire land for projects, such as the Civic Green, that are closely tied to creating a strong sense of place around the civic core.

Typically, all or part of the land required for the Civic Green would be dedicated through the subdivision process. However, if the ultimate plan follows the geographic approach to infrastructure, as presented to the Planning Board in the recently, it may be necessary to acquire some or all of the land for the Civic Green should the surrounding properties not redevelop at that time. A rough approximation of that additional cost would be \$5 million to \$7 million for one acre of land in that location.

IMPLEMENTATION GOALS

Having established the issues, Staff established goals for the implementation of the Sector Plan:

- Provide predictable infrastructure delivery
- Create a monitoring system with broad accountability
- Create a system that can provide capital facilities and operational support
- Spread costs over broad group of beneficiaries
- Minimize public sector financial risk
- Target public sector dollars for up-front mobility

Staff repeatedly returns to these goals in the continuing development of the administration and financing sections of the Sector Plan.

IMPLEMENTATION COSTS

In February, Staff estimated total transportation capital costs of approximately \$280 million. Staff currently estimates total transportation capital costs of roughly \$320 million. Some of that cost is associated with projects for which funds are already committed or proposed (e.g. State costs associated with Montrose, and local funds associated with Chapman and Citadel).

Table 1: Transportation Infrastructure Costs (Millions)

	State	Local	Private/District	TOTAL
Public Transit Elements				
Stage One	\$0.00	\$0.00	\$26.50	\$26.50
Stage Two	\$0.00	\$0.00	\$3.00	\$3.00
Stage Three	\$0.00	\$0.00	\$13.00	\$13.00
TOTAL	\$0.00	\$0.00	\$42.50	\$42.50
Streets and Bikeways				
Stage One	\$47.20	\$20.10	\$35.00	\$102.30
Stage Two	\$20.00	\$0.00	\$76.50	\$96.50
Stage Three	\$0.00	\$0.00	\$77.75	\$77.75
TOTAL	\$67.20	\$20.10	\$189.25	\$276.55
Total Transportation Network Elements				
Stage One	\$47.20	\$20.10	\$61.50	\$128.80
Stage Two	\$20.00	\$0.00	\$79.50	\$99.50
Stage Three	\$0.00	\$0.00	\$90.75	\$90.75
TOTAL	\$67.20	\$20.10	\$231.75	\$319.05

Future work sessions will address in greater detail the question of costs. Included in those work sessions would be a discussion of the projects for which the costs should be borne by the district, and the extent to which the public sector should share in the costs that have been categorized as “private/district” costs in the table above.

In general, the District would likely pay for all transportation infrastructure that the County would not receive through the normal exaction process and for which the benefit is at least as broad as the entire Sector Plan Area. Staff estimates that the sum of the District projects over three stages to be between \$150 million and \$180 million. The remainder of the “private/district” costs in Table 1 (above) would likely be built as proffers (for example, some off-site improvements with a narrow group of beneficiaries).

Preliminary analysis has indicated that there is a “feasibility gap” that would need to be filled by the public sector out of the incremental tax revenues from new development. The most effective use of those funds would be in Stage 1, when the special tax/assessment may not generate sufficient cash flow to pay for the necessary mobility projects.

IMPLEMENTATION REVENUES

New development will generate new revenues. At this point, Staff is not discussing total net new revenues. Rather, this brief discussion addresses only the revenues from net new development. There is a subtle but important distinction between the two in that the second approach (taken here) does not include net new revenues from redevelopment of existing lower value space to new and higher value space. Staff will include redevelopment of existing space in future analyses.

Table 2: Development Program

TOTAL NET NEW DEVELOPMENT	
Dwelling Units	9,800
Office	2,600,000
Retail	1,700,000
Industrial	320,000
Other	0
Hotel	650,000

Build-out of the White Flint Sector Plan will generate one-time and recurring revenues to the County. One time revenues generated by the development will include transportation impact taxes. Under current law, impact tax revenues are available to pay for new transportation capital projects throughout the County (i.e. expenditure is not geographically restricted).

Table 3: One-time Revenues

IMPACT TAX REVENUES ON NET NEW DEVELOPMENT				
	<i>Stages 1, 2 & 3</i>	Stage 1	Stage 2	Stage 3
Residential	\$23,700,000	\$8,000,000	\$3,000,000	\$12,700,000
Commercial	\$22,300,000	\$7,700,000	\$2,700,000	\$11,900,000
Total	\$46,000,000	\$15,700,000	\$5,700,000	\$24,600,000

Total transportation impact taxes on net new development would be approximately \$46 million. Of that, slightly more than half are derived from residential development. Impact taxes would be charged to total new development, not just total net new development. As such, actual impact tax revenues could be significantly higher.

