

# Economic Impact Statement

Office of Legislative Oversight

## BILL 3-21

## Special Taxing Area Laws – Silver Spring Business Improvement District – Established

### SUMMARY

The Office of Legislative Oversight (OLO) anticipates that by establishing the Silver Spring Business Improvement District (BID), Bill 3-21 would result in positive net economic impacts on businesses and residents in Silver Spring. However, it is likely that the costs and benefits of the Silver Spring BID would be unevenly distributed among stakeholders. Moreover, the magnitude of its economic impacts on businesses would depend on the resolution of outstanding questions related to the property tax implications of the bill, the future status of the Silver Spring Urban District, and the Silver Spring BID's boundaries, finances, governance structure, and working relationship with the County.

### BACKGROUND

#### *Bill Description*

State law gives the Council the authority to establish a business improvement district (BID) in the County. According to state law, the purpose of BIDs are to “promote the general welfare of the residents, employers, employees, property owners, commercial tenants, consumers, and the general public within the geographic area of the business improvement districts.”<sup>1</sup> Property owners in Silver Spring have applied to establish a BID called the Downtown Silver Spring Business Improvement District, Inc. (hereinafter the “Silver Spring BID”).

In response to the application, the Council introduced Bill 3-21 on January 12, 2021. According to the lead sponsors of the bill, the purpose of the BID would be to enhance the work of the Silver Spring Urban District and Regional Services Center and to enhance the economic competitiveness of Silver Spring.<sup>2</sup> If enacted, Bill 3-21 would establish a BID in downtown Silver Spring.<sup>3</sup> Its boundaries would largely, but not entirely, overlap the boundaries of the current Silver Spring Urban District. The bill would also establish guidelines for the BID and authorize a district corporation to manage the BID. To finance the operations of the district corporation, the bill would impose a tax on nonexempt property located within the BID and permit the County to provide additional funds to the BID, including a portion of the Silver Spring Parking Lot District revenues.

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<sup>1</sup> MD Code, Economic Development, Section 12-602 quoted in Robert H. Drummer to Montgomery County Council, Memorandum, January 7, 2021, “Bill 3-21, Special Taxing Area Laws – Silver Spring Business Improvement District – Established.” See memo in Introduction Staff Report, [https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2694\\_1\\_13171\\_Bill\\_3-2021\\_Introduction\\_20210112.pdf](https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2694_1_13171_Bill_3-2021_Introduction_20210112.pdf).

<sup>2</sup> At-Large Councilmember Hans Riemer and Council President Tom Hucker to Montgomery County Council, Memorandum, December 7, 2020, “Silver Spring Business Improvement District (BID).” See memo in Introduction Staff Report.

<sup>3</sup> Montgomery County Council, Bill 3-21, Special Taxing Area Laws – Silver Spring Business Improvement District – Established, Introduced on January 12, 2021, Montgomery County, Maryland. See bill in Introduction Staff Report.

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### **Brief Overview of BIDs**

BIDs have been defined as “self-assessment districts that are initiated and governed by property or business owners and authorized by governments to operate in designated urban and suburban geographic areas.”<sup>4</sup> The International Downtown Association has put forth a three-part definition:

1. **Public District:** A BID is publicly-authorized by a government that has passed enabling statutes permitting the formation of the BID and mandatory fees levied by the government on behalf of the BID.
2. **Administered by a Nonprofit:** Revenues are collected by the government and transferred to a nonprofit organization, which has substantial authority over the level of funding, how the funds will be used, and the level and nature of services it provides. The authority of the nonprofit is limited by federal, state, and local law.
3. **Performs Designated Functions.** BIDs perform services in the areas of cleaning, security, and marketing.<sup>5</sup>

BIDs are “quasi-governmental entities” that occupy the space between the public and private domains, functioning both as tools of service delivery and as participants in public policymaking. As described in one analysis, BIDs “serve simultaneously as policy tools through which state and local governments seek to advance general public interests and as self-help entities to further the more particular interests of local business communities.”<sup>6</sup>

Since 1970, more than 800 BIDs have been established in the United States and Canada. As shown in **Table 1**, there are currently 15 established BIDs in the District of Columbia and Northern Virginia, with five more being planned in the District. Researchers generally identify three factors to explain the rise of BIDs, namely the economic downturns in urban centers caused by the decline in manufacturing and increase in suburbanization in the 1980s and 1990s, the decrease in local government revenues from loss of jobs and residents, and the decrease in funds from the federal government to cities in the 1980s.<sup>7</sup> These conditions encouraged policymakers and planners to search for new organizational solutions to the economic problems in urban centers. As evidenced by their steady increase across the United States over the last half century, BIDs have proven to be a popular, yet somewhat controversial, model of urban management for local leaders. Proponents of BIDs claim they are more innovative and efficient in their delivery of services within their domains than local governments.<sup>8</sup> These purported advantages are due to their ability to identify the distinct needs of neighborhoods and bypass regulations placed on public sector agencies.<sup>9</sup> However, BIDs have been criticized for giving undue influence to property owners, lacking accountability to elected governments, and causing inequalities.<sup>10</sup>

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<sup>4</sup> Göktuğ Morçöl, Lorlene Hoyt, Jack W. Meek, and Ulf Zimmerman, “Business Improvement Districts: Research, Theories, and Controversies,” in *Business Improvement Districts: Research, Theories, and Controversies*, ed. Göktuğ Morçöl, Lorlene Hoyt, Jack W. Meek, and Ulf Zimmerman (New York: CRC Press, 2008): 1-26.

