REPORT FOR THE OECD AND THE GOVERNMENT OF WALES ON THE NOMA (NORTH OF MASSACHUSETTS AVENUE) STRATEGIC ECONOMIC DEVELOPMENT INITIATIVE IN WASHINGTON, DC

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[Note: on June 18, 2012, the New York Avenue Metro Station was officially renamed as the NoMa Metro Station.]

1. Rationale for the initiative

Problem to address: In 1997 the city of Washington, DC was suffering from slow job growth, insufficient new investment and development, population loss, declining government revenues, and troubled low-income neighborhoods. Formulating and implementing a major new private sector-oriented economic development strategy had become a vital necessity.

Policy context: During August 1997, the US Congress passed legislation, signed by President Clinton, entitled the National Capital Revitalization Act. This law was primarily designed to address long-term structural fiscal imbalances harming the financial viability of the District of Columbia Government, such that it was running substantial budgetary deficits, unable to raise sufficient revenue to meet its expenditure obligations. Two years earlier, the federal government created the District of Columbia Financial Responsibility and Management Assistance Authority (the “Control Board”) to order substantial reductions in personnel and spending, and to directly manage the DC government. In 1997 the Control Board was tasked by Congress with producing a strategic economic development plan designed to grow private sector businesses and jobs for DC residents, among other reasons, in order to increase the tax and revenue base.

Action concept: In the fall of 1997, Dr. Andrew Brimmer, Chairman of the Control Board, hired Richard Monteilh as the Director of the Office of Economic Development and Department of Housing and Community Development, and then hired me as the Senior Adviser to Mr. Monteilh, and as the Coordinator of the Congressionally mandated strategic economic development plan. Within one year Richard Monteilh and I, working with literally thousands of city and regional stakeholders from business, government, labor, civic, community, and faith-based leadership, including a 40-member steering committee, produced an Economic Summit held at the World Bank, attended by more than 2 000 people, and published *The Economic Resurgence of Washington, DC: Citizens Plan for Prosperity in the 21st Century*. The city’s first-ever comprehensive, private sector growth-oriented economic development strategy focuses on three broad categories: strategic industries (six key industry networks/clusters, plus growing businesses and jobs across the private sector), strategic populations (workforce development, plus attracting and retaining residents) and strategic areas (downtown and neighborhoods). The centerpiece of the plan was 40 strategic actions whose implementation was committed to begin within one year of the plan’s publication in November 1998. Among these 40 actions were two that are central to this report: Action 26—Develop NoMa (North of Massachusetts Avenue) as a Technology, Media, Housing, and Arts District; and Action 29—Build a Metro Station at New York Avenue to Spur Development.

2. Description of the initiative

Objectives: We focused on what is now called NoMa (I actually invented the name in June 1998) because it was a highly underdeveloped and predominantly abandoned and derelict former industrial area close to the center of the city, immediately north of the main train terminal, Union Station, covered by railroad tracks, large vacant parcels of land, and mostly vacant industrial and warehouse structures. NoMa is traversed by New York Avenue (Route 50), one of the region's most heavily travelled thoroughfares, leading directly to the White House in downtown Washington, and by other major roadways including North Capitol Street and Florida Avenue. We firmly believed that downtown commercial development would eventually be moving east and north along the Massachusetts Avenue and New York Avenue corridors. The city had recently built the Washington Convention Center on New York Avenue just north of the downtown area, and the private sector, with city government infrastructure financing, had constructed the Verizon Center sports and entertainment arena and the Gallery Place retail and entertainment mall, all of which were serving as catalysts for new investment in offices, housing, and retail in the East End of downtown Washington, generating a dynamic movement east and north that could spark the emergence of NoMa as a major development opportunity.

Activities: The economic strategy for NoMa was built upon the following fundamental assets: centrality of location, regional transportation accessibility, availability of large development sites and industrial loft-style structures, broadband fiber optic cable lines already in place underneath the railroad tracks, the role of the nation's capital as an international media center, the 1990s boom in information technology and telecommunications throughout the metropolitan region, and the urban lifestyle that is so attractive to talented and creative young artists, multi-media professionals, and technologists.

The combination of these key economic factors proved so successful that we were able to attract as new investment and development in the area the following media and technology companies: SiriusXM Satellite Radio, Qwest Communications International, Teleglobe, Global Crossing, MCI Broadband, Enron Broadband, Gannett Publications, and Level 3 Communications. Attracting these new corporations helped us retain several media companies already located within NoMa, including Cable News Network (CNN), Black Entertainment Television (BET), National Public Radio (NPR), and Atlantic Video. When the global telecommunications and Internet economic boom began facing serious financial problems in 2001 several of the companies withdrew their investments, but the overall impact was to create and strengthen a new long-term private sector media/technology industry network for Washington, DC.

