City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 15, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER mr

SUBJECT: ADDITIONAL INFORMATION ON THE POTOMAC YARD TIER II SPECIAL TAX DISTRICT

At Council's last Legislative meeting and in subsequent discussions with Council members, staff were asked to provide Council additional information on the Tier II special tax district, as well as alternatives to the previously adopted Tier II special tax district rate and structure.

The Potomac Yard Tier II special tax district, which was adopted was adopted in 2011, has a 10-cent real estate tax rate that would be applied starting the calendar year after the station opens (2019 or 2020) and continue for 27 years when the bonds are fully repaid. Over its projected life, it is estimated that the Tier II district would generate $20.3 million towards the $392.1 million debt service and annual operating costs of the new Metrorail station.

It should be noted that while the $20.3 million in Tier II revenues provides about 5% of the revenues towards station costs, those revenues are part of a multi-layered stack of projected and assumed revenues. These include: $72.0 million developer contributions (largely only available for Alternative B and partially at risk per recent JBG letter), $20.8 million in net new tax revenues generated at Potomac Yard, $278.3 million in Tier I special tax district revenues, $69.5 million in potential Northern Virginia Transportation Authority (NVTA) grants, and $1.0 million in federal Urban Funds granted through the state.

These are projected revenues based on a development build-out forecast, projected economic values, tax rates, developer agreements, and an assumed outcome of the new NVTA grant processes. Almost all of these revenues are projections and subject to downside risk if a number of unexpected factors occur. On the expense side, the downside risks are that the construction cost of Alternative B is greater than $268 million, and that interest rates on the City issued bonds might be higher than what has been projected.

As is the case with any long-range forecast – *even this conservative forecast* - there are downside risks to the City. The risk to the City in the early years of debt repayment is that the City's General Fund might need to cover financial shortfalls above the developer shortfall guarantee. The chief financial risks are:

- Potomac Yard build-out (i.e., North Potomac Yard, Landbays G and H) occurs slower than projected, thereby tempering downward projected tax revenues.
- NVTA grants are significantly less than assumed.
- Real estate appreciation does not occur as projected.
- Metrorail station construction costs are higher than projected.
- The developer contribution/shortfall is not at the level projected or does not occur at the times projected (development build-out related).

Some of these risks will be reduced or eliminated by the time that the station construction contract is ready to be awarded. By then construction costs, the developer contribution amounts, and NVTA grant amount will be known and those risks substantially mitigated. *As a result, one cannot assume with certainly until that point in time when those major cost and grant items are known, if there are revenues not needed for this project.*

Question: How do Tier II revenues fit into the overall financing plan?

Answer: The attached charts provide a more granular look at the various revenue sources that comprise the financing plan. Since the first decade of Tier II revenues (2019 to 2028) is the decade where most of the risk is, a snapshot of that decade is attached.

Question: What options are available in lieu of the current Tier II special tax district structure?

Answer: While preserving revenue options at this time would be beneficial given the above stated risks, and put the City in a better negotiating position in regard to the North Potomac Yard developer contributions and shortfall guarantee agreement, among the options for future consideration are the following:

1. Reduce the number of years of the Tier II district to less than the 27 years planned. In particular, the risks to the City are the greatest in the first 10 years of the financial projections (see attached) when the amount of development in Potomac Yard is the lowest. This would reduce the Tier II contribution from $20.8 million to about $5.7 million. The 10-year timeframe is an example, as any timeframe greater than 10 years (up to 27 years) or less than 10 years could be considered.

2. Tier II tax rate from 10-cents to 5-cents per $100 of real estate valuation. This would reduce the Tier II contribution from $20.8 million to $10.4 million. The 5-cent rate is an example, as any rate lower than the currently planned 10-cent rate could be considered.