<sup>5</sup> See Craig Howard and Stephanie Bryant, *Case Studies of Local Business and Community Districts*, Office of Legislative Oversight, Report No. 2015-7, February 24, 2015,

[https://www.montgomerycountymd.gov/OLO/Resources/Files/2015\\_Reports/OLO%20Report%202015-7.pdf](https://www.montgomerycountymd.gov/OLO/Resources/Files/2015_Reports/OLO%20Report%202015-7.pdf).

<sup>6</sup> Jonathan B. Justice and Robert S. Goldsmith, “Private Governments or Public Policy Tools? The Law and Public Policy of New Jersey’s Special Improvement Districts,” in *Business Improvement Districts* (see note 4): 161-196.

<sup>7</sup> Dan Ziebarth, “Business Improvement Districts and Contemporary Local Governance,” *State and Local Government Review*, October 2020; and Morçöl, et al, “Business Improvement Districts.”

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid. See also Lorlene Hoyt and Devika Gopal-Agge, “The Business Improvement District Model: A Balanced Review of Contemporary Debates,” *Geography Compass* 1, no. 4 (2007): 946-958.

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There is a large body of research on BIDs that spans urban affairs, public policy, public administration, law, and other disciplines. While there appears to be no systematic reviews of the literature on BIDs,<sup>11</sup> the current state of research gives credence to claims from both proponents and critics of BIDs. As stated in a recent overview of the contemporary debates and research on BIDs:

“Overall, research to this point generally reflects that BIDs have the ability to augment public service delivery, reduce crime, and provide economic revitalization in urban communities, however these outcomes have the possibility of coming at the expense of reducing democratic accountability and transparency, limiting residents’ social capital, and contributing to economic inequality.”<sup>12</sup>

**Table 1. Business Improvement Districts in the DC Metropolitan Region**

| District of Columbia       | Northern Virginia                                  |
|----------------------------|--|
| Georgetown                 | National Landing BID (previously Crystal City BID) |
| Adams Morgan               | Ballston   |
| Golden Triangle            | Fairfax Boulevard                                  |
| DowntownDC                 |  |
| NoMa                       |  |
| Capital Hill               |  |
| SouthWest                  |  |
| Capitol Riverfront         |  |
| Anacostia                  |  |
| Dupont Circle (new)        |  |
| Greater Brookland          |  |
| Congress Heights           |  |
| H Street                   |  |
| Shaw                       | Existing BIDs                                      |
| Midcity (U St and 14th St) | Potential BIDs                                     |

Source: Prince George’s County BID Toolkit, Planning Board Briefing, March 12, 2020.

### ***The Silver Spring BID Proposal***

As stated in its application, the Silver Spring BID’s mission is “to provide integrated services and programs that lead to a more vibrant, dynamic environment intended to help stimulate business and residential quality of life.” Some of its more concrete objectives are to:

- Increase business sales and residential and commercial occupancy;
- Retain and attract businesses, investment, and residents; and
- Improve safety and security.

<sup>11</sup> A systematic review has been defined as “a review of the evidence on a clearly formulated question that uses systematic and explicit methods to identify, select and critically appraise relevant primary research, and to extract and analyze data from the studies that are included in the review.” See <https://guides.temple.edu/c.php?g=78618&p=4178713>.

<sup>12</sup> Ziebarth, “Business Improvement Districts and Contemporary Local Governance.”

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The application also provides preliminary details on the organization’s structure, operating plans, and financing. The organizational structure would consist of the following components:

- **Members:** Owners of nonexempt property within the boundaries of the district.
- **Voting Parameters:** Members would have 1 vote per \$500 dollars of the tax on nonexempt property imposed by Bill 3-21 (hereinafter the “BID tax”). No member or any number of members under common control would be allotted more than 33.33% of the total number of votes that may be cast.
- **Board of Directors:** Elected by members, the board would include between five and nine members. It would be composed of property owners and business tenants. The board would purportedly “reflect a range of ethnicities, socioeconomic status, and places of origin to reflect the racial and economic diversity of Silver Spring, including religious creed, age and sex.”

The operating plan would consist of three pillars:

- **Place Management:** Maintain and secure public spaces through “clean and safe” activities such as cleaning sidewalks, collecting trash, removing litter, and engaging the Montgomery County Police Department and other public agencies.
- **Place Enhancement:** Make public spaces more “vibrant” through initiatives like planting and landscaping services, installing bike racks and public art, and holding events and activities
- **Place Branding/Economic Development:** Market and promote Silver Spring as an attractive urban center for living, shopping, investment, business growth, etc.