A lynchpin of the NoMa strategy was to construct a new Metrorail station on an existing train line (the Red Line) at the intersection of New York Avenue and Florida Avenue, NE. One of the largest gaps in the central city portion of the Metrorail system was between Union Station and Rhode Island Avenue to the north, nearly two miles apart, and New York and Florida Avenues were precisely halfway in between those two stations, so it made perfect sense to place a station at that location. Further, the US government's General Services Administration (GSA) essentially requires that all government-owned buildings as well as any federal government offices or facilities leased from private sector building owners should be located within 2,500 feet (walking distance) of a Metrorail station, in order to promote transit ridership and discourage automobile usage. Therefore, in order to spur the development of NoMa, we needed to enhance its rail transportation accessibility in general, and specifically to comply with the GSA location leasing criteria, which meant that the highest economic development priority for NoMa was to finance construction of the New York Avenue Metro Station.

Delivery Arrangements: We faced several difficult challenges. First, the Washington Metropolitan Area Transit Authority (WMATA), the regional transit agency, had decided not to build a Red Line station at New York Avenue when the system was initially planned and constructed in the 1960s and 70s, and they were very reluctant to add a new station there. Second, WMATA does not directly finance the building of new stations or lines. Those costs are paid for by the various local government jurisdictions. In other words, the District of Columbia Government was required to pay for building a new station in the city. The DC government at that time, however, was fiscally insolvent with a very large budget deficit, and the Congress was quite upset about the District of Columbia's near-bankruptcy. There did not appear to be any possible scenario that would enable us to get the money for WMATA to build a New York Avenue Metro Station.

Indeed, WMATA engineers even insisted that building such a station was technically infeasible, would need to be constructed further north in a much less economically convenient and desirable location, and would cost a minimum of $150 million. To counter their skepticism, we hired the same engineering firm that WMATA employs, the Parsons Transportation Group, who produced an engineering feasibility study clearly demonstrating that the station could indeed be built where we wanted it for no more than $75 million. We then created a preliminary economic plan for the area to convince people that the development opportunities were clearly on the horizon as long as the Metro station was there. After these two studies were completed, I told everyone that this was a very clear case of “if you build it they will come.” We reached out to every major constituency among businesses, property owners, and community residents and convinced them that this was not about building a transit station, but rather about fostering substantial transit-oriented sustainable community economic development. We promised that with the new station would come at least 5,000 new jobs and one billion dollars of new public and private investment and development.

The problem was that we still had no money to build the station. The DC government had a deep fiscal deficit, and the US government was not in a mood to assist. Accordingly, I turned to the private sector. Surrounding the proposed station site were many large land parcels and old industrial buildings, all of which were zoned for high-density commercial use. I met with the landowners and property developers and presented them with our economic vision for NoMa. They all agreed that building the Metro station would successfully spur new development. Then I asked them to commit to collectively paying $25 million to build the station. They refused, arguing that it was the government’s responsibility. I countered that normally this was true, but we were facing special emergency circumstances that prevented such an occurrence, and that if they really wanted to earn millions of dollars from developing their property near the proposed station, they were first going to have to help pay for the station. If they would commit, then the DC government would find a way to come up with the matching funds rather than walk away from the potential to leverage such a generous private sector offer, and then the US government would do likewise.

Budget: It took an entire year of discussion and persuasion, but in December 1998, the private owners agreed to pay $25 million (amortized over 30 years) for the New York Avenue Station. In May of 1999 the DC government agreed to commit $25 million as well, and in September 2000 the US Congress appropriated its $25 million contribution for the station. In addition, the US government provided $6 million for constructing a portion of the Metropolitan Branch Trail (hiking and biking) as part of the New York Avenue Metro Station project, the DC government contributed an additional $19 million, and the landowners donated $10 million in small land parcels to facilitate station construction, for a final price tag of $110 million, $35 million from the private sector, $44 million from the DC government, and $31 million from the federal government.

Private Sector Involvement: After I left the DC government, the Action 29 group was incorporated as a non-profit organization, the Action 29-New York Avenue Metro Station Corporation, and I served as its Chairman from its inception in 1999 until its termination in 2005. Action 29’s Board of Directors consisted of the major developers and property owners; other large corporate NoMa business leaders such as the CEOs of Verizon, SiriusXM Satellite Radio, and Black Entertainment Television; elected and appointed senior officials from WMATA, the DC government, and the US government; leaders from surrounding neighborhoods and communities drawn from a wide range of professional fields including small business, education, real estate, community economic development, community services, affordable housing, public health, and religion; and environmental groups such as the Washington Area Bicyclist Association. Extensive community education and outreach over several years yielded outstanding political results: at the WMATA public hearing on the New York Avenue Metro Station’s Environmental Impacts Study, there were 35 community witnesses in favor of the project, and none opposed.

