

Arlington's Innovation Economy Strategy

**Final Report of the
Competitiveness Task Force**

Economic Development Commission
December 19, 2013

Arlington's Innovation Economy Strategy

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I. Economic Vision

- **Diverse and inclusive world-class urban community**
- **Carly Fiorina Challenge for Arlington's Economic Future**
 - “Innovation/entrepreneurship **lifts communities** -- the single greatest tool for providing opportunities and jobs for communities all over the nation”.
 - “Technology is truly a **transformational tool** – the application of technology levels the playing field”.
 - “Any endeavor is better if it is tackled by an **effective public/private partnership** -- great research initiatives would not have happened without the steady investment of the Federal Government”.
 - “Need to take advantage of what is going on in this region – **the talent, companies, community, and opportunities** in the region are second to none”.

-- BI² Kick-Off , Founders Hall, April 18, 2013

II. Economic Development Goal

Maintain 50/50 split in commercial/residential share of tax base because commercial property taxes:

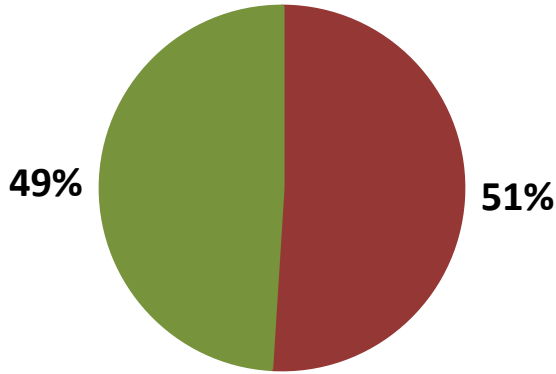
1. Fund schools, infrastructure, parks, quality of life
2. Allow Arlington to maintain AAA bond rating
3. Reduce tax burden on residents

Regional average for property taxes is 30% commercial /70% residential. If Arlington's split was that, the average residential taxpayer would have paid 38% more in taxes for the FY2014 budget!

Arlington Tax Payers Cost to Fund FY2014 Budget:

Possible Future Scenarios

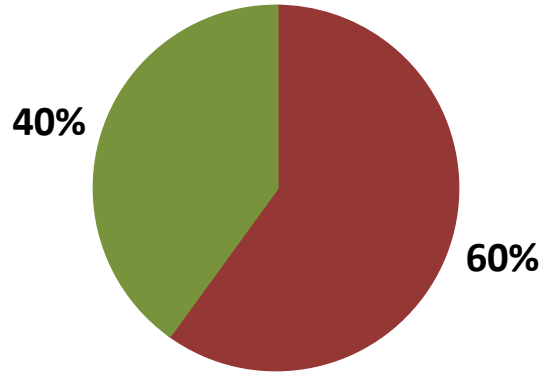
Current 51% Residential/
49% Commercial Split



Avg. Residential Tax Payment:

\$5,278

60% Residential/ 40%
Commercial Split with Decline
in Commercial Assessments

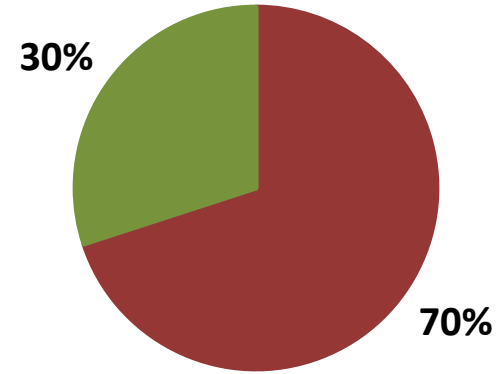


Avg. Residential Tax Payment¹:

\$6,222

Increase:
+\$944 (18%)

70% Residential/ 30%
Commercial Split if Arlington
Regresses to Regional Average



Avg. Residential Tax Payment¹:

\$7,259

Increase:
+\$1,981 (38%)

 Residential Tax Base

 Commercial Tax Base

¹ Estimated additional amount needed from residential tax payers to achieve adopted real estate tax revenues in the FY2014 Budget.

