

Economic Impact Statement

Montgomery County, Maryland

Expedited Bill 13-23

Montgomery County Urban Districts – Friendship Heights Urban District

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Expedited Bill 13-23 would have a moderate positive impact on economic conditions in the County in terms of the Council's priority indicators. The Bill would establish the Friendship Heights Urban District (FHUD) and fund it through a commercial district charge imposed on property owners within the urban district that leases property to commercial or residential tenants. FHUD would support the placemaking activities of the Friendship Heights Alliance. While establishing a commercial district charge would increase costs for property owners and business tenants within the urban district, FHUD likely would have an overall positive economic impact on business stakeholders by likely increasing commercial property values and retail sales. Also, the Bill likely would increase employment and decrease economic costs associated with crime for certain residents.

BACKGROUND AND PURPOSE OF EXPEDITED BILL 13-23

On February 28, 2023, the Council introduced Expedited Bill 13-23 in response to a request from the Friendship Heights Alliance (hereinafter "the Alliance") to establish an urban district in Montgomery County. The Alliance is also seeking to establish a Business Improvement District (BID) on the DC side of Friendship Heights. Both the urban district and BID would provide funding for and support the work of the Alliance on behalf of businesses and residents in Friendship Heights.

Bill 13-23 would create the County's fourth urban district: the Friendship Heights Urban District (FHUD). Currently, there are three other urban districts in the County for Bethesda, Silver Spring, and Wheaton. The boundaries of FHUD would include the area extending along the Wisconsin Avenue commercial corridor from Fessenden Street on the south to Oliver Street on the north and would be articulated under Section 68A-9 of the County Code.

Bill 13-23 states that each property owner within the urban district that leases property to commercial or residential tenants would be charged – subject to an annual levy by the Council – a commercial district charge. The amount of the annual charge would be calculated as follows:

- For Class 2 Properties, excluding hotels and motels, the amount of \$0.165 per square foot for each net rentable square-foot;
- For hotels or motels, the amount of \$120 per hotel or motel room; and
- For Class 1 Properties that contain 5 or more residential units, available for rent for no transient residential dwelling purposes, \$120 per unit.

The Bill also specifies that residential units limited to households earning 100 percent or less of the Area Median Income would be exempt from the commercial district charge.

Finally, the Bill would establish a five-member Advisory Committee for FHUD that would be appointed by the County Executive and confirmed by the Council.¹

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Expedited Bill 13-23 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.²

To assess Bill 13-23's impacts on the Council's priority economic indicators, OLO draws on the economics literature on BIDs. While the Bill would establish an urban district, OLO believes the literature on BIDs is applicable for the following reasons. First, FHUD would function similarly to a BID. BIDs are public districts administered by nonprofits that perform "placemaking" services in the areas of cleaning, security, and marketing.³ Similar to BIDs, FHUD would use funds collected through the commercial district charge "for public services and facilities related to, among other things, streetscapes, promoting the district, and enhancing safety."⁴ Second, FHUD would work in conjunction with the Alliance, which would "leverage funds ... from both sides of the MD and DC border without having to form two separate organizations, guided by two separate boards, with a more complicated operational and organizational system."⁵

This analysis performs a qualitative assessment of Bill 13-23's economic impacts based on the following peer-reviewed empirical 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): 1-39.⁶
- **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.

These studies were chosen due to their rigorous methodologies, which provide OLO with confidence in the validity of their causal findings.⁷

¹ The description of the Bill's background and purpose is based on materials included in the [Introduction Staff Report for Bill 13-23](#).

² Montgomery County Code, [Sec. 2-81B](#).

³ Howard and Bryant, [Case Studies of Local Business and Community Districts](#).

⁴ [Wellons to County Council](#), February 23, 2023.

⁵ [Friendship Heights Info Sheet](#).

⁶ 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>.

⁷ These studies use statistical matching and other quasi-experimental methodologies 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

VARIABLES

Some of the variables that would affect the economic impacts of enacting Bill 13-23's are the following:

- size of FHUD; and
- quality of FHUD services.