In terms of financing, the Silver Spring BID would rely on a combination of private and public sources, with a total projected budget ranging between approximately \$3.5 and \$4 million. The application assumes that approximately one-third of the budget would be funded through the BID tax and two-thirds through County funds from the parking lot district. According to the budget projections, the total budget would be allocated to the following three categories:

- **Place Enhancement and Management:** Approximately 73% of the total budget
- **Marketing/Place Branding/Economic Development:** Approximately 15% of the total budget
- **Administration and Leadership:** Approximately 12% of the total budget

There is substantial variation in BIDs in terms of revenue sources and size, geographic footprint, governance structure, and other conditions.<sup>13</sup> The Silver Spring BID falls within the subset of “large” (or “Corporate”) BIDs. This class of BIDs are characterized by budgets exceeding \$1.5 million, an extensive array of services provided, large amounts of retail and office space, memberships consisting largely of corporate and commercial property owners, and other conditions.<sup>14</sup> Researchers have distinguished large BIDs from their mid-size and small (sometimes called “community”) counterparts.

While sharing similarities with large BIDs, a unique aspect of the Silver Spring BID proposal is that it is the only example to the OLO analyst’s knowledge of a BID that would be established alongside a public entity that performs many of the same functions of BIDs. The Silver Spring Urban District currently provides a range services and events to maintain downtown Silver Spring as a “clean, safe and attractive environment” for residents and businesses.<sup>15</sup> It is important to note that Bill

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<sup>13</sup> Bryant and Howard, *Case Studies of Local Business and Community Districts*.

<sup>14</sup> Jill Simone Gross, “Business Improvement Districts in New York City’s Low-Income and High-Income Neighborhoods,” *Economic Development Quarterly* 19, no. 2 (May 2005): 174-189.

<sup>15</sup> See <https://www.silverspringdowntown.com/go/silver-spring-urban-district>

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3-21 does not address the future funding or function of the Silver Spring Urban District. The organizers and proponents of the Silver Spring BID are dissatisfied with the Urban District’s funding levels for promoting and marketing downtown Silver Spring. They believe that the BID would devote more resources and more efficiently and effectively use these resources to market and promote downtown Silver Spring as an attractive destination for households, businesses, and investment. Thus, activities covered in the marketing/place branding/economic pillar of the proposed budget would be the primary source of potential added value relative to the Silver Spring Urban District’s activities. **Table 2** presents budget line items in this pillar. The BID organizers also believe that the BID would be more responsive and effective in the delivery of place management and enhancement services than the Urban District.<sup>16</sup> However, as noted below, the OLO analyst spoke with other stakeholders in the Silver Spring business community who are highly satisfied with the Urban District.

**Table 2. Marketing/Place Branding/Economic Development for Year 1 of the Silver Spring BID Proposed Budget**

|  | Amount             | Percentage of Total Budget |
|--|--------------------|----------------------------|
| Strategic Communications Social Media and Marketing Director | \$120,000          | 3.26%                      |
| Planning and Economic Development Manager                    | \$90,000           | 2.44%                      |
| Brand management and marketing efforts                       | \$100,000          | 2.71%                      |
| Digital resources/online presence                            | \$35,000           | 0.95%                      |
| Events   | \$210,000          | 5.70%                      |
| <b>Total Marketing/Place Branding/Economic Development</b>   | <b>\$555,000</b>   | <b>15.06%</b>              |
| <b>Total Budget</b>  | <b>\$3,685,500</b> |                            |

Data Source: Downtown Silver Spring BID Application

### *Economic Profile of Silver Spring*

Montgomery County Planning Department personnel provided OLO with data on private establishments and employment, the commercial and residential real estate markets, and demographics. Recent trends indicate that the Downtown Silver Spring BID’s objectives to increase business sales and residential and commercial occupancy and to retain and attract businesses, investment, and residents are well-founded concerns.

In recent years, Montgomery County has lagged behind its peer jurisdictions in the DC metropolitan, particularly Northern Virginia counties, in the areas of business and job growth.<sup>17</sup> Silver Spring has been particularly hurt by Discovery’s exit from the County, which shed between 500 and 600 jobs from 2010 to 2018.<sup>18</sup> **Table 3** presents private establishment and employment data broken down by area. For comparison, this table - and subsequent tables in this section - include the

<sup>16</sup> Description of the organizers’ position is based on OLO personnel conversations with Steve Silverman, founder/CEO of SS GOV RELATIONS, LLC, and other organizers/proponents of the Downtown Silver Spring BID.

<sup>17</sup> See Robert McCartney, “Prince George’s overtakes Montgomery as top job creator in Maryland suburbs,” Washington Post, January 20, 2020, [https://www.washingtonpost.com/local/md-politics/prince-georges-has-overtaken-montgomery-as-top-job-creator-in-maryland-suburbs/2020/01/19/218c3646-38b6-11ea-bf30-ad313e4ec754\\_story.html](https://www.washingtonpost.com/local/md-politics/prince-georges-has-overtaken-montgomery-as-top-job-creator-in-maryland-suburbs/2020/01/19/218c3646-38b6-11ea-bf30-ad313e4ec754_story.html); and Dan Schere, “Montgomery County Lost Brick-and-Mortar Businesses Last Year,” Bethesda Magazine, July 10, 2019, <https://bethesdamagazine.com/bethesda-beat/business/montgomery-county-lost-brick-and-mortar-businesses-last-year/>.

