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TO: Takoma Park Mayor & City Council Members

FROM: Michael H. Shuman

RE: Economic Review of Takoma Junction Redevelopment Plan

I'm writing to share comments about the Takoma Junction Redevelopment Plan (hereinafter "the Plan") and offer suggestions for moving forward, in two capacities. One is as a national authority on community development (as noted in the attached biography, I've written four widely used books on local economic development). The other is as a neighbor (I live now in Silver Spring and previously lived in Takoma Park), who has watched with concern as one of the nation's most visionary communities has embraced a project with features at odds with the principles of progressive economic development.

I should add that I have good friends with varying views about how to develop Takoma Junction. To prepare this memo, I have engaged whoever would talk with me, and I'm pleased to report that the list includes the developer, city staff, a city council member, and skeptics. My sincere thanks to all of them. The opinions expressed below, however, are strictly my own.

My observations are these:

- The core problem with the Plan is that the City of Takoma Park (hereinafter "the City") is deploying public property for private development rather than for public benefit.

- The City is charging too little for use of its land and effectively giving the developer a $5 million subsidy over the next 50 years.

- The developer has overstated the tax benefits the City will likely receive from the project by a third.

- The City will lose significant remaining benefits from the project if it does not insist that all tenants be locally owned businesses.

- The Plan does nothing to slow, and may well nudge upward, rising commercial lease rates that are harming locally owned businesses.

- The Plan may put the Takoma Park Co-op out of business.

- Many of the problems above can be mitigated if the City Council charges the market rate for the land, requires that tenants be locally owned businesses, puts reasonable commercial rent restrictions in place, and ensures that the Co-op's needs are protected.

I begin with my comments, and then offer suggested next steps.

Comments

(1) The City Should Deploy Public Property for Public Gain

Perhaps the most disappointing feature of the Plan is the big picture. The project boils down to the City deploying public property for private gain. From cities lacking vision, this kind of economic development is common and often counterproductive. But from Takoma Park, which I and much of the world regard as a visionary leader in public policy, this is a surprising lapse in judgment.

Here's what other progressive communities have done with public land: You could create a public market akin to Pike's Place in Seattle (WA). You could anchor a community land trust, like Burlington (VT) has, to promote affordable housing. You could establish a business incubator, an impact hub, and a maker space, such as the Propeller in New Orleans (LA), to support next generation businesses in the City. You could site a food hub, which would augment the Co-op next door and dozens of burgeoning food businesses in the City. You could build a meeting place such as the commercially successful Veterans' Plaza in Silver Spring. You could set up a center for local economic-development initiatives, as exists in Sonoma County (CA), providing offices for a variety of organizations and companies promoting local purchasing, local investment, and local entrepreneurship.

Note how all these projects do more than support tenant businesses. They serve other public purposes like housing, tourism, food security, civic engagement, and entrepreneurship. These are the kinds of purposes that are missing from the current Plan.

I should add here that I believe the developer, Neighborhood Development Corporation (NDC), has acted in good faith with the City, and reasonably tried to accommodate requests from the City that would not break its budget. The problem lies in the City's RFP. Instead of using the land creatively for public purposes, the City commissioned a big building to provide commercial space for a handful of tenants. The evolving Plan has a few features that are attentive to the public interest: a meeting space, gardens, nice aesthetics. But in the end, it's basically a private office building with some retail space and an underground parking lot.

To be sure, the City will gain some income from use of its land, but it’s far less than it should receive.

(2) The City Should Be Charging Market Rate for Use of Its Land

Over the first ten years of its lease, NDC will be paying the City $20,400 per year for a 1.45 acre lot. That works out to $14,069 per acre.

You are currently leasing a portion[1] of the property to the Takoma Park-Silver Spring (TPPS) Co-op for parking and loading that’s approximately 0.2 acres for $21,800 per year.[2] The implied per acre price is $109,000 per acre – or more than seven times greater than what you are charging NDC. *Put another way, if NDC were paying what the Co-op is being charged, it should be paying the City $158,000 per year.*

Why should a private development company—one not even based in Takoma Park—get such a steep price discount on City land?

NDC counters that over 99 years it will be paying an average of $200,000 per year. This is misleading, however, because a dollar received in Year 2 is worth less than a dollar received in Year 1. Chart 1 below takes the payment schedule that the City and NDC agreed to and shows what the *average* payment is in different time intervals in discounted dollars (assuming the annual discount rate of 5%).[3] Compare each year’s discounted annual payment with the $158,000 payment the City should be receiving for the property. Thus, for example, in Year 10, the average annual payment in today’s dollars will be $15,750. In Year 20, this average increases slightly to $18,348. By Year 99, this increases to $40,614. This means that even in Year 99, NDC will be paying the City about 37% of the per-acre price that the Co-op is paying today.