IMPACTS

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

Economic Impacts of BIDs

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.⁸ 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.⁹

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. Brooks found the BIDs did not push crime into other neighborhoods.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Bill 13-23 would have overall positive impacts on private organizations located in FHUD's area, with the potential spillover effects for private entities in areas outside its boundaries, in terms of the Council's priority economic indicators. The private organizations most directly impacted would be the property owners and businesses.

their characteristics but had not done so during the timeframe of the study ("control" groups). Office of Legislation Oversight, [Economic Impact Statement: Bill 3-21](#).

⁸ Though the magnitudes of the effects are both large, the result for sales growth was modestly significant and was insignificant for employment.

⁹ Gross, "Business Improvement Districts in New York City's Low-Income and High-Income Neighborhoods."

By establishing a commercial district charge, Bill 13-23 would increase costs for each property owner within the urban district that leases property to commercial or residential tenants. Property owners likely would pass some portion of the cost onto business tenants in the form of higher rents, thereby increasing their net operating costs.

Based on the studies summarized above, OLO believes FHUD likely would generate a rate of return sufficient to outweigh the costs to stakeholders from the commercial district charge. 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 FHUD 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.¹⁰ 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 anticipates there may be variation, with certain businesses experiencing net gains and others experiencing net losses.

The findings from the studies also suggest that FHUD has the potential to contribute to economic development gains in the Friendship Heights area, as employment and independent retail sales (and the tax revenues they generate) are common indicators of local economic development.

Residents

OLO anticipates that Bill 13-23 would have overall positive impacts on certain residents in the County in terms of the Council's priority economic indicators. Based on the studies summarized above, OLO anticipates the following impacts on certain residents: First, individuals in the local workforce would benefit from the potential for employment gains. Because most residents work within the County, certain residents likely would benefit from the employment gains. Second, if FHUD reduces crime, certain residents may not experience the various economic costs associated with crime.¹¹

Net Impact

OLO anticipates that Bill 13-23 would have a net positive impact on economic conditions in the County. While establishing a commercial district charge would increase costs for property owners and business tenants within the urban district, FHUD likely would have an overall positive economic impact on business stakeholders by potentially increasing commercial property values and retail sales. Also, the Bill likely would increase employment and decrease economic costs associated with crime for certain residents.

As discussed above, the magnitude of FHUD's economic impact likely would depend on its size. Given that it would work in conjunction with the Alliance, which expects to leverage County and DC funds, OLO expects FHUD to have a meaningful economic impact in the Friendship Heights area, with the potential for positive spillover effects beyond its boundaries.

¹⁰ While Sutton's study does not address chain stores, it is plausible they would also see sales gains.

¹¹ Cohen, [*The Cost of Crimes and Justice*](#).

DISCUSSION ITEMS

Not applicable

WORKS CITED

- Brooks, Leah. "[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.
- Cohen, Mark. [The Cost of Crimes and Justice](#) (New York: Routledge, 2005).
- Ellen, Ingrid Gould, 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.
- Gross, Jill Simone. "[Business Improvement Districts in New York City's Low-Income and High-Income Neighborhoods.](#)" *Economic Development Quarterly* 19, no. 2 (May 2005): 174-189.
- Howard, Craig and Stephanie Bryant. [Case Studies of Local Business and Community Districts](#). Office of Legislative Oversight. Report No. 2015-7. February 24, 2015.
- Hoyt, Lorlene and Devika Gopal-Agge. "[The Business Improvement District Model: A Balanced Review of Contemporary Debates.](#)" *Geography Compass* 1, no. 4 (2007): 946-958.
- Montgomery County Code. [Sec. 2-81B, Economic Impact Statements](#).
- Montgomery County Council. [Introduction Staff Report for Bill 13-23](#). Introduced on February 28, 2023.
- Office of Legislation Oversight. [Economic Impact Statement: Bill 3-21](#)
- Sutton, Stacey. "[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.

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.

AUTHOR

Stephen Roblin (OLO) prepared this report.