<sup>18</sup> Estimate provided by Montgomery County Planning Department personnel.

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area of operation of the Bethesda Urban Partnership, which is an urban district corporation that provides services in Bethesda similar to those that the Silver Spring BID would provide. There are two trends of note:

- First, there is a large disparity in the growth of private establishments in the area where the Silver Spring BID would operate (6.6%) and the area where the Silver Spring Urban District operates (2.4%), with private establishment growth within the Urban District boundaries lagging by 4.2%. The BID's boundaries do not overlap with some of the peripheral parcels that fall within the Urban District. The disparity in business growth indicates that the areas that fall outside the BID (but within the Urban District) have experienced economic challenges. Indeed, these areas lost approximately 40 establishments and 230 employees from 2010 to 2019.
- Second, the area where the Silver Spring Urban District operates has outperformed the area where the Bethesda Urban Partnership operates in terms of private business and employment growth, respectively by 1.9% and 10.2%. Business growth in the Silver Spring Urban District area increased by 2.4%, compared to the 0.5% increase in the Bethesda Urban Partnership. And private employment increased in the Silver Spring Urban District area by 6.7%, compared to the -3.5% decline in employment in the Bethesda Urban Partnership area.

Due to time limitations, determining the causes of these two noteworthy trends is beyond the scope of this analysis.

**Table 3. Change in Private Establishments and Employment by Area (2010-2018)**

| Area                         | Indicator              | 2010    | 2018    | Change | Percent Change |
|------------------------------|------------------------|---------|---------|--------|----------------|
| County Total                 | Private Establishments | 31,931  | 32,501  | 570    | 1.8%           |
|                              | Private Employment     | 358,601 | 377,978 | 19,377 | 5.4%           |
| Silver Spring BID            | Private Establishments | 1,083   | 1,154   | 71     | 6.6%           |
|                              | Private Employment     | 16,779  | 17,914  | 1,135  | 6.8%           |
| Silver Spring Urban District | Private Establishments | 1,261   | 1,291   | 30     | 2.4%           |
|                              | Private Employment     | 17,693  | 18,870  | 1,177  | 6.7%           |
| Bethesda Urban Partnership   | Private Establishments | 2,090   | 2,100   | 10     | 0.5%           |
|                              | Private Employment     | 34,503  | 33,287  | -1,216 | -3.5%          |

Data Source: Montgomery County Planning Department; Private business data from the Quarterly Census of Employment and Wages, Maryland Department of Labor.

**Table 4** indicates which industries have experienced business growth and decline in the areas where the Silver Spring Urban District and Bethesda Urban Partnership operate, from 2010 to 2018. Focusing on the more dominant industries in the Silver Spring sub-market, it is noteworthy that there were declines in the retail industry (-10%) and professional, scientific, technical service industry (-4%), whereas there were significant gains in the health care and social assistance industry (40%), other services (26%), and accommodation and food services (12%). The Bethesda Urban Partnership area of operation also experienced declines in the retail (-10%) and professional, scientific, and technical service (-12%) industries, but experienced business growth in the real estate and rental and leasing industry (14%), finance and insurance (13%), and other services (23%). The upshot is that the Silver Spring and Bethesda sub-markets have been undergoing meaningful changes in their industrial composition, which contextualize overall trends in business growth.

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**Table 4. Change in Private Establishments by Industry (2010-2018)**

| NAICS | DESCRIPTION  | Silver Spring Urban District |      |        |                | Bethesda Urban Partnership |      |        |                |
|-------|--|------------------------------|------|--------|----------------|----------------------------|------|--------|----------------|
|       |  | 2010                         | 2018 | Change | Percent Change | 2010                       | 2018 | Change | Percent Change |
| 54    | Professional, Scientific, and Technical Services                     | 290                          | 278  | -12    | -4%            | 531                        | 466  | -65    | -12%           |
| 56    | Administrative Support and Waste Management and Remediation Services | 73                           | 78   | 5      | 7%             | 119                        | 100  | -19    | -16%           |
| 44-45 | Retail   | 101                          | 91   | -10    | -10%           | 189                        | 171  | -18    | -10%           |
| 51    | Information  | 39                           | 41   | 2      | 5%             | 66                         | 55   | -11    | -17%           |
| 48-49 | Transportation and Warehousing                                       | 7                            | 2    | -5     | -71%           | 18                         | 11   | -7     | -39%           |
| 42    | Wholesale Trade  | 23                           | 15   | -8     | -35%           | 54                         | 50   | -4     | -7%            |
| 23    | Construction   | 21                           | 20   | -1     | -5%            | 68                         | 65   | -3     | -4%            |
| 31-33 | Manufacturing  | 13                           | 9    | -4     | -31%           | 27                         | 29   | 2      | 7%             |
| 22    | Utilities  | 0                            | 0    | 0      | 0%             | 1                          | 4    | 3      | 300%           |
| 55    | Management of Companies and Enterprises                              | 7                            | 6    | -1     | -14%           | 12                         | 17   | 5      | 42%            |
| 71    | Arts, Entertainment, and Recreation                                  | 16                           | 14   | -2     | -13%           | 28                         | 33   | 5      | 18%            |
| 72    | Accommodation and Food Services                                      | 97                           | 109  | 12     | 12%            | 170                        | 175  | 5      | 3%             |
| 62    | Health Care and Social Assistance                                    | 119                          | 167  | 48     | 40%            | 171                        | 177  | 6      | 4%             |
| 61    | Educational Services   | 28                           | 32   | 4      | 14%            | 46                         | 60   | 14     | 30%            |
| 53    | Real Estate and Rental and Leasing                                   | 47                           | 56   | 9      | 19%            | 182                        | 207  | 25     | 14%            |
| 52    | Finance and Insurance  | 57                           | 53   | -4     | -7%            | 215                        | 243  | 28     | 13%            |
| 81    | Other Services (Except Public Administration)                        | 145                          | 183  | 38     | 26%            | 192                        | 237  | 45     | 23%            |

