Arlington Community Facilities Study
Study Committee Meeting #2 – February 25, 2015

Major conclusions:

- **The most significant change in the Washington Metro corridor has been the loss of federal jobs, and a move toward service jobs that pay lower wages.**
- **Another major problem is the lack of affordable housing in the face of a rapidly growing population. We need over 8,800 units to close the affordable housing gap.**
- **Improving the commercial tax base by decreasing the vacancy rate by 10%, or 4.4 million square feet, would bring about $34 million to the County in taxes.**
- **Arlington is launching an aggressive campaign to attract new business to Arlington, both nationally and internationally.**

Bolstering the Commercial Tax Base

This week the Arlington County facility group held its second meeting, this time continuing its discussion about financial resources and future possibilities for the County. In attendance were County Board Chairman Mary Hynes and Board Member Jay Fisette, County School Board Chairman James Lander, APS Board Member Nancy Van Doren, and County Manager Barbara Donellan. The audience also included most of the 23 members of the official Committee and over 50 members of the community, representing neighborhoods and other civic groups.

Carrying forward the discussion from the first meeting, the group's leader John Milliken reviewed the goal of the Committee, which is to build a consensus framework for ensuring future revenue and determining facility needs that will inform both the County Board and Arlington School Board in determining community requirements for schools, fire stations, vehicle storage sites and other community facility needs for the foreseeable future. Bi-monthly meetings will continue through the summer and fall, with a final report expected in November, 2015.

Milliken reviewed the major points raised at the first meeting, which focused on residential and commercial real estate taxes, which comprise the lion's share of the County budget. Unlike most other jurisdictions, Arlington has enjoyed a 50-50 split in taxes between real estate and homeowners. Fairfax and Prince William counties fund over 75% of their total tax base with residential assessments, compared with 51% for Arlington County.

Loss of commercial tax base over the past few years, primarily as a result of cut-backs by the Federal Government, dramatically impacts Arlington county finances. This meeting focused on the impacts of this loss.

Terry Clower, Deputy Director of the GMU Center for Regional Analysis, outlined regional trends in property assessments. Arlington is one of the few jurisdictions whose property values actually increased between 2009-2014. Over that time, Arlington and Loudon counties' property values rose 15%, DC properties rose by 11% and Alexandria properties rose 7%. All other jurisdictions saw prices drop. This included a 10% drop in Fairfax, 17% in Fauquier, 13% in Stafford, and dramatic drops in every Maryland county in the tri-state area. Prince George's County fell the farthest – at 23%. There was also good news that Arlington County saw the highest rise the percentage of nonresidential property taxes, compared to the other counties, rising to almost 50%.

This presentation was followed by Dr. Massoud Ahmadi, Senior Vice President of Strategic Impact Advisors, who discussed economic performance in the Washington Metro area. He sees real growth in the U.S. economy between now and 2020, with higher consumer spending, more robust investment and greater household formation driving the expansion. There will also be growth in employee compensation and business investments. Arlington also has seen unemployment drop to 3.0 percent, which is much lower than the greater Washington area (4.5 percent) and the U.S. as a whole (5.6 percent).

However, the Washington Metro region was the only metro area in the entire country to have recorded negative economic growth between 2012 and 2013. Even Detroit had a better track record! Those areas hardest hit by the recession (Aug. 2008 – Feb. 2010) included construction (losing 48,000 jobs), leisure and hospitality (losing 34,000 jobs), professional and business services and retail trade (each losing 23,000 jobs). However, some of these sectors rebounded during the recovery period from 2010 to December. 2014. Leisure and hospitality gained 60,000 jobs, doubling what it lost during the recession. Professional and business services and retail trade also overtook their respective losses. Construction gained 22,000 jobs, only half of those lost through the recession. Most surprisingly, education and health services gained positions during both periods, adding 19,000 jobs during the recession and another 50,000 jobs during the recovery.

What is significant for Arlington is the contraction in federal government jobs. Arlington was hit harder by government contraction than the rest of Northern Virginia (losing 4,700 jobs during the recession but only regaining 3,100 jobs during recovery). Arlington had the largest contraction of the region, losing about 2%, and the county also recorded a low level employment growth, all a result of the significant declines in Federal jobs.