Recurring revenues are property taxes. Annual property tax revenues will increase in tandem with new development. At stabilized build-out, the total value of the net new development would be roughly \$8 billion. Again, that does not include increases in value that occur because a square foot of existing space is replaced by a square foot of new space with a higher value.

Table 4: Recurring Revenues

STABILIZED ANNUAL PROPERTY TAX REVENUES ON NET NEW DEVELOPMENT			
	Total	Residential	Commercial
Overall Prop. Tax Revenues	\$78,122,861	\$57,530,945	\$20,591,916
Gen. Fund Prop. Tax Revenues	\$59,111,367	\$43,530,572	\$15,580,796

For illustrative purposes, assume that development is evenly spread over a 30-year build-out horizon. The numbers in Table 4 (above) would represent the annual revenues at the end of that period. The Sector Plan envisions a significant shift in the jobs/housing ratio—that shift is evident in Table 4, which shows that nearly three-fourths of the stabilized annual property tax revenues from net new development are attributable to net new residential development.

Table 5: Illustrative Annualized
Recurring Revenues, All Uses

INCREMENTAL TAX REVENUE GENERATED BY NET NEW DEVELOPMENT, BY YEAR		
Year	Overall Countywide Annual Property Tax	General Fund Property Tax
1	\$2,604,095	\$1,970,379
2	\$5,208,191	\$3,940,758
3	\$7,812,286	\$5,911,137
4	\$10,416,381	\$7,881,516
5	\$13,020,477	\$9,851,895
6	\$15,624,572	\$11,822,273
7	\$18,228,668	\$13,792,652
8	\$20,832,763	\$15,763,031
9	\$23,436,858	\$17,733,410
10	\$26,040,954	\$19,703,789
11	\$28,645,049	\$21,674,168
12	\$31,249,144	\$23,644,547
13	\$33,853,240	\$25,614,926
14	\$36,457,335	\$27,585,305
15	\$39,061,430	\$29,555,684
16	\$41,665,526	\$31,526,062
17	\$44,269,621	\$33,496,441
18	\$46,873,717	\$35,466,820
19	\$49,477,812	\$37,437,199
20	\$52,081,907	\$39,407,578
21	\$54,686,003	\$41,377,957
22	\$57,290,098	\$43,348,336
23	\$59,894,193	\$45,318,715
24	\$62,498,289	\$47,289,094
25	\$65,102,384	\$49,259,473
26	\$67,706,479	\$51,229,852
27	\$70,310,575	\$53,200,230
28	\$72,914,670	\$55,170,609
29	\$75,518,766	\$57,140,988
30	\$78,122,861	\$59,111,367
Total	\$1,210,904,344	\$916,226,191
Mean	\$40,363,478	\$30,540,873

The totals and annual means in Table 5 (above) are sensitive to the pace of development. The development envelope modeled here could take longer than 30 years to reach. Even if the

envelope is reached in 30 years, if the development is more on the “back-end” then both the total and annual mean would be lower (though the year 30 annual revenues would be the same).

Based on the figures in Table 5, the net new development of the 30-year build-out of the Sector Plan would generate roughly \$1.2 billion in new property tax revenues, of which roughly \$900 million would be General Fund revenue. Staff understands County policy as being that not more than 10% of the total net new General Fund revenue¹ would be available to spend on capital projects within the Sector Plan.

COST-REVENUE COMPARISON

Clearly, the General Fund revenues generated by the project are well in excess of the County’s share of the transportation infrastructure costs. Assuming that the County’s share of total transportation costs is increased to close the aforementioned financing gap, the total revenues generated by the project would still be greater than the transportation costs to the County.

Debt service for capital projects, however, is only one of many things covered by General Fund revenues. As such, only a portion of the incremental General Fund revenue will be available to pay the debt service on capital projects. Other factors (e.g. charter limits, availability of credit, interest rates, County policies, etc.) will affect the degree to which these funds are available and the extent to which the funds can pay for the necessary infrastructure. An additional important issue is the pace of development, which will affect the viability of any financing mechanism.