Data Source: Montgomery County Planning Department; Private business data from the Quarterly Census of Employment and Wages, Maryland Department of Labor.

Data on the commercial and residential retail real estate markets in Silver Spring also reveal concerning trends. **Table 5** presents data on the multifamily, office, and retail real estate markets from 2016 Q1 to 2021 Q1 in the areas of the Silver Spring BID, Silver Spring Urban District, and Bethesda Urban Partnership. Most strikingly, vacancy rates in office space have been trending upward since 2016 and the office market has been particularly harmed by the pandemic, with vacancy rates further increasing since 2020 Q1 and rents decreasing. Also, vacancy rates in retail spaces have steadily increased throughout 2020. (Note that the retail vacancy rates presented below are low estimates due to limitations in the source data. Despite these limitations, the *trends* in the data should reflect real-world conditions in the market.)

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**Table 5. Real Estate Market Trends (2016-2021)**

| Period                              | Multifamily              |                | Office                   |                   | Retail                   |                  |
|-------------------------------------|--------------------------|----------------|--------------------------|-------------------|--------------------------|------------------|
|                                     | Vacancy Percent of Total | Effective Rent | Vacancy Percent of Total | Base Rent Overall | Vacancy Percent of Total | NNN Rent Overall |
| <b>Silver Spring BID</b>            |                          |                |                          |                   |                          |                  |
| 2021 Q1 QTD                         | 6.4%                     | \$24.00        | 18.1%                    | \$29.69           | 5.0%                     | \$37.68          |
| 2020 Q1                             | 7.3%                     | \$25.08        | 17.2%                    | \$30.51           | 3.0%                     | \$37.14          |
| 2019 Q1                             | 5.7%                     | \$25.32        | 10.8%                    | \$29.68           | 5.0%                     | \$33.93          |
| 2018 Q1                             | 7.7%                     | \$25.20        | 10.5%                    | \$29.64           | 3.3%                     | \$33.52          |
| 2017 Q1                             | 8.0%                     | \$24.72        | 9.8%                     | \$28.61           | 3.6%                     | \$32.99          |
| 2016 Q1                             | 6.7%                     | \$24.60        | 9.9%                     | \$27.86           | 3.9%                     | \$29.67          |
| <b>Silver Spring Urban District</b> |                          |                |                          |                   |                          |                  |
| 2021 Q1 QTD                         | 6.5%                     | \$23.76        | 17.1%                    | \$29.62           | 4.9%                     | \$37.68          |
| 2020 Q1                             | 7.2%                     | \$24.96        | 16.4%                    | \$30.42           | 2.8%                     | \$37.14          |
| 2019 Q1                             | 6.2%                     | \$25.08        | 10.3%                    | \$29.66           | 4.7%                     | \$28.95          |
| 2018 Q1                             | 9.3%                     | \$24.84        | 10.0%                    | \$29.61           | 3.1%                     | \$28.42          |
| 2017 Q1                             | 7.9%                     | \$24.48        | 9.8%                     | \$28.56           | 3.4%                     | \$29.71          |
| 2016 Q1                             | 6.7%                     | \$24.36        | 9.4%                     | \$27.81           | 3.7%                     | \$26.26          |
| <b>Bethesda Urban Partnership</b>   |                          |                |                          |                   |                          |                  |
| 2021 Q1 QTD                         | 7.40%                    | \$31.44        | 19.7%                    | \$38.93           | 5.2%                     | \$34.53          |
| 2020 Q1                             | 5.2%                     | \$34.80        | 13.7%                    | \$39.35           | 3.2%                     | \$42.66          |
| 2019 Q1                             | 9.4%                     | \$33.72        | 12.0%                    | \$37.63           | 5.2%                     | \$43.15          |
| 2018 Q1                             | 4.9%                     | \$33.24        | 10.6%                    | \$37.48           | 5.4%                     | \$43.15          |
| 2017 Q1                             | 14.2%                    | \$33.24        | 8.1%                     | \$36.38           | 5.0%                     | \$41.99          |
| 2016 Q1                             | 11.8%                    | \$34.08        | 11.8%                    | \$36.67           | 3.9%                     | \$38.88          |

Data Source: Montgomery County Planning Department; Costar.

## METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

### *Methodology and Assumptions*

To anticipate the economic impacts of establishing the Silver Spring BID by enacting Bill 3-21, OLO draws assumptions based on findings from empirical studies on the impacts of BIDs with valid causal inferences. While there is a large body of research on BIDs, much of it is case studies. These studies have difficulty distinguishing the *causal* effects of BIDs from outcomes correlated with, but unrelated to, BIDs due to common methodological problems, particularly selection bias and confounding variables. Indeed, research indicates that areas with BIDs are systematically different than those without them, as the timing and location of BID formation is associated with various enduring and time-varying conditions, such as retail density, assessed property value, population characteristics, levels of crime, and civic infrastructure (see studies below). Studies that sample on areas with BIDs (selection bias) and/or fail to control for conditions associated with both



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BID areas and the economic outcomes of interest (confounding) are prone to invalidly attributing changes in these outcomes to BID performance.

Despite the apparent limitations in the literature, three empirical studies with quasi-experimental designs that mitigate selection bias and confounding were identified. These studies use statistical matching (and other) techniques to simulate randomization to account for selection bias in the formation of BIDs. To put it simply, these studies compare the outcomes of interest—retail sales, employment, crime, and property values—in areas with BIDs (“treatment” groups) against areas that had a high probability of forming BIDs due to their characteristics but had not done so during the time-frame of the study (“control” groups). Ultimately, these studies provide the OLO analyst with greater confidence in their findings regarding the impacts of BIDs. See below for the studies:

- **Retail Sales and Employment:** Stacey Sutton, “Are BIDs Good for Business? The Impact of BIDs on Neighborhood Retailers in New York City,” *Journal of Planning Education and Research* 34, no. 3 (2014): 309-324.
- **Commercial and Residential Property Values:** Ingrid Gould Ellen, Amy Ellen Schwartz, Ioan Voicu, Leah Brooks, and Lorlene Hoyt, “The Impact of Business Improvement Districts on Property Values: Evidence from New York City [with Comments],” *Brookings-Wharton Papers on Urban Affairs* (2007): 1-39.<sup>19</sup>
- **Crime:** Leah Brooks, “Volunteering to be taxed: Business improvement districts and the extra-governmental provision of public safety,” *Journal of Public Economics* 92, no. 1-2 (2008): 388-406.

Sutton’s study investigated the impact of small and mid-sized BIDs on **retail sales and employment for independently-owned businesses** in New York City between 2000 and 2008. She found that the impact of BIDs on these outcomes was conditioned on BID size. Unlike small BIDs, mid-sized BIDs had a positive effect on sales and employment of independent retailers, with respective increases in these variables of 15 and 9 percent. However, the result for sales growth was modestly significant and was insignificant for employment. Sutton’s findings are consistent with previous studies found BID size moderates its organizational effectiveness and impacts. The conditional effect of BID size is understandable, given that larger BIDs tend to devote a larger portion of revenues to programs (and less to administration), offer a broader array of services, focus more on marketing and promoting, and have other characteristics that likely result in greater economic returns.<sup>20</sup> The Silver Spring BID would be larger than the mid-sized BIDs investigated in Sutton’s study. This fact increases the OLO analyst’s confidence that the BID would positively affect sales and employment for independent retailers.

Ellen et al’s study investigated the impact of BIDs on **commercial and residential property values** in New York City from 1984 to 2002. BIDs were found to have a large and significant impact on commercial property values—approximately a 15 percent increase over comparable properties outside BID areas. Like Sutton’s findings, this effect was driven mostly by larger BIDs, again suggesting that large BIDs achieve sufficient economies of scale for meaningful interventions within their areas of operation. Moreover, BIDs had little impact on residential property values.

Brooks study investigated the impact of BIDs on **crime** in Los Angeles between 1990 and 2002. She found that BIDs were associated with reductions in crime of 6 to 10 percent, with the bulk of reductions in serious crime. Importantly, Brooks found that the BIDs did not push crime into other neighborhoods.

- **Assumption:** OLO believes that the Silver Spring BID would be sufficiently large to potentially increase retail sales, employment and commercial property values and reduce crime within the district.

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<sup>19</sup> For an overview of the study written for a lay audience, see Ingrid Gould Ellen, Amy Ellen Schwartz, and Ioan Voicu, “The Benefits of Business Improvement Districts: Evidence from New York City,” Furman Center for Real Estate & Urban Policy, July 2007, <https://furmancenter.org/files/publications/FurmanCenterBIDsBrief.pdf>.

<sup>20</sup> Gross, “Business Improvement Districts in New York City’s Low-Income and High-Income Neighborhoods.”

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While the rigor of the above studies increases the OLO analyst's confidence in the economic potential of the Silver Spring BID, it is important to reiterate the unique circumstance regarding its formation. As previously mentioned, the Silver Spring BID would be established within the boundaries of the Silver Spring Urban District, a public entity that performs many of the "clean and safe" services of BIDs and that generates a portion of its revenues from a tax on property owners. The BIDs investigated in the above studies were formed in areas without public entities performing BID-like services. This raises the question of whether the magnitude and/or timing of the Silver Spring BID's impacts would parallel those in areas investigated in the above studies. It is beyond the scope of this analysis to address this question. However, OLO emphasizes the following: Ultimately, for the Silver Spring BID to generate a net positive return on investment (ROI) for stakeholders, the organization must add enough value to outweigh its costs to stakeholders (i.e., BID tax) relative to the baseline set by the Silver Spring Urban District.