The Action 29 Corporation represented the private sector financing of the Metro station along with the private sector and community perspective on strategic planning for the entire NoMa initiative, and we hosted monthly "stakeholder meetings" involving all of the relevant actors in the process. These meetings were completely open to anyone who wished to attend. The Action 29 Corporation had a total expense budget of $250,000, much of which was spent on professional fees to legal and financial advisers, plus two huge grand opening parties, one for the New York Avenue Metro Station groundbreaking in December 2000, and the other for the opening of the NoMa Community Outreach and Marketing Center at 64 New York Avenue NE during October 2002. The New York Avenue/Florida Avenue/Gallaudet University Metro Station on the Red Line officially opened in December 2004. During October 2006 the DC Office of Planning released the *NoMa Vision Plan and Development Strategy*. In March 2007, private property and business owners established the NoMa Business Improvement District (BID) to market the area, plan for its public and private improvements, and keep the area attractive, clean, safe, and secure.

3. Impact of the initiative and evaluation evidence

Outputs and Outcomes: The broader NoMa area extends west to east from Mount Vernon Square to Bladensburg Road, and south to north from Massachusetts Avenue to Rhode Island Avenue. Five Metrorail stations generally serve NoMa: Gallery Place-Chinatown, Mt. Vernon Square-Convention Center, Union Station, New York Avenue, and Rhode Island Avenue. Yet the heart of NoMa is the area around the New York Avenue Metro Station, all of which is now encompassed by the NoMa BID. In evaluating the results to date of this now decade-long initiative, we will focus primarily on the NoMa BID geographic area, in which the assessed value of private property totaled nearly $2.3 billion during 2007, up from $535 million in 2001, an increase of more than 30 percent annually. The total number of new permanent jobs (not including temporary construction jobs) created in the area since 1998 is approximately 15,550. The total amount of private investment in the area since 1998 is nearly $1.1 billion. The total amount of new development in the area since 1998 is 3.7 million square feet of office space and 21,000 square feet of retail space. Average office rents in NoMa are now at $45 per square foot, significantly higher than the citywide average of $41. The top price for prime downtown office locations currently is $60 per square foot. The New York Avenue Metro Station average weekday passenger boarding has increased by 60 percent over the past two years. In addition, since 1998 Metrorail ridership has increased by 39 percent at Union Station and by 32 percent at Rhode Island Avenue.

Also, currently there are five more projects under construction, totaling $400 million in private investment and 1.2 million square feet of mixed-use space, including 750,000 square feet of new office space, 212 residential apartments, 218 hotel rooms (Courtyard by Marriott), and 30,000 square feet of retail facilities. The currently projected totals for NoMa in 10 years are as follows: 23 million square feet of mixed-use development (10 million office, one million retail, 8,000 homes and apartments, and 1,200 hotel rooms); more than $8 billion in private investment, 36,000 permanent jobs, 75,000 construction jobs, and $500 million of increased tax revenues for the city government.

In addition, NoMa is fast becoming one of the main areas of the city for media activity, particularly due to the attraction in 1999 of SiriusXM Satellite Radio, which now has eight million subscribers and continues to enjoy rapid customer growth. Clearly the NoMa initiative has significantly broadened and improved the competitiveness of Washington's media industry network.

Attached to this report are two maps, one from the NoMa BID, and the other from the Washington, DC Economic Partnership, that illustrate visually and situate geographically some of the newly completed development projects in the NoMa area.

Effectiveness: Within less than a decade, we far surpassed the original goals of creating and attracting 5,000 new jobs and generating one billion dollars of total public and private investment in NoMa. Therefore, it is fair to conclude that the objectives were more than met, which is why NoMa and the Action 29 Corporation received both national and international awards and recognition, such as being designated in 2002 by the United Nations as one of the 40 Best Practices worldwide to Improve the Living Environment.

Efficiency: Given the substantial overall economic development success, the total public investment (federal and local government combined) of $75 million to build the New York Avenue Metro Station produced an excellent return in terms of jobs and income growth, together with increased property values and tax revenues.