Put another way, the City is subsidizing NDC. If we assume that the fair market rate is what the Co-op is paying, then in the first 50 years the undiscounted size of that subsidy is $4.8 million (if the subsidy were discounted, it would be $1.8 million). A smarter Plan would aspire to be revenue neutral, where the City receives the market rate for the property and still enjoys economic-development benefits.

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[1] Other portions of the lot are leased by Roland Dawes’ barber shop and by other groups for special events (e.g., the fire station’s annual sale of Christmas trees).

[2] The Co-op’s lease gives its license to parking and loading spaces on the City’s lot. Generously adding space surrounding the parking spaces and adding ingress and egress space, we estimate that its lease is effectively for 8,000 square feet – or somewhat less than a fifth of an acre.

[3] The discount rate is primarily about the time value of money. A dollar today, because it can be invested and generate a return next year, is worth more than a dollar next year. Inflation amplifies this effect—an uninflated dollar today is worth more than an inflated dollar tomorrow. A third factor, in a fully built-up community like Takoma Park, is the appreciation of the fixed supply of real estate over time. The annual discount suggested here, 5%, probably understates the combined impact of these three factors.

Chart 1
Average Lease Payment in Current Dollars
(Properly Discounted from the Future)

Year	Average Annual Discounted Payment
10	($15,750)
20	($18,348)
30	($18,906)
40	($20,648)
50	($22,350)
60	($24,115)
70	($27,127)
80	($31,281)
90	($35,872)
99	($40,614)

If NDC were delivering extraordinary public benefits, this subsidy might be justifiable. But its benefits are ordinary—that is, what the City could expect from any similarly sized private development.

(3) The Purported Benefits Are Overstated

According to the letter from NDC's CEO Adrian Washington, the benefits from the NDC project (besides the ground lease income) include:

- 114 construction jobs;
- 179 permanent jobs (42 retail jobs, 131 office jobs, and 7 "commercial" jobs); and
- $200,000 per year in real estate, personal property, and income taxes over the first ten years.

I'm grateful to Mr. Washington for sharing his spreadsheet in which he made these calculations. After careful review, I've concluded – and shared with Mr. Washington – that I believe some of the benefits are inflated.

Some background facts to consider:

- Construction jobs are, by definition, temporary. *Any* major construction project on the site would generate roughly the same number of construction jobs.

- The other job projections assume 100% occupancy of the retail and office spaces.

- According to the American Community Survey in 2016, Takoma Park currently has 7,131 privately employed workers and 793 residents who are self-employed. Together, the private workforce is 7,924. Expanding the jobs by 179 expands amounts to an increase of 2.3%.

- The City's most recent budget (p. 19) shows that in FY 2014 (the most recent year audited) the City collected $10,974,639 in real estate taxes and $338,582 in personal property taxes--$11,313,221 total. An additional $200,000 per year expands the tax based by about 0.8%.

Some of NDC's benefit numbers are probably too high:

- *Local Employees* – In its calculation of income taxes coming to Takoma Park, NDC assumes that of the 179 permanent workers, only 25%, 45 workers, will live locally. There's no way to know if this is a valid assumption, because it depends entirely on which tenants move into the available spaces. If none of the workers can afford to live in Takoma Park, the income benefits will be zero. If the retail and office establishments simply move from one part of Takoma Park to another, the income tax benefits will be zero.

- *Local Income Taxes* – NDC assumes that the average resident worker earns $80,000 per year, with some of the income tax coming back to Takoma Park. In fact, according to the most recent county data in American Fact Finder (2015), the average retail wage in Montgomery County is $32,217. The average wage over all the sectors is $63,230. Clearly the $80,000 assumption is too high. If we adjust for these wages (45 workers receiving retail wages, the rest receiving average wages) and assume arguendo that 45 workers will live in Takoma Park, the taxes received by the City will be about 30% lower than expected.

- *Local Personal Property Taxes* – NDC estimates that the project will generate $57,838 in personal property taxes. This seems unlikely. Why would a project expanding jobs by 2% increase the City's personal property tax base by 17%? Again, the total annual revenue to the City from this tax is $338,582. One way to estimate the taxes due is to look at the taxable property per employee. Spread over the current private workforce of 7,934, the typical payment for a Takoma Park business is about $42 per employee. With 179 employees, the estimated tax from the Plan would be $7,580 per year.