### ***Uncertainties***

Based on the above studies, OLO anticipates that the Silver Spring BID would generate a net positive ROI for businesses in Silver Spring. However, the magnitude of these impacts depends on the resolution of outstanding questions highlighted below. For information, this discussion draws on conversations the OLO analyst had with stakeholders in the Silver Spring business community who are in favor, neutral, and against the establishment of the BID, as well as the research literature on BIDs.

Urban District: Stakeholders lack clarity on whether the Silver Spring BID would replace the Urban District. There are three concerns related to this uncertainty. The first concern relates to the difference between the Silver Spring BID and Urban District boundaries. If the BID replaces the Urban District, would the business tenants outside the BID boundaries be left without services? The second concern involves the tax implications of replacing the Urban District. Property owners would incur a net zero tax increase if the BID tax replaces the Urban District tax, holding all else equal. However, per Bill 3-21 and state law, the BID tax would not count against the County Charter limit. If the Council were to later increase property taxes, then property owners would incur a net increase in taxes. In this scenario, establishing the Silver Spring BID, in effect, creates an additional cost on property owners (and tenants). Lastly, if the County raises property taxes, the Council may be prevented from increasing the Urban District tax again in the future. This would be problematic if the Council ever decided to close the BID, which would leave Silver Spring without Urban District and BID services.

Governance: In addition to budget sizes and sources of revenue, there is significant variation across BIDs in the composition and voting rights of members, the structure of Boards, and other organizational features. As discussed above, the current proposal for the Downtown Silver Spring BID would restrict membership to property owners, give larger property owners more voting power, and include property owners and business tenants on the Board of Directors. Per state law, the stakeholders of the Silver Spring BID would be "residents, employers, employees, property owners, commercial tenants, consumers, and the general public" within its geographic scope. It is inevitable that (perceived and real) conflicts of interest among and within these stakeholder groups will arise. OLO analysts spoke with some members of the Silver Spring business community who expressed concern that the proposed governance structure of the BID would give undue influence to large property owners who would use the BID to further their interests at the expense of smaller property owners, small businesses, and residents. Indeed, some stakeholders are satisfied with the Urban District and point to its impartiality as an asset. If established through the enactment of Bill 3-21, the way the Silver Spring BID addresses these governance concerns may determine the extent of support and participation (i.e., subcommittee involvement) from the local stakeholders, which could influence how the economic costs and benefits of the BID are distributed among stakeholders.

Finances: Stakeholders raised several concerns regarding the BID's finances over the next few years to OLO analysts. In the current BID budget, roughly one-third of the financing comes from the Urban District property tax and two-thirds comes from a portion of the parking lot district revenues. The proposed legislation specifies that "[t]he amount of revenue

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from parking fees transferred to the district 313 corporation must not exceed the amount calculated by multiplying: (A) the number of parking spaces in the District by (B) the number of enforcement hours per year by (C) 20 cents.” Some stakeholders are unclear on how this amount compares to the current transfer formula and whether it will continue to generate sufficient revenues. The pandemic has decreased the consumption of parking in Silver Spring, which will lower parking lot revenues in the next few years. Some stakeholders are concerned how this will impact the BID. To address revenue shortages, the BID may cut back on services or attain more funds from members through higher BID taxes or voluntary contributions. These scenarios would have economic impacts on members—more taxes or reduced “clean and safe” services or less marketing and promoting. Finally, stakeholders are unclear whether the Silver Spring BID would be required to purchase new equipment or lease equipment that the Urban District uses.

Relationship with Local Government: Researchers argue that the effectiveness of BIDs in adding value for stakeholders depends significantly on their working relationship with local government officials and professional staff.<sup>21</sup> Collaborative relationships help ensure that BIDs are accountable to their stakeholders, reach their organizational goals, stabilize BID funding, and contribute to the local government’s economic development strategy. There are several mechanisms used to facilitate collaborative relationships with BIDs—for example, local government representation (voting or non-voting) on the BID Board of Directors, robust performance measures for BIDs, local government approval of BID budgets, and routine formal and/or informal meetings and reports. Bill 3-21 would require the Silver Spring BID to file an annual report with the Executive and Council that includes the financial statement for the previous year, a proposed operating budget for the current fiscal year, proposed revisions to the business plan, and a “narrative statement or chart showing the results of operations in comparison to stated goals and objectives.” The bill would also require the Executive to “review the effectiveness and desirability of continuing the district every 3 years.” Beyond these basic reporting and review requirements, it is unclear what the working relationship between the Silver Spring BID and the County would look like.

Long-Term Impact: BIDs provide collective voice to their members and advocate for policy change. Experience from elsewhere that this can manifest as promoting regulatory changes more friendly to business interests.<sup>22</sup> The Silver Spring BID may exert economic impacts through its political advocacy over the long-term. However, it is beyond the scope of this analysis to examine the character and magnitude of this effect. We raise it here as a point of consideration.