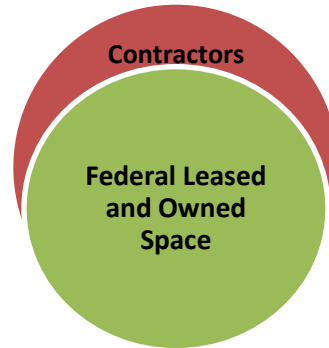
Note: Avg. tax payment includes base rate and storm water tax. This analysis does not consider commercial transportation tax, and tax rates for other special assessment districts. Also does not consider other tax revenues generated from commercial uses including BPOL, Business Tangible, Transit Occupancy, Local Sales, and Meals Taxes.

Note: For every 1% decrease of commercial share, there is a 2% increase in cost to residential tax payers

III. Arlington's Economy is Evolving

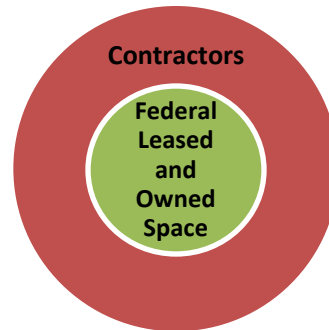
1. 1960's to 1980's

Arlington as a low cost alternative for federal agencies



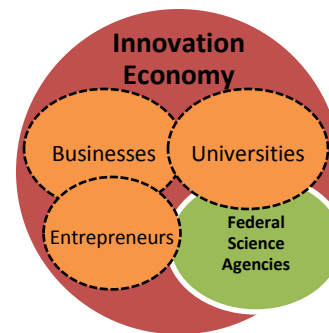
2. 1990's to 2000's

Attracting "value add" federal tenants with classic contractor tail



3. 2010 and Beyond

"Innovation Economy" federal science agencies as one driver of Arlington's economy