3. Eliminate the Tier II tax rate and district. This would reduce the $20.8 million down to $0.

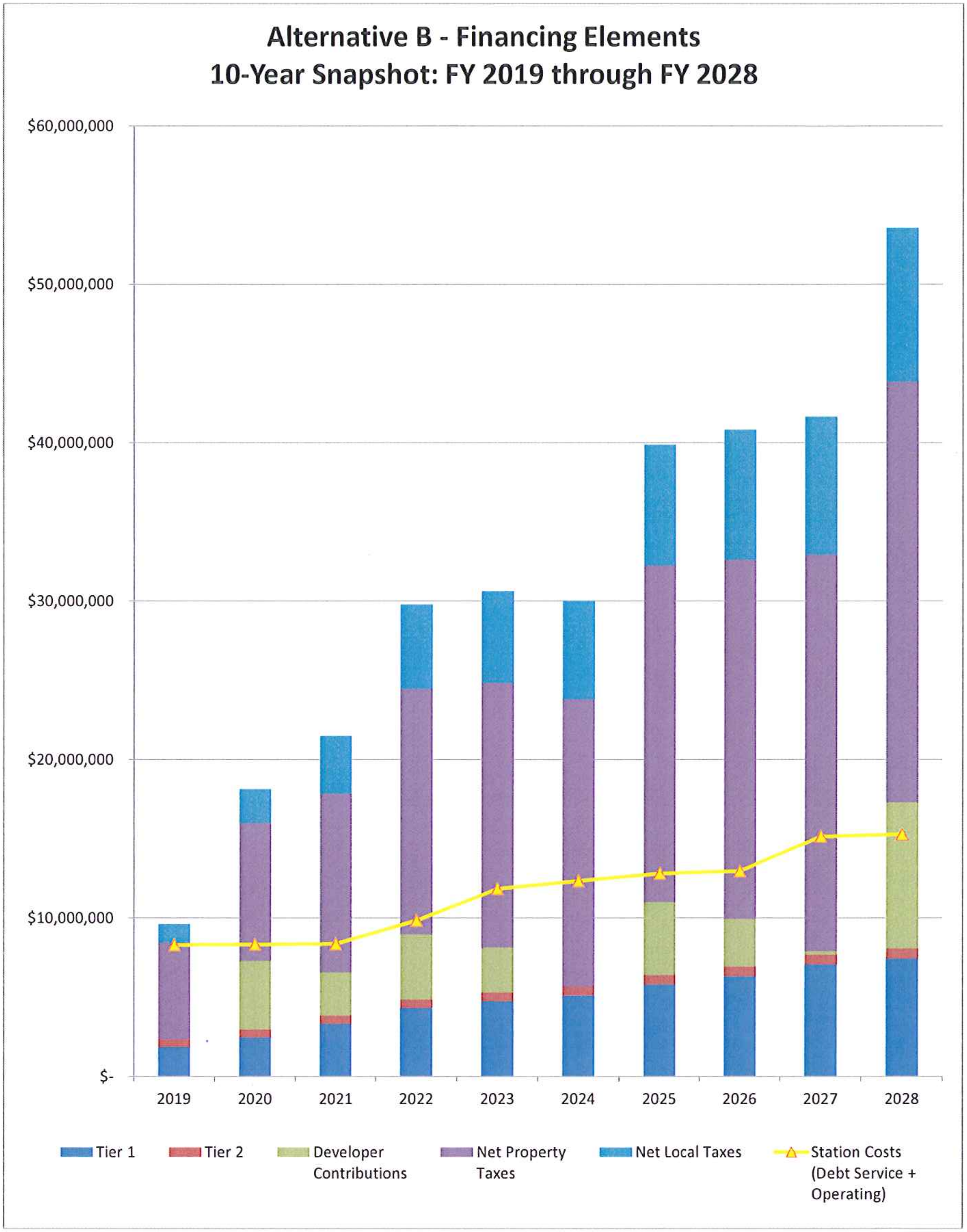
Since debt service and operating costs are fixed any loss of Tier II monies would have to be replaced with other sources.

Question: Can the Oakville Triangle project contribute in some way to the Potomac Yard Metrorail station financing? Could the Tier II special tax district be expanded to include Oakville Triangle?

Answer: The Oakville Triangle project as currently envisioned by the developer entails some 1.5 million square feet of new development with some 0.9 million projected to be delivered in 2020 and the balance of 0.6 million square feet of development projected to be delivered in 2025 or later. The value of this new development is approximately $450 million. Council could decide to place the Oakville Triangle net new tax revenues into the Potomac Yard Fund to assist with paying for station debt service and operating costs. Based on current staff thinking, as has been the case with other recent small area plans some percentage of net new tax revenues (maybe as much as 20%) would be proposed to be set aside for public benefits (utility undergrounding, streetscape, infrastructure improvements, affordable housing, etc.) within the Oakville Triangle / Route 1 small area plan now under consideration. If one sets aside the 20% of net new tax revenues from the Oakville Triangle project for plan area public benefits, on a rough order of magnitude basis the remaining net new tax revenues would start at about $1.0 million per year in 2020 and then rise to about $1.5 million per year by full build out

A policy choice could be made to include Oakville Triangle in the Tier II special tax district. Since this new development is within walking distance to the Potomac Yard Metrorail station there is a logical nexus between the Tier II district and this site. While City staff have raised this concept with the developer of the Oakville Triangle, discussions are at a very early stage. A 10-cent rate would generate about $0.3 million per year in 2020 and then rise to about $0.5 million per year by full build out.

Attachment: Alternative B – Financing Elements 10-year Snapshot


Alternative B - Financing Elements
10-Year Snapshot: FY 2019 through FY 2028
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
Tier 1
Tier 2
Developer Contributions
Net Property Taxes
Net Local Taxes
Station Costs (Debt Service + Operating)

Alternative B - Financing Elements
10-Year Snapshot: FY 2019 through FY 2028

Fiscal Year	Tier 1	Tier 2	Developer Contributions	Net Property Taxes	Net Local Taxes	Total	*Station Costs (Debt Service + Operating)*
2019	$ 1,842,937	$ 499,304	$ -	$ 6,115,285	$ 1,164,245	$ 9,621,771	*$ 8,305,444*
2020	$ 2,455,181	$ 514,283	$ 4,315,378	$ 8,711,683	$ 2,149,893	$ 18,146,418	*$ 8,335,254*
2021	$ 3,320,526	$ 529,711	$ 2,716,536	$ 11,292,679	$ 3,637,625	$ 21,497,077	*$ 8,365,661*
2022	$ 4,307,819	$ 545,603	$ 4,114,469	$ 15,501,508	$ 5,324,707	$ 29,794,106	*$ 9,836,675*
2023	$ 4,747,631	$ 561,971	$ 2,830,355	$ 16,696,815	$ 5,790,248	$ 30,627,020	*$ 11,845,054*
2024	$ 5,104,415	$ 578,830	$ -	$ 18,125,542	$ 6,223,527	$ 30,032,314	*$ 12,341,131*
2025	$ 5,805,966	$ 596,195	$ 4,601,635	$ 21,232,854	$ 7,640,968	$ 39,877,618	*$ 12,810,599*
2026	$ 6,318,954	$ 614,081	$ 3,008,897	$ 22,675,153	$ 8,211,296	$ 40,828,381	*$ 12,968,470*
2027	$ 7,055,552	$ 632,503	$ 223,156	$ 25,024,208	$ 8,711,572	$ 41,646,991	*$ 15,143,267*
2028	$ 7,429,477	$ 651,478	$ 9,206,311	$ 26,561,431	$ 9,714,165	$ 53,562,862	*$ 15,276,080*