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## VARIABLES

- Property tax rate;
- Future status of the Silver Spring Urban District;
- Financial stability of the Silver Spring BID;
- Magnitude and distribution of Silver Spring BID’s impacts on key indicators;
- Quality of County’s oversight, accountability, and collaboration mechanisms; and
- Degree to which the costs and benefits of the Silver Spring BID are borne by local, as opposed to non-local property owners and business tenants.

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<sup>21</sup> See chapters 9, 12, and 14 in *Business Improvement Districts*.

<sup>22</sup> See *Business Improvement Districts* (note 4).

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### IMPACTS

WORKFORCE ■ TAXATION POLICY ■ PROPERTY VALUES ■ INCOMES ■ OPERATING COSTS ■ PRIVATE SECTOR CAPITAL INVESTMENT ■ ECONOMIC DEVELOPMENT ■ COMPETITIVENESS

#### Businesses, Non-Profits, Other Private Organization

OLO anticipates that by establishing the Silver Spring BID, Bill 3-21 would have positive economic benefits for private organizations located in the Silver Spring BID area, with the potential spillover effects for private entities in areas outside the BID boundaries.<sup>23</sup> The private organizations most directly impacted would be the property owners and businesses.

Bill 3-21 would increase costs to property owners by creating a BID tax on top of the Urban District tax. (However, the cost could be mitigated if the Council eliminates the Urban District tax, holding equal the general property tax.) Property owners would pass some portion of the cost onto business tenants in the form of higher rents, thereby increasing their net operating costs. The question is whether the BID's services result in sufficient profits to outweigh these costs relative to the baseline value set by the Urban District.

Based on the studies summarized above, OLO believes that the BID has the potential to add sufficient ROI to stakeholders. The studies reviewed above found that BIDs in New York City increased both commercial property values and independent retail sales by approximately 15 percent and BIDs in Los Angeles decreased crime by 6 to 10 percent. If the Silver Spring BID services affect these outcomes, property owners would likely be able to charge higher rents, thereby increasing their business incomes.

Regarding business tenants in the retail sector, increased retail sales would result in income gains for some independent businesses. (While Sutton's study does not address chain stores, it is plausible they would also see sales gains.) However, these gains would be unevenly distributed to some extent. For this reason, the portion of current businesses that would experience income gains large enough to outweigh the costs from potential rent increases is unclear. Ultimately, OLO analysts anticipate that there would be variation, with some businesses experiencing net gains and others net losses.

The findings from the studies also suggest that the Silver Spring BID has the potential to contribute to economic development gains in Silver Spring, as employment and independent retail sales (and the tax revenues they generate) are common indicators of local economic development.<sup>24</sup>

The OLO analyst is uncertain whether the economic impacts of the Silver Spring BID in and of itself would be sufficiently large in magnitude to meaningfully increase the competitiveness of Silver Spring relative to its intra- and inter-County peers. While the County has lagged its peers in the District and Northern Virginia in using formal BIDs (see **Table 1** above), the Silver Spring BID in and of itself would need to generate substantial ROI for stakeholders relative to the baseline set by the Urban District to significantly impact competitiveness.

#### Residents

If enacted, Bill 3-21 would impact County residents. Residents who own properties and retail businesses within the Silver Spring BID area would bear the costs and benefits. Owners of properties would likely benefit from higher rents and property values while incurring the cost of the BID tax, whereas retail business owners would likely benefit from increased

<sup>23</sup> For the Council's priority indicators, see Montgomery County Council, Bill 10-19 Legislative Branch – Economic Impact Statements – Amendments, Enacted on July 30, 2019, Montgomery County, Maryland, 3.

<sup>24</sup> Sutton, "Are BIDs Good For Business?"

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sales while paying higher rents. Some portion of these costs and benefits would be borne by non-local property and business owners.

Individuals in the workforce would benefit from the potential for employment gains. Because most residents work within the County, it is likely that residents would benefit significantly from the employment gains.<sup>25</sup>

Households within the Silver Spring BID area may be impacted as well. There are approximately 7,700 households within this area, with 90 percent in renter-occupied housing units.<sup>26</sup> To reiterate, Ellen et al found that BIDs did not impact residential property values in New York City. However, other (less rigorous) studies claim that BIDs have resulted in increased residential property values.<sup>27</sup> If residential property values increase, homeowners may experience economic benefits while renters could experience higher rents.

In summary, OLO anticipates that the Silver Spring BID would result in positive net economic impacts on businesses and residents in Silver Spring. However, it is likely that stakeholders would not share equally in these benefits.

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## QUESTIONS FOR CONSIDERATION

Due to time constraints and apparent limitations with the research literature on BIDs, the OLO analyst was unable to investigate two questions related to economic impacts of the Silver Spring BID: How would the BID likely impact non-retail businesses? And, how does the pandemic factor into the costs and benefits (and their distribution) of establishing the BID? For insight into these questions, OLO would recommend further engagement with members of the business community across industries in Silver Spring.

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<sup>25</sup> Montgomery County Planning Department, *Montgomery County Trends: A Look at People, Housing and Jobs Since 1990*, 78.

<sup>26</sup> Data provided by Montgomery County Planning analysts.

<sup>27</sup> See review of literature in Ellen et al, "The Impact of Business Improvement Districts on Property Values."

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## CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

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## CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.