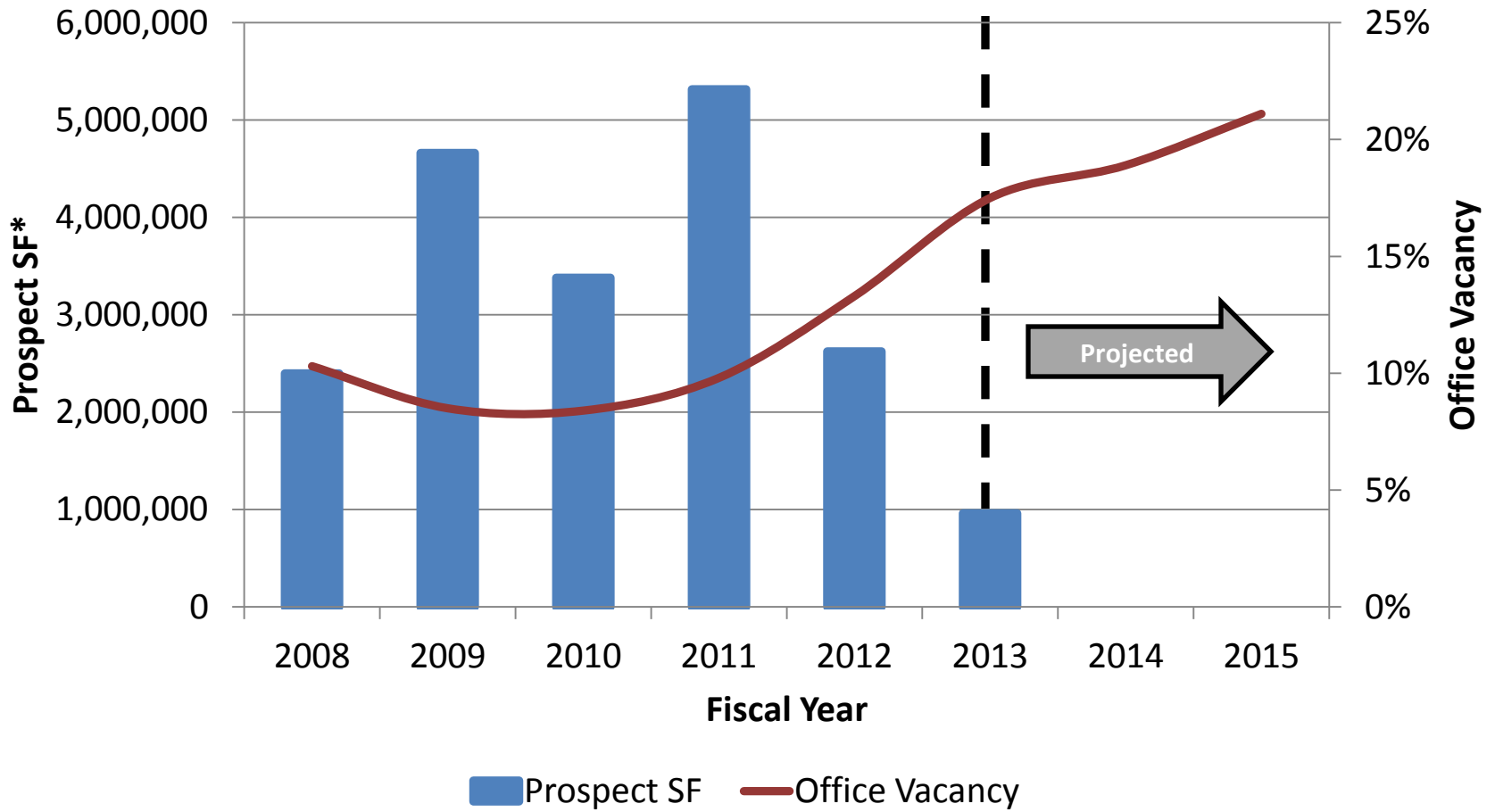
IV. Competitive Environment

- Since the public investment in Metro, Arlington County's economy has benefited from certain competitive advantages, including its location, lower business tax rates, public transportation and infrastructure, and other community amenities.
- Arlington's regional competitors are successfully using monetary incentives and pro-business initiatives to attract and retain key industry businesses.
- Faced with increasing national and regional competition, Arlington's economy has become disadvantaged in terms of lack of available tools and incentives, burdensome regulations including unpredictable and shifting regulatory permit processes.
- National, international, and regional companies, as well as small businesses, have a strong perception that Arlington has lost its competitive edge.
- This combination of factors threatens Arlington's ability to retain our existing business base and attract new businesses despite the quality of the educated workforce.

V. Prime Factors Affecting Competitiveness and Economic Growth

- **Real Estate**
 - Noncompetitive prices, timing and product
 - Increasing “shadow vacancy” rate
- **Incentives**
 - No retention tools
 - Lack of incentives for nonprofits or associations
 - Existing incentives not oriented toward smart growth companies
 - No way to “write checks”
- **Rules and Regulations**
 - Development process lacks certainty and clarity e.g. community benefits process
 - Burdensome BPOL/Taxes
 - Restrictive ordinances (sign, zoning, retail, etc.)
- **Perception**
 - Declining quality of place (hipness) from business and media POV
- **Community/Neighborhood**
 - Specific resistance or opposition to a project or general resistance or opposition to any development or change
- **Other**
 - GSA, DC address, whims of CEO/Decider, regional competitiveness, staffing/resources

Arlington's office vacancies continue to rise and there are fewer prospects in the pipeline.