SUMMARY OF PROPOSED FINANCING MECHANISM

Staff has previously described a funding mechanism that receives funds from multiple sources. Those sources would include:

- Transportation impact taxes charged to new residential development
- Transportation impact taxes charged to new commercial development, if necessary²
- A special assessment of up to 10% on all new and existing commercial uses/development
- Public financing (through TIF financing or GO bonds) to cover financing gaps occurring in the early stages of redevelopment

This financing mechanism does not contemplate any increased burden on residents or residential development. Rather, the increased burden would fall entirely on commercial development. The key, however, will be to set that increased commercial burden such that it does not prevent commercial development from occurring. This is because the incremental revenues from commercial development will be a significant source of funding for the infrastructure.

¹ In this case, a key distinction is between “net new revenue” and revenue generated by net new development. Net new revenue would be greater than the revenue generated by net new development, because new development will be of higher assessed value than the development it replaces.

² It is envisioned that the commercial impact taxes would be eliminated. Further analysis will demonstrate whether reduced or phased-out transportation impact taxes paid by new commercial development is necessary.

It is possible that a mechanism with these sources of financing could be funded under existing state and local legislation. However, if legislation is proposed to create a new administrative mechanism, the sources of funding should also be clearly set forth in that legislation.

SUMMARY OF PROPOSED ADMINISTRATIVE MECHANISM

The administrative mechanism would have powers greater than any currently existing mechanisms in Montgomery County (e.g. Bethesda Urban Partnership). Staff continues to recommend the creation of a White Flint Redevelopment Implementation Authority with broad powers and carefully defined responsibilities.

The powers of the Redevelopment Implementation authority would include the following:

- Hire or contract for administrative, legal, and accounting staff
- Contract with architects, engineers and other technical professionals for the purpose of designing or coordinating projects deemed necessary for successful master plan implementation
- Enter into contracts to purchase, sell, or lease real property and personal property
- Collect revenues from taxes and assessments, make any necessary disbursements, and issue bonds as necessary for successful master plan implementation
- Sue or be sued, and file any necessary legal actions (including eminent domain)
- Prepare a capital program designating facilities to be constructed, estimated costs of each facility, and prioritize those facilities consistent with the goals of the Plan
- Enter into contracts, agreements, or memoranda of understanding for the construction and maintenance of capital facilities
- Participate in the ongoing affairs of the Sector Plan area, including maintenance, security and branding/marketing efforts

In addition to those powers, the Implementation Authority would have many responsibilities. Those responsibilities would include:

- Maintain accurate records of revenues and expenditures, including an annual audit of its operations and accounts
- Prepare an annual operating report, to be transmitted along with the annual audit, to the Planning Board for review and then to the County Council
- Prepare an annual report of development activity and traffic congestion levels to transmit to the Planning Board and the County Council
- Establish a protocol for receiving public input, including open hearings and work sessions
- Review and comment on project plans and other pertinent actions that come before the Planning Board

- Governance by a Board with representatives from a broad group of stakeholders
- Establish a protocol for determining which infrastructure projects should be funded in each stage of development, as established in this Plan, as well as a protocol for changing the infrastructure staging to reflect emerging realities
- Establish a protocol for determining that enough development has occurred to merit the issuance of bonds for the next stage of infrastructure projects

The administrative mechanism described hereinabove would require enabling legislation at the County and/or State level. That legislation should also include a precise description of the financing mechanism, the sources of funding, and the conditions attached thereto.

CONCLUSION

Staff believes that the financing and administrative mechanisms described above represent a sound balancing of the issues facing this Sector Plan, the implementation goals established, and the many diverse interests affected by the future redevelopment of White Flint. There may be multiple combinations of tools that would be consistent with the principles the Board agreed to on September 11th, 2008. Staff believes that this particular combination represents our best chance of success.

NEXT STEPS

Staff recommends multiple work sessions to discuss topics related to financing and over the course of the spring. The following represents a list of topics which should be discussed in the work sessions:

- Public sector risk and the pace of redevelopment
- The public sector's ability to cover the financing gap
- Establishing a probable list of "district projects"
- Examining the sensitivity of the special assessment rate to the total cost of "district projects"
- Relationship between density and cost of exactions
- Relationship between cost of exactions and the pace of redevelopment
- Relationship between exactions and public sector risk
- New legislation and amendments to existing legislation
- Remaining/emerging issues (as necessary)