Across the region, most of the post-recession job growth (122,000 jobs) occurred in industries with mid-range average payrolls. However, Arlington showed the slowest annual pace of wage growth in the region. Arlington County continues to be dependent on professional and business services (29.9%) and the Federal Government (17.3%), a total of 47%, compared to the rest of the Washington Metro area, at 33%.

The largest growth in employment in Arlington has been in leisure and hospitality and in professional and business services. Most of these jobs were either high average payroll positions (5,484 jobs) or low average payroll positions (3,440 jobs). Most economic sectors in Arlington are less competitive than the U.S. in general, and are growing at a lower pace.

Arlington is at a competitive disadvantage because of our reliance on a shrinking Federal government. In most areas we lag behind other counties in the Washington Metro area and the U.S. in general. Federal sequestration, Base Realignment and Closure (BRAC) and the Federal shut-down had a significant negative impact on Arlington.

Another troubling statistic is what Dr. Ahmadi referred to as the "acute shortage of affordable and available rental housing units" for families earning less than 50% of the area median income (about $102,000 a year for a family of four). Over 8,800 additional affordable units are needed to close the affordable housing gap in Arlington.

However, although residential construction declined significantly during the recession, it picked up steam during the recovery, outpacing national and regional performance. Since 2010, residential building permits grew twice as fast as the 15 percent growth rate in the metro region.

Alex Iams, Acting Deputy Director of the Arlington Economic Development Office, discussed the income from commercial real estate. The County earns $5.6 million in local tax revenue for a 100% occupied building. For each 1% of occupancy, the County realizes $3.4 million in tax revenue. The county now has a vacancy rate of over 20%. An improvement of 10% of this occupancy would represent $34 million annually in local tax revenues. A 10% increase is equivalent to 4.4 million square feet of office space. Most of the improved revenue comes from newer buildings. Most of the losses have come from older buildings.

This will be a challenge to accomplish. Since 2011 federal lease holdings have declined by 2.4 million square feet. At the same time, workplaces are expecting to use less square footage for each employee, by 15-20% depending on the company. We're running twice as hard to maintain the current tax base, let alone raise it!

But there is hope. About 1.9 million square feet has already begun adaptation in the past three years. Government still occupies nearly 50% of office space. Tech-oriented companies in cybersecurity, education and healthcare demanding quality facilities and are diversifying the base. Arlington is typically less expensive than other areas of the region, without the incentives that those communities are adding to sweeten the deal. But we are slightly more expensive than Tysons Corner, Reston and Bethesda.

Most of these new companies attract Millennials, who are drawn to high tech industries, are well educated, and are more likely to rent rather than buy homes. They are also less likely to own cars.

Victor Hoskins, the new Director of Arlington Economic Development, outlined strategies to reposition Arlington to attract companies and industries beyond our traditional business community. He led the revitalization of the District of Columbia and believes that Arlington compares favorably with our regional competitors for business. His message is that diversifying the economy is critical to the success of Arlington. He will focus on corporate recruitment, retail attraction, foreign investment and targeting high tech, startups and other industries, both regionally and internationally.

Arlington staff will be attending marketing events that attract thousands of new companies, including the CoreNet Global Summit, International Council of Shopping Centers (ICSC), SelectUSA Investment Summit (sponsored by the U.S. Department of Commerce) and South by Southwest (SXSW), a symposium of music and film industry. Other areas include national security .

One area will be regulatory reform and expedited, one-shop permitting for companies. He promised that activities in these areas will be quickly implemented and show results in the very near future.

The meeting ended with all participants breaking into small-group discussions for feedback from the community. Meetings in March will focus on Demographics & Forecasts. The meetings are scheduled on Wednesday evenings, 7:00 – 10:00 p.m. on March 11 and March 25.

Sarah McKinley
Columbia Heights Civic Association
February 26, 2015

Documents from the meeting:

http://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/5/2015/02/CFS_SC2_Agenda.pdf

http://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/5/2015/02/CFS_SC2_Presentation-Opening.pdf

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