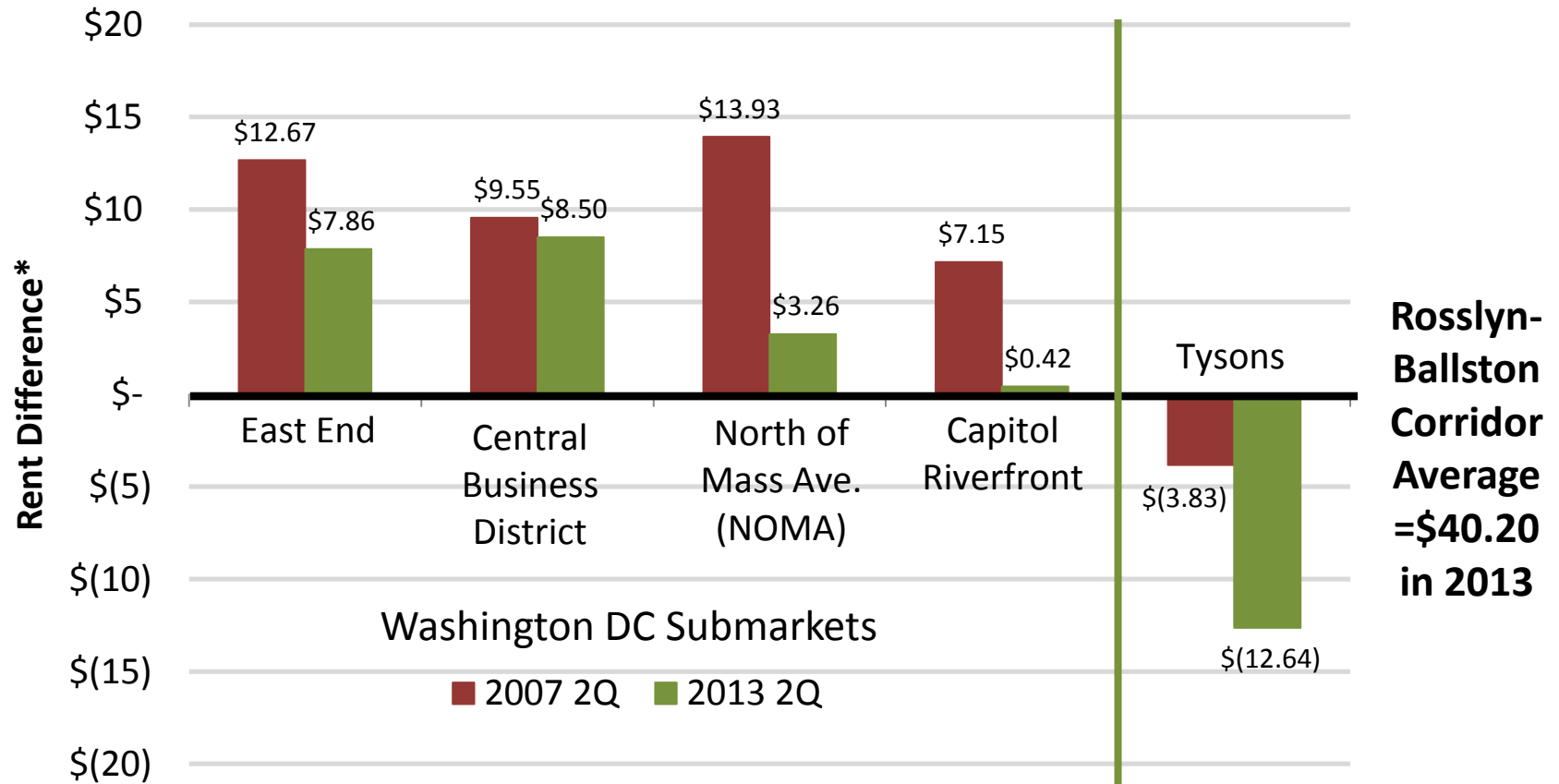


Projections based on known vacancies and deliveries.

Source: AED; CoStar

* Businesses considering a new or expanded location in Arlington by square feet (SF) of office space needed.

Arlington office rents are less competitive than in the past.