4. Strengths of the initiative

What worked well: One thing that worked especially well was the process of consensus building that I coordinated, during 1997-9 on behalf of the DC Control Board, and from 1999 until 2005 on behalf of the Action 29 Corporation. We defined the strategy as a "win-win" situation in which either everyone wins or everyone loses, rather than as a "zero-sum" approach with some winners and other losers. We succeeded in delivering benefits for the low- and moderate-income African-American families and neighborhoods surrounding NoMa, including construction of the new McKinley Technology High School, a new community-oriented shopping center anchored by a Giant Foods hypermarket and Home Depot superstore, and another new "urban" retail center with a 55,000 square-foot Safeway Stores supermarket. We also provided a portion of the Metropolitan Branch hiking and biking trail along with a substantial degree of sustainable high-density pedestrian-friendly transit-oriented development for environmental advocates. We provided city-owned land adjacent to the New York Avenue Metro Station for the new national headquarters building of the US Treasury Department's Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), in exchange for obtaining $25 million from the US government to help finance the station's construction. We diversified the area economy by mixing and expanding media and technology companies, including recruiting SiriusXM Satellite Radio to place its national headquarters with 800 jobs in an abandoned printing factory across from the new Metrorail station. We generated significant tax revenue for the DC government. Indeed, we have already succeeded far beyond the original two goals articulated in 1998 of generating or attracting 5,000 new jobs and promoting at least $1 billion in new public and private investment and development.

What was innovative: Clearly the most innovative aspect of the NoMa initiative was leveraging private financing by convincing the large commercial property owners and developers to contribute $25 million in cash and $10 million in land for construction of the New York Avenue Metro Station. Without that private sector commitment in December 1998, we would never have been able to obtain the DC government or US government funds that enabled the entire project to be built. And without the New York Avenue Metro Station, much of the NoMa economic development initiative would not have succeeded.

Reasons underlying success: The most important strength was that we clearly understood the private market conditions and therefore designed a targeted initiative that could actually succeed in the current business environment utilizing the key assets that we identified as our competitive advantage. We managed to convince all of the major stakeholders of the validity of our strategy by including them in the process and empowering each of them to engage in supportive and complementary actions on behalf of their own self-interest as well as the larger public good.

5. Weaknesses of the initiative

Obstacles or problems that emerged during the design or implementation of the initiative: I have already described how we turned the two biggest weaknesses, city government fiscal insolvency and lack of support and involvement by the key community stakeholders, into strengths. Therefore, the longer-term view is that the main weakness was our commitment to ensure substantial economic and social benefits for the existing African-American residents in the surrounding neighborhoods. Despite many efforts to provide improved education and workforce development, community improvement and small business development, affordable housing and homeownership, and other services, amenities, and economic opportunities, the net result of the NoMa initiative will be a significant upgrading of the income level in the area through the attraction of a higher-income and more ethnically diverse living and working population. This may contribute to the unfortunate displacement of some portion of the existing lower income population, many of whom will not ultimately benefit from the increased transit, business, and job opportunities or from the new development of stores and services.

Quality of response taken to obstacles or problems: The cautionary tale here is that the major stakeholders must be more proactive in planning for a successful transition and be more deeply committed to patiently adhering to that part of the plan and devoting sufficient resources to its implementation for at least two decades.

6. Potential transferability

What are the main lessons for Wales and places similar to Wales: The first lesson is that Wales and places similar to Wales can clearly identify their main competitive economic strengths based on their fundamental assets of people and place, and to design effective economic development strategies that emphasize and build on their key assets to grow businesses and jobs, both in general and particularly in targeted industry networks/clusters that most benefit from the availability and advantage of the major assets. In other words, any jurisdiction can take the same approach as NoMa and succeed to some extent, depending on the timing of overall private market conditions.

The second lesson is that the best way to succeed is to proactively involve everyone, all public, private, and community stakeholders, in an open public process of formulating as well as implementing the economic strategy. The more people participate, the more they become invested in contributing to the success of the ideas and actions, and the more that they can see how they will be able to benefit from the outcomes.

The third lesson is that leveraging the private sector can and does work. There is a good reason why NoMa won the 2006 Infrastructure Award from the National Council for Public-Private Partnerships. We clearly demonstrated that governments can accomplish a great deal more by mobilizing both the financial and intellectual resources, as well as the political support, of the private sector in economic development initiatives. This was the hallmark of our success in NoMa, and Wales can do even better.

Considerations for successful adoption in Wales and places similar to Wales: The Government of Wales now has its own budget of revenue sources and expenditure authority that enables it to control its own destiny in terms of making strategic economic development investments. In addition, Wales has many key assets, including an excellent workforce, quality education and research institutions, railroads, ports, and many other key aspects of urban and rural infrastructure, combined with an attractive landscape, natural environment, historic culture, and quality of life. A successful economic development strategy must start by building on these fundamental assets and utilizing them as the inducement to attract, retain, and generate private sector investment and development. If the Government of Wales can effectively demonstrate to private firms the immediate and long-term value of these key assets, they can successfully leverage public assets and capital by convincing private investors to use these assets for their competitive advantage, in order to enhance productivity and creativity together with improving technological and organizational innovation.