THE WHITE FLINT PARTNERSHIP

October 18, 2010

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

Re: White Flint District financing

Dear President Floreen and Members of the Montgomery County Council:

The following analysis is a detailed infrastructure funding plan for the White Flint Sector Plan. The White Flint Partnership ("WFP") outlined the case for public investment in White Flint in our memo dated September 24, 2010 and attached as Exhibit 2. In order for the White Flint Sector Plan ("WFSP") to remain in balance and achieve the lofty mode share split goals required by the staging plan the following must occur:

- Approximately $650 million of transportation infrastructure must be built over the life of the plan. ($760 million including non transportation infrastructure)
- Of which $400 million will be contributed by private property owners as part of the Site Plan approval process and built along with their respective developments. (See exhibit 1, pg 3)
- Of the remaining $250 million, the property owners in White Flint have agreed to accept a maximum 10% increase in ad valorem property taxes in the form of a special tax assessment to fund $150 million of transportation infrastructure (the private sector contribution to the District Bucket).
- This leaves a gap of $100 million in funding which must be funded through public investment.

The following economic analysis describes a few potential funding options for the gap and details its extent and timing.

Funding Options:
Return on investment requires an actual investment. The following are three options for funding the $100 million infrastructure gap in White Flint.

- Option 1: County commitment to fund approximately 40% of the costs of the District Bucket of infrastructure ($100 million). By agreeing to a ratio of funding, both the County and Business Community share the risk of potential cost over-runs or funding shortfalls. This creates an incentive for the private and public sectors to work together to control costs and manage the implementation of the infrastructure effectively. Shortcoming of this strategy is certainty since the County Council can not bind future Councils to invest their share of the costs when needed.

- Option 2: Modify District Bucket by removing $100 million worth of construction projects. By converting these items into County obligations, the private sector can utilize the special tax to fund its responsibilities and the County can utilize the CIP process to fund its commitments. Each party would be responsible for the risk of overruns and funding shortfalls on their respective projects. This creates a true separation of responsibility, but results in a lack of certainty about the timing of the projects funded by the County since there is no dedicated funding source for these projects.

- Option 3: While the County Executive has rejected the concept of Tax Increment Financing ("TIF"), a TIF would create a dedicated funding source for the $100 million gap. $100 million is only 7.7% of the new property tax revenue that will be generated by White Flint, much lower than the 10% to 11% of general fund revenues that is typically utilized to fund infrastructure in the County. For more information on TIF see Exhibit 3, TIF White Paper. One major argument in favor of using TIF is that it can provide for funding in a range vs. a specific dollar amount in order to cover potential overruns in construction costs.

Regardless of the funding methodology that the County Council ultimately selects for White Flint, the legislation must provide for forward funding with reimbursement through the special taxing district or TIF district. See Exhibit 1, pg 11 which depicts the sources and uses of infrastructure funding in White Flint and gaps in funding that are the result of the timing of bond issuances. The County will likely have to forward fund $6.3 million in phase 1 with the majority repaid in 2 years, $18.9 million in phase 2 with the majority repaid in 3 years, and $61.8 million in phase 3 with half repaid in 2 years and half in 5 years.

Determining the Scope and Cost of the District Infrastructure Bucket:

- Seven infrastructure projects required by the White Flint Sector Plan are included in the District Bucket at a total projected construction cost of $250 million (See Exhibit 1, pg 4).
- Five of the seven are specific requirements of the staging mechanism of the plan, which must be built in order for development to proceed from one phase to the next. The remaining two projects dramatically improve mobility in White Flint and will enable the reconstruction of Rockville Pike to occur in a timely manner.
- All of the projects are improvements to current or future public rights of way which benefit more than one individual property owner and in many cases will be built on numerous parcels with different ownership.

The WFP estimate of the total cost of the District Bucket is $32 million higher than the County Executive's estimate (see exhibit 1, pg 5). The two major differences are ROW acquisition cost and Rockville Pike construction cost.

Determining Revenue Sources:

Exhibit 1, pg 6 shows the annual absorption of new development in the White Flint Sector Plan ("WFSP"). Phase 1 absorption is based upon an estimated development timeline provided by the property owners in White Flint. Phase 2 and 3 are based upon projected long term development from White Flint property owners spread over a reasonable absorption schedule. The sum of the property owners individual development plans exceeds the development cap in the WFSP by 2,200 residential units and 1.3 million sf of commercial space. In order to more accurately reflect the actual development that will be allowed to occur, the analysis caps development at the maximum allowed by the WFSP. The density will take approximately twenty years to absorb and the WFSP will be substantially completed by 2030. The absorption assumptions utilized in this analysis were coordinated with County Executive finance staff and MNCPPC.

Using the absorption assumptions described above, the WFP analyzed the cash flow that would come from existing transportation impact fees vs. a new special assessment. Below is a summary of the impact tax revenue projections:

- Under the current impact tax regulations the development projections illustrated in Exhibit 1, pg 7, would result in $52 million in infrastructure impact taxes to be paid to the County in irregular, lumpy increments over the twenty year projected build out of the plan.
- The analysis assumes that the impact tax rate for MSPAs is utilized.
- The current methodology for collecting impact taxes does not create a predictable stream of cash flows. Therefore, the County is unable to issue bonds (special obligation or general obligation) to predictably fund the infrastructure earlier in the process as development is occurring.

The private property owners have offered to replace the infrastructure impact tax with a special tax assessment which provides a more predictable financeable cash flow stream. The following is a summary of the special assessment district revenue projections:

- Per Exhibit 1, pg 8, at a 10% tax rate, the Special Tax Assessment will generate approximately $154 million in infrastructure funding over the life of the plan in today's dollars. This is triple the funding that can be generated by Impact Taxes and thus warrants their replacement.
- It provides a stream of cash flow to the County today which will help fund needed infrastructure at the beginning of re-development in White Flint.
- Per Exhibit 1, pg 12, if the County opts to utilize General Obligation Bonds ("GOB") instead of Special Obligation Bonds ("SOB"), the 10% Special Tax Assessment generates an additional $40 million in funding for a total of $194 million from the private sector.

The Need for Phase 1 Commitment to Funding:

Exhibit 1, pg 12 shows the timing of the funding gaps per phase. Since the special tax assessment starts immediately, there will be cash flow available for bonding upon approval of the district funding mechanism. Given that the tax only applies to existing assessed values and the limited new development that is either underway or imminent, the revenue stream is relatively small at $2.1 million per year. This would allow the County to issue a $26.5 million bond in 2012 in order to start construction on phase 1 infrastructure. Without any additional County investment in Phase 1, the special tax assessment would not generate enough revenue per year to fund the phase 1 infrastructure until 2022. In this case, over 14 million SF of new development will have occurred before the first major infrastructure project is completed. Since the WFSP includes a modal split requirement to move from phase 1 to phase 2, it is unlikely that this hurdle will be achieved without some up front infrastructure construction. Thus it is both the actual gap in funding and the timing problems described above which results in the need for County investment in White Flint.

Why Should the County Invest in the Future of White Flint?

As we stated above, return on investment requires that the County invest. Aside from the environmental, community building, and policy goals that the WFSP will enable the County to achieve, increased property taxes in White Flint alone will generate $1.3 Billion in net new taxes to the County over 40 years. The County Executive's economic analysis of White Flint shows a larger $7.2 Billion in net tax surplus to the County from White Flint in the form of property taxes, income taxes, and other taxes and fees generated over 40 years. If a realistic staging and phasing plan is not developed for White Flint, the County will lose out on one of the most appealing smart growth and economic development opportunities in the region and fall further behind competing jurisdictions in attracting investment.

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