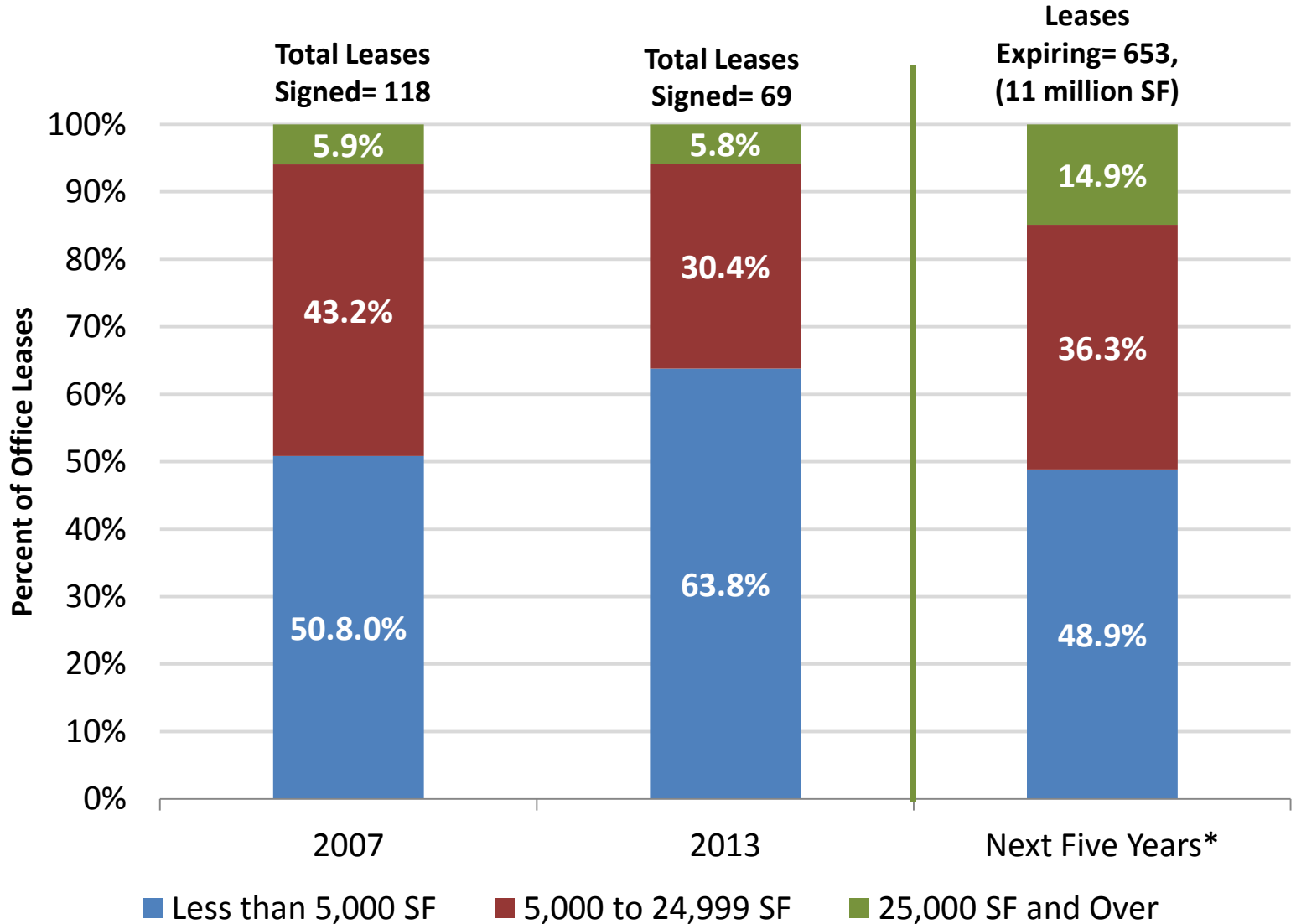


- Difference in average rents per square foot (SF) for Full Service, Class A and B office space between office space in the Rosslyn-Ballston Corridor and office space in Washington DC Submarkets.
- Source: CoStar

Office vacancies are pushing assessed values down.

ADDRESS	CURRENT VACANCY	ASSESSED VALUE		DIFFERENCE
		2009-2013 PEAK	2013	
2511 Jefferson Davis Highway	85.9%	\$104,098,600	\$ 77,756,400	\$ (26,342,200)
4040 Fairfax Drive	100.0%	\$ 41,850,800	\$ 34,782,200	\$ (7,068,600)
2221 S Clark Street	47.0%	\$ 36,937,800	\$ 28,277,100	\$ (8,660,700)
3701 Fairfax Drive	95.3%	\$ 63,676,300	\$ 54,230,200	\$ (9,446,100)
1500 Wilson Boulevard	93.6%	\$ 76,926,500	\$ 60,082,600	\$ (16,843,900)

Trends in Arlington Leases by Size



Largest leases include NSF, EPA, ONR, TSA, Lockheed Martin, State Department

VI. Arlington's Innovation Economy Strategy

1. **Welcoming: Embrace** Arlington's business community and communicate loud and clear about its value to residents.
2. **Easy Processes: Transform** Arlington's development processes to meet the needs of the use by improving timeliness and predictability.
3. **Competitive and Intelligent Infrastructure: Invest** resources for economic in infrastructure development needs.
4. **Places for the Innovation Economy: Facilitate** innovative, smart, and creative uses of commercial and public spaces.
5. **Economic Ecology: Foster** fast growth companies and STAR Industries (Science, Technology, Arts and Research).
6. **Messaging: Promote** Arlington as a world-class community.

Recommendation 1

Welcoming

- **Institute an Enterprise-wide Culture of Helpfulness and Customer Service.**
 - Implement a solutions-oriented customer service attitude among County leadership and all staff that demonstrates a shared sense of purpose and partnership.
- **Promote that Arlington is Open for Business**
 - Ensure that the tone and tenor of county leadership and all staff is welcoming, predictable and consistent in interactions with each other and all community stakeholders.

