

# THE WHITE FLINT PARTNERSHIP

September 24, 2010

Ms. Nancy Floreen, President  
And Members of the Montgomery County Council  
Montgomery County Council  
100 Maryland Avenue, 6th Floor  
Rockville, MD 20850

Re: September 28, 2010 County Executive update on White Flint financing

Dear President Floreen and Members of the Montgomery County Council:

The members of the White Flint Partnership have negotiated in good faith with the County Executive for the past six months and have reviewed the latest draft of the proposed White Flint district legislation. Unfortunately, if the draft legislation in its form submitted to us by County Executive Staff is approved by the County Council, White Flint's redevelopment in all likelihood will not happen. Three of the four core issues, which the private sector raised at the beginning of this process two years ago, have not been addressed by the Executive's draft legislation; resulting in a financing plan that is not economically feasible or acceptable to the community.

The White Flint Sector Plan is an unprecedented opportunity for the County. Eleven property owners control almost all of the developable land within the Sector Plan, which means that if implemented correctly, White Flint could be one of the most user friendly new communities in the country, with increased mobility and built in sustainability. Even more important to the County is that seven of these eleven property owners are local Montgomery County based companies. We live in this community and we care about the future of our County. Below is a description of the core issues of concern to the business community, and suggestions for how these issues can be resolved.

1. **THE CASE FOR WHITE FLINT:** The County Executive's own economic analysis projects that White Flint will produce \$7 Billion in net new tax surplus and over 30,000 jobs for the County with minimal up front County investment. To afford to pay for the costs of other needed economic development in areas such as Wheaton and the Route 29 corridor, the County should view White Flint as a funding source rather than a liability. Just as Bethesda was the economic engine that enabled the County to redevelop Silver Spring in the 80's and 90's, White Flint is where the revenue will come from to pay for other County priorities.

Secondly, White Flint is already part of a large Science Triangle that exists in the County today. The Triangle stretches from NIH and Bethesda Naval Medical Hospital, through White Flint and Twinbrook, and then northwest to West Gaithersburg along Shady Grove Road. It turns easterly

to White Oak, where FDA's presence is critical to the future of economic development in the Eastern County. White Flint and Twinbrook are already home to the Department of Health and Human Services, the Nuclear Regulatory Commission, and the largest percentage of NIH and FDA office space outside their main campuses. White Flint is a critical piece of the Science Triangle because of its proximity to Metro's Red Line, which will enable it to attract both non-taxpaying federal agencies and research tenants, as well as high tax paying private sector tenants. This Science Triangle can work symbiotically to be an incredible economic engine and job creator for the County, but it requires some upfront investment in infrastructure by the County, and a commitment from the County to see it through.

2. **TRIPLE TAXATION WILL NOT LEAD TO A NEW WHITE FLINT:** The business community has agreed to replace impact taxes with a 10% special assessment tax to fund the lion's share of infrastructure in White Flint. This special assessment is more than double the \$50 million in impact taxes the County would ordinarily receive from the development community in White Flint. The County Executive now wants to charge both the special assessment, which is more than double the impact taxes we would ordinarily pay, and on top of this still collect impact taxes. The total of this crippling triple tax burden renders most new development in White Flint economically infeasible.

The triple tax simply furthers the gap in the cost of doing business in Montgomery County as compared to Northern Virginia. There are several reasons why Hilton, Northrop Grumman, SAIC, Volkswagen, and most recently VeriSign have all chosen Northern Virginia over Montgomery County for their headquarters in the past 2 years, but at least one major reason relates to the actual and perceived lack of competitiveness of Montgomery County's business climate versus Northern Virginia's. With the Silver Line of the Metro opening shortly in Fairfax County, the competition for jobs will grow even stronger. The entire region is looking to White Flint as the premier example of rebuilding our inner ring suburbs into vibrant places both economically and for the local community. If the County is unable to take advantage of eleven well capitalized locally based property owners who are willing to invest billions in the future of the County, and to leverage the investment in public infrastructure that all of the property owners in White Flint are offering to make, it will send another signal to the business community that Montgomery County is simply not open for business.

**RECOMMENDATION:** As has always been discussed, the Special Tax Assessment must be in lieu of paying transportation impact fees. School impact taxes, of course, should continue to be paid.