Based on the above analysis, Chart 2 adjusts the anticipated taxes by reducing the expected income of the average worker by 30% and by reducing the anticipated personal property taxes to what the City actually receives per private worker. The total anticipated annual tax benefits are therefore $138,608—roughly a third less than what NDC projects.

Chart 2
Likely Annual Tax Benefits to the City from the Plan

City Benefits	NDC Projections	Adjusted
Income Taxes	$19,584	$13,784
Real Estate Property Taxes	$117,245	$117,245
Personal Property Taxes	$57,838	$7,580
	$194,667	$138,608

(4) The City Should *Require* That All Tenants Be Locally Owned

The problem of deploying scarce public land for private gain is compounded by another misguided decision by the City—namely, failing to require that NDC *exclusively* rent to locally owned businesses. NDC is committed to "a tenant-mix made up of predominantly local and regional tenants." This language sounds reasonable but actually is vague. Frankly, there is nothing in the language that prevents NDC from renting to, say, a Chili's or a Dollar General.

Local ownership is essential for the City to maximize public gains from the Plan. To give just one example, more than two dozen studies have been done comparing the impacts of local with similar nonlocal businesses, and all have found that the *locally owned* businesses generate two to four times the jobs, income, wealth, and tax benefits.[4] Not a single study has shown otherwise. And the reason is simple. Local businesses, with local relationships, spend more of their money locally, thereby generate a higher economic multiplier.

Locally owned, moreover, does not mean a local franchise of a national chain (most franchises purchase inputs from outside the community and therefore contribute little to the local economic multiplier). At a minimum, therefore, to maximize public benefits from the Plan, Takoma Park should revise its agreement with NDC to ensure "a tenant-mix made up *exclusively* of businesses owned by Takoma Park residents."[5]

(5) The Plan Will Raise the Cost of Doing Business in Takoma Park

There are many reasons commercial rents in Takoma Park are rising. Some are positive—the community is becoming a more attractive place to live, the economy is expanding, Metro connectivity is increasing. Some are negative—property speculation, diminished attention to affordable housing, and gentrification. The *impacts*, however, are

[4] Michael H. Shuman, *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity* (White River Junction, VT: Chelsea Green, 2012), 17–25.

[5] Given the proximity of other jurisdictions next to Takoma Park, even a small loosening of this standard could lead to a major loss of multiplier effect if the business owners live, say, in Washington (DC) or Arlington (VA).

unambiguously negative, as beloved small businesses like Fair Day's Play must move (and potentially shut down) because rents have become unaffordable.

Given the multiplicity of causes of rising rents, no one development project can significantly alter the trend line. That said, one could imagine a wide range of public projects in Takoma Junction that could provide more affordable housing or more affordable retail. And even if these projects don't nudge the trendline downward, they could at least provide affordable space to protect threatened local businesses. The Plan does the opposite, and the City's assurances on this point are disappointing. According to its "Questions and Answers Sheet" put out on 5 October 2017: "Commercial rents in new and newly renovated buildings in the Old Takoma area currently range from $45 to $50 per square foot, based on information provided by the Old Takoma Business Association and Co-Star."

I asked several colleagues to make calls to local realtors and nearby businesses, and we found that existing Takoma Junction rates are $25.50-$32 per square foot, and newly constructed buildings should project at $30-$40 per square foot. NDC's planned rates are significantly higher.

One experienced local builder said: "Trying to put a lot of square footage on such a small lot is counterproductive. The traditional model for developing this lot has not changed in 30 years. The numbers simply don't work, unless one charges rents unaffordable to any local businesses. The required rents for a traditional developer's ROI may not even work for larger national chains."

(6) The Plan May Put The Takoma Park Coop Out of Business

Many communities struggle to get a single, locally owned grocery store into the town center. Takoma Park is lucky enough to have one with 10,000 member-owners, 48 full-time staff (who get 100% of their health care covered), and sales of over $10 million per year. It also supports regional vendors who sell their locally produced products there. The City should think carefully about the impact of its decision on this venerable, community-owned institution.

When you remove parking and loading space for a business—especially a grocery business that depends on regular visits and convenient parking—it can plunge it into a death spiral. Even a temporary reduction during a lengthy construction process, if adequate alternative provisions for parking and loading are not available, can deliver a fatal blow to customer confidence and cash flow.

The Co-op has been careful not to oppose the Plan, and instead struggled to find a way to work with it. There was a long discussion about the Co-op becoming an anchor tenant—but when NDC upped the proposed lease rate from $28.50/sf to $45/sf, the Co-op gave up on negotiations.[6] There is now a discussion about creating a "lay-by" on the main streets

[6] Letter to Co-op Member, 4 May 2017.

to accommodate large, 18-wheeler tractor trailers. More on this in a moment, but the point here is that the Co-op has been, well, trying to be cooperative.