Recommendation 2

Easy Process

- **Seek Continual Process Improvement and Ease-of-use.**
 - Help managers and staff provide more welcoming customer service by developing shared infrastructure and process transformation action plans to coordinate process changes across departments and functions.
- **Implement a Process Navigator Program.**
 - Assign a business team specialist to work with each new business to help them navigate the planning and regulatory process and foster/facilitate Arlington’s welcoming environment
- **Invest in Process Technology to Help the County Process Become Business- and Innovation Economy-friendly.**
 - Re-engineer processes through automation, instruction and oversight to reduce time, costs, and uncertainty. Focus on highest volume paper/ in person transactions and develop priorities list to automate and provide apps. Offer online business registration for permitting and licensing.

Recommendation 2 (Cont.)

Easy Process

- **Provide Clarity, Transparency and Consistency in All Process and Rules.**
 - Build on current efforts to reduce regulatory time and costs through ongoing process improvement and integration. Analyze the impacts of new/revised policies and shifting/unpredictable procedures on developers, tenants, and Arlington's tax base.
- **Enhance Predictability by Setting Limits on Commission Schedules**
 - Revise Planning Commission meeting structure and processes to help projects stay on track to provide predictable turn-around times and reduce unnecessary costs and time delays.

Recommendation 3

Competitive and Intelligent Infrastructure

- **Provide and Use Financial Incentives to Build the Next Economy.**
 - Create a public/private investment fund for small companies, start-ups, and business retention efforts. Allow flexible uses and abbreviated process times. Modify Arlington's tech zones incentive to expand eligibility and eliminate size threshold requirements. Offer incentives to reduce occupancy costs and long-term vacancy.
- **Deploy and Leverage Arlington's Technology Assets to the Maximum Extent.**
 - Develop a business model for leveraging Connect Arlington infrastructure. Own and invest in technology for public spaces.
- **Modify Signage Regulations to Reflect Changes in the Built and Economic Environments.**
 - Rethink signage regulations in Arlington County and recognize that signs offer critical branding opportunities with significant value for our community. Create a sign overlay district ordinance for urban villages.

Recommendation 4

Places for the Innovation Economy

- **Promote Creative Spaces for the Innovation Economy.**
 - Facilitate more 3rd spaces that allow for tenants to treat the county as their living room. Implement zoning ordinance innovations to allow for multi-use locations on a 24/7 basis. Brand Arlington to reflect its place in the innovation economy.
- **Convene Creative People, Industries and Ideas to Capitalize on Multiplier Effects.**
 - Continue clustering federal functions (DARPA and ONR), Universities and private sector science, and research industries to create a critical mass, synergy and power from the sharing of empirical information.
- **Foster a Stronger Technology, Arts and Social Scene.**
 - Facilitate the intersection of science, technology, art and research (STAR) in attracting innovation economy firms to Arlington

Recommendation 5

Economic Ecology

- **Leverage our Assets to Support the New Economic Ecology of Fast Growth Companies**
 - Champion new approaches so Arlington is competitive in the global and regional economy in attracting and supporting fast growth companies .
- **Deliver Partnering and Mentoring Opportunities.**
 - Implement programs to strengthen university/start-up/ corporate federal science agency partnerships. Create a targeted workforce referral program in partnership with specific globally respected universities.
- **Offer Non Traditional Forms of Capital.**
 - Strengthen relationships with globally respected venture capital fund managers, angel investors and to educate the entrepreneurial community about other non-traditional financing opportunities such as crowd sourcing)
- **Promote Flexible Real Estate Options.**
 - Hold conversations with Arlington’s traditional financial and real estate community to educate them about the lending and space needs of the new economy.

Recommendation 6

Messaging

- **Promote a Pro-business Culture to Support Arlington’s Economic Growth in the New Global Economy.**
 - Encourage robust pro-business messaging from our leadership. Educate Arlington and the global business community about the critical role businesses and visitors play in supporting our community.
- **Conduct Active Community Engagement.**
 - Emphasize the importance of investing in and supporting the business community. Be frequent, clear, and public. Value County investment in business attraction and retention efforts.

VII. Task Force Membership

- Erik Pages, Chair
- Marty Almquist
- Alexei Cowett
- Sally Duran
- Peter Greenwald
- Nicholas Stone