- 3. NO COUNTY INVESTMENT IN WHITE FLINT INFRASTRUCTURE:** The total cost of additional road and transportation infrastructure resulting from the recent White Flint Sector Plan approval is roughly \$640 million. The business community has agreed to fund \$400 million (developer bucket) of the \$640 million (roughly 63%) directly as conditional requirements of individual site plan approvals. On top of this, the business community has offered to accept a 10% special tax in lieu of transportation impact fees in order to raise an additional \$150 million<sup>1</sup> (private contribution to district bucket) over the next 30 years for a total of \$550 million (roughly 86%) in privately funded new infrastructure. This leaves a gap of approximately \$90 million in funding (public contribution to district bucket).

(NOTE: In addition to the \$640 million in transportation infrastructure costs discussed above, there is roughly \$105 million (County Bucket) in public life safety and community amenities that are required as part of the Sector Plan. The County has agreed to fund these non transportation related costs which includes the police and fire station, the Civic Green, the renovation of Wall Park and the Aquatics Center, and a new community recreation facility. This brings the total capital cost of the plan to \$745 million. If the County were to cover the \$90 million gap in the district bucket as proposed by the White Flint Partnership plus the \$105 million they have already agreed to fund as part of the county bucket, they would still only be paying for 26% of the capital costs necessary to make White Flint happen.)

As expected, the \$90 million gap is largest in phase 1, because it will take a number of years for new development to get started and to increase the assessed base of the property on which the tax is computed. Over time, the tax revenue will grow exponentially both from inflation on existing tax paying properties and from the assessment of newly added development within the taxing district. For two years, we have discussed the need for White Flint to have both private and public investment in order for infrastructure to generally keep pace with new development. The \$90 million gap in funding is only a small fraction of the \$7 billion net tax surplus that Montgomery County expects to earn in White Flint from new development alone. It is an investment in the future of the County, with a return on that investment that would be the envy of every jurisdiction in the country.

Because there is a quantifiable gap in infrastructure funding, if the County does not invest in White Flint, the construction of needed infrastructure will be delayed. Ultimately, if White Flint is going to be successful, it needs to remain economically competitive. The property owners are offering to pay three times the impact taxes normally collected from development and offering to begin funding that amount in ADVANCE of development. In order for the public private

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<sup>1</sup> \$150 million represents an average of the County and the White Flint Partnership's estimates of the revenue that can be generated from the special tax.

partnership that we have talked about for the past two years to be successful, a partnership must in fact be formed. This requires both sides to make an investment and take the up front risk necessary to secure future opportunity.

The Executive will argue that revenue earned from the District after significant development takes place will be sufficient to pay for all the improvements contemplated. Therefore, we should impose the tax today and then proceed with those improvements in a decade when the revenues catch up. Unfortunately, beyond the basic concept that adding too much cost to future development will kill it before it gets started, this “wait until the revenue is raised” strategy is antithetical to the original concept of providing the infrastructure generally concurrently with new development. If this theory is implemented, the District will break down before it has a chance to start. Development will not occur with any rapidity, infrastructure will not be sufficient to support and encourage future growth, and the County will be left behind in the regional race for jobs and long term fiscal security.

**RECOMMENDATION:** The County should either invest alongside the development community in each phase, or move some infrastructure improvements to the County’s bucket so that they can be funded as CIP projects. This would reduce the bucket of District infrastructure improvements to a level that could be adequately funded by the special tax.

4. **BUSINESS COMMUNITY HAS UNLIMITED RISK:** The final major concern to the business community is that the Executive’s legislation allows for the tax rate to change on an annual basis (e.g. exceed 10%) in order to cover the full cost of the infrastructure in the district bucket. This leaves the business community’s cost exposure completely up in the air over the life of the plan, and means that the County could simply increase the tax rate rather than invest in White Flint. We propose a reasonable 10% increase in ad valorem taxes as a special tax as the target for sizing the bond tranches, along with an agreement with the County to help fund any unprecedented shortfalls or funding gaps, particularly in Phase 1.

**RECOMMENDATION:** Create a covenant that states that the bonds will be sized so that the tax rate should not exceed 10%. This will allow the legislation to be more flexible as is necessary for marketing the bonds. We agree that if assessments drop, the tax rate would have to rise in order to cover the debt payments in place; however, our concern is that the County should not issue bonds initially knowing that the tax rate for them will exceed 10%.

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Thank you for your consideration.

Very truly yours,

The White Flint Partnership

Combined Properties  
Federal Realty Investment Trust  
Gables Residential  
Lerner Enterprises  
The Holladay Corporation  
The JBG Companies  
The Tower Companies