But the Co-op is also fearful. As Rachel Hardwick, the president of the TPSS Board recently testified to you: "The City plans to develop [the adjacent] lot and the developer has indicated that it plans to use just about every possible inch of the space. The Co-op Board and management worry about the future for several reasons: will shoppers be able to come and go during construction; will there be adequate parking both during construction and after; where will our trash and recycling be stored and how will it be picked up; and how will our deliveries get to us?"[7]

The Co-op's fears seem legitimate. The practicality and safety of creating a "lay-by" and other traffic manipulations are unclear. And the impact on local traffic and pedestrian safety could be severe. The Fire Chief has expressed concerns about the firehouse being periodically blocked. Moving deliveries to side streets will impose early morning noise and disturbances on neighbors, as well as diminish their air quality from diesel fumes emitted by idling trucks. And the combination of bad traffic, bad noise, bad fumes, bad accidents, and bad press could be devastating to the Co-op's business.

According to Adrian Washington: "[I]n public statements [the Co-op has] stated that a lay-by is an acceptable compromise either of their current operations or for an expanded, larger Co-op." It's hard to understand the basis for this judgment. The City Council should not confuse the Co-op's effort to find common ground as acceptance, comfort, or confidence that its business will survive the Plan.

If the City opens one set of businesses, supporting an outside developer and several nonlocal tenants, at the expense of killing one of its signature commercial institutions, what has it really accomplished?

Recommendations on Proceeding

I appreciate that views on the Plan have hardened in recent months. But the Plan has evolved recently as well, as has the public awareness of it, and there are elements just now coming into focus. Whatever your prior opinions, I believe it's worthwhile for the Council to take a step back, reflect seriously on the new information, and think carefully how the City should proceed.

The analysis presented here suggests that at a minimum, the City Council should only approve the Plan if the following conditions are added:

- Insist that NDC provide more event space, so that the City can draw some public benefit from the project.

[7] 13 December 2017. See https://www.facebook.com/1494937804117021/videos/2003980339879429/ .

- Charge a price for use of public land commensurate with what you are charging the Co-op.

- Require that all NDC tenants be locally owned businesses or locally controlled nonprofits (and not franchises of national chains).

- Place reasonable rent restrictions on NDC, to prevent the project from raising commercial rents in the City.

- Ensure that the Co-op parking and loading needs are fully met during and after construction.

I've been impressed with NDC's responsiveness to concerns raised thus far and am confident that it would work with the City if the Council insists on these five principles. If NDC cannot embrace these principles, then the City should do what it probably should have done in the first place—issue a new RFP that seeks to develop public land for public purposes.

From time to time, critics of the Plan have been labeled as anti-development. From my vantage point, most of the critics are pro-*public development*. There are many creative directions the City could go from here. Some are outlined in the Cloudburst Plan you commissioned. Some I mentioned earlier. In the context of the broader planning challenges facing the City, particularly the impact of the Purple Line, I believe it's important to set a thoughtful precedent on this public parcel that can guide future economic-development initiatives.

The choice in front of you is not to approve NDC's Plan or abandon development altogether in Takoma Junction. It's to ensure that the NDC Plan truly serves public purposes, as befits any use of public land, or begin the process anew and produce a plan worthy of a visionary city like Takoma Park.

About Michael H. Shuman

Michael H. Shuman is an economist, attorney, author, and entrepreneur, and a leading visionary on community economics. He's Director of Local Economy Programs for Telesis Corporation, a nonprofit affordable housing company, and currently an adjunct instructor at Bard Business School in New York City and at Simon Fraser University in Vancouver. He's also a Fellow at Cutting Edge Capital and at the Post-Carbon Institute, and a founding board member of the Business Alliance for Local Living Economies (BALLE). He is credited with being one of the architects of the 2012 JOBS Act and dozens of state laws overhauling securities regulation of crowdfunding. He has authored, coauthored, or edited nine books. His two most recent books are *The Local Economy Solution: How Innovative, Self-Financing Pollinator Enterprises Can Grow Jobs and Prosperity* and *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street*. One of his previous books, *The Small Mart Revolution: How Local Businesses Are Beating the Global Competition* (Berrett-Koehler, 2006), received as bronze prize from the Independent Publishers Association for best business book of 2006. A prolific speaker, Shuman has given an average of more than one invited talk per week, mostly to local governments and universities, for the past 30 years in nearly every U.S. state and more